

U8216 Microeconomics and Policy Analysis  
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Group Project 4

Life is not easy in the Buchanan administration. No sooner had Chief of Staff Candace Gingrich and Attorney General Johnie Cochran figured out how to protect the United States from the possible ill intentions of Luxembourg than a new problem was dumped on their laps.

To quote Ms Gingrich, “We’ve just learned that one of the files from RJ Reynolds shows that in 1939 they had discovered a clear causal link between smoking and cancer, and that they suppressed this evidence for fifty years. There are memos indicating attempts to manipulate nicotine levels to keep smokers addicted. It looks like they don’t have much chance in court.

“Big deal. That’s their problem,” you say. You’re beginning to wonder why Candace had asked to meet with a fairness-and-equity expert like you.

“It’s not that simple. Millions of people now have legitimate claims against RJ Reynolds: smokers currently suffering from cancer, families of smokers who died of cancer, people who developed problems from second-hand smoke, insurance companies, hospitals that provided uncompensated care, cats and dogs deprived of human service. Even more people have illegitimate and phony claims. Not to mention the claims of states that were dealt with a few years ago. All these claims add up to billions and billions of dollars. But RJ Reynolds doesn’t have billions and billions of dollars worth of assets — they simply don’t have enough to pay even all the legitimate claims. Remember Johns-Manville and Dalkon Shield. They were messes: the companies declared bankruptcy, there was little rhyme or reason to which claimant got what, and lawyers got very rich. Pat said he doesn’t want a repeat.”

“Is he adamant?”

“No, but you’d have to make a very strong case to get him to change his mind.”

“Aren’t there any other resources we can use to compensate the victims?”

“I don’t know; you tell me. I’ve heard a bunch of ideas but I don’t know which ones are good. For instance

“ Maybe the tobacco farmers could be made to pay something; maybe the owners of land on which tobacco could be grown.

“ Maybe social security should pay: the system gained because of the early deaths of smokers. I guess that would mean current recipients and heirs of past recipients, since the system had more money than it would have had. Or maybe it means past taxpayers, since if smokers hadn’t been dying so fast they would have to pay more money to keep recipients’ payments the same.

“ Maybe private pension funds, too.

“ Then there are people who got promoted more quickly because people ahead of them in the hierarchy died, and the general gain to workers because of reduced labor supply. (But if you take this seriously, I think you’ll have to add capitalists to your list of claimants since they could have been adversely affected by the higher wages.)

“ What about going after the assets of Duke University, or alumni of Duke University?

“ Maybe there should be action against the executives of RJ Reynolds and the shareholders. The executives’ wealth amounts only to a few million unless you go very far down the hierarchy; I wouldn’t know how far down to go. As for the shareholders — would it be possible or desirable to pierce the corporate veil and go after their assets? If so, which shareholders — just the current or past ones too? What about people who held mutual funds that included RJ Reynolds stock, and people in pension systems that held this stock? What about people who made money on options (and tobacco futures) — including people who held short positions when the latest news became public?”

“Gosh, that’s a lot of issues, Ms Gingrich. Is that what you want us to work on?”

“In part, but that’s not what I want you to really concentrate on. I don’t think that any way you feasibly do it there will be enough money to satisfy all the claims. Remember we need both good arguments and political consensus to get money out of people. So your main job is to figure out how to divide whatever assets there are among the claimants and potential claimants. Think of yourself as some sort of mediator among the claimants. Whatever scheme you come up with has to be fair and equitable so that it’s a focal point for groups to agree on and so Congress and the courts will go along. Otherwise there’ll be a crazy scramble and we’re back to Johns-Manville and Dalkon Shield, only worse.”

“What should we think about?”

“Don’t you know by now? What sort of claims to recognize, what sort of proof to require, whether to use Aristotle or Rashi or Maimonides or some variant of any of them? One other big question is allocating responsibility among companies. I’m sure the other companies will be in the same boat as RJ Reynolds and go bankrupt too. But they’ll go bankrupt at different ratios of claims to assets. Should we just roll all the assets and claims together, since it seems difficult to prove who smoked which brand how long? Or should we maintain some modicum of individual responsibility? And you know I’m concerned about efficiency too: we don’t want to destroy socially productive enterprises just because of bad history that’s already in the past, or create disincentives from working, or cause a lot of litigation. And I don’t want to create any incentives to smoke or take drugs if we don’t have to.”

“Anything else?”

“Yeah. Some people have been saying that certain groups should get precedence in the distribution of compensation — people who have had bad breaks or unfair treatment in other

spheres of life. A number of groups have been mentioned: Native Americans, veterans, people with low draft numbers in the Vietnam War even if they aren't veterans, gays and lesbians who would have been veterans if they could have served in the armed services, disabled people, African-Americans; women; lefties; people who voted for Bill Clinton since they don't have the president they want; people who almost got into Ivy League schools but didn't; heirs of people who were eligible for kidney and liver transplants but died before donors became available; heirs of people who donated organs; Japanese-American internees and their descendants; and poor people. We need some advice about this issue, too."

Just then the Attorney General entered the room. "Come back here and make it fair," he said.

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