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Taxing Tobacco Companies To Close The Interracial Wealth Gap: An Alternative Policy to Address Compensation for Racial Discrimination

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Taxing Tobacco Companies To Close The Interracial Wealth Gap:

An alternative policy to address compensation for racial discrimination.

Senior Project Submitted to
The Division of the Social Studies
of Bard College

by
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Annandale-on-Hudson, New York
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Introduction:

In November 2023, a reparation scheme was put on the agenda for the first time in the Atlanta city council, to explore all possible actions to close the generational gap for Black residents. Although the council members were clear that the scheme would not consider direct monetary payments, they assured to open to all possibilities. Reparation schemes were once a guarantee for freed slaves after the Civil War. But since the assassination of President Abraham Lincoln, the act did not continue. Dr. Cynthia Spence, a professor and reparations expert with Spelman College siad "And so for hundreds of years, Black people have been looking for that proverbial 40 acres and a mule and certainly, we did not receive it…..It's a complicated process, but certainly I think that it is a necessary process for all of us to engage in." One of the council members, Michael Julian Bond, also expressed that "Because we're creatures of the state, we're limited in our power and authority. But there have been wrongs that have been committed and are well documented." Despite the compensational act not based on monetary aid, more exploratory insight for the years in inequity are willing to end and hope it leads to some change (Atlanta News First 2023).

It is clear that the reparation scheme has been slackened for years because it is extremely hard to balance fairness between different racial groups, and direct monetary aid could bring a repressive outcome to a nation's GDP under her current financial structure. Also, the speed of wealth accumulation of the Whites is much faster than the Blacks, and the current affirmative actions seem too slow and not beneficial towards the Blacks. Using education to improve welfare takes 18 years for only one generation; The hiring program exclusively for the Blacks did not catch up with the inflation, as a result it can never minimize the interracial wealth gap or relative poverty. Therefore, this paper is to explore alternatives for the compensation, and to identify who is responsible for the reparation. This paper also proposes a possible action on monetary reparations from the responsible group, so that it will not bring excessive fiscal pressure on today's financial system. Based on the history of slavery, we believe that tobacco companies (Philip Morris, The Altria Group, The British American Tobacco Company) have exploited the labor of black population through slavery, which created a dilemma that intensifies the difficulty to accumulate wealth. So, this paper argues that these tobacco companies need to take responsibility for the long-standing financial disadvantage of the Black community. We are urging the government to channel part of their profits back into the housing-mortgage system, so as to improve the financial status of Black families that can lighten their burden on daily expenses, and achieve higher efficiencies in spending more resources to the next generation. Thus, improving their wellness and eliminating relative property.

In the first chapter, we will explain our argument (taxing the tobacco companies) by exploring the wealth inequality in reality, and the difficulties of interracial wealth accumulation which were affected by slavery and Jim Crow Segregation. Not only the major tobacco companies exploited this system and made huge profits, but also targeted Black people as the primary customers and spurred the companies' revenue by luring the Black consumers with Afro-oriented advertisements. The installation of slavery and Jim Crow Segregation in the tobacco industry procrastinated the intergenerational wealth accumulation of Black people. Such unjust acquisition of holdings (owning slaves and discriminating by wages) earned by the tobacco companies have perpetuated a interracial economic dilemma, such that the black people are suffering from wealth inequality now. Taxing the culprit is not just a way to break this vicious circle, but also to remedy a historical mistake. The second chapter is to construct a rational basis for the rectification tax by Nozick's Entitlement Theory. We will also illustrate how slavery had evolved into racial discrimination, which created a dilemma that endorsed more difficulties for intergenerational wealth accumulation. In the third chapter, we propose a mortgage subsidy to relieve the financial burden of middle-aged Blacks, so that they can have more monetary resources to support their next generation. We will also discuss the pros and cons of the suggested alternatives,so as to construct a wholesome and detailed blueprint for later research.

Chapter 1

"Koyaanisqatsi [life out of balance] !"

—Philip Glass

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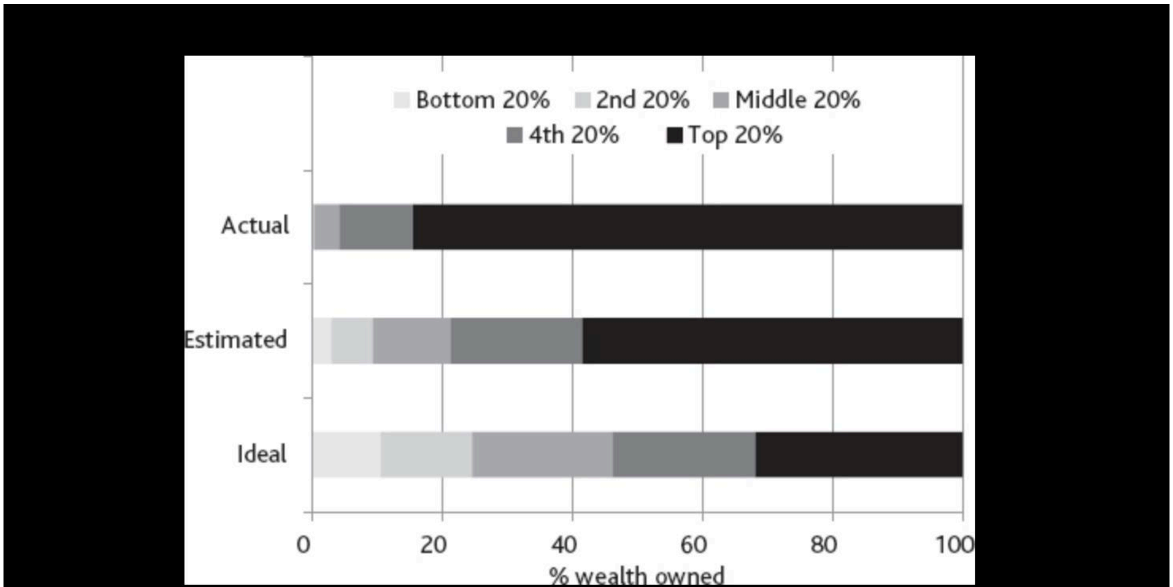
1. *Rethinking Economic Distribution*

The essence of economics is the study of allocating resources, and this is an unquestionable cornerstone of Economics discipline. First, Economics is an observation of how humans, through competing for the limited resources on Earth, survive and establish a social hierarchy. Then, the measurement of how much resources should the winner be awarded would be very important. Such measuring is the “allocation”. As Adam Smith published the Wealth of Nations, economists have found their role in studying competition and market behavior. The paradigm is to elucidate and deconstruct the fundamental essence of market dynamics, a phenomenon that intricately involves the efficient allocation of resources in our society. Moreover, economists precisely employ mathematics or statistical methodology, to explain and evaluate the panorama of the social hierarchy. The winner takes it all, and the loser might end up with just a nickel.

Yes, indeed, a society of absolute equal wealth will be an impractical economic utopia, but why should policies be formulated to pursue equality when, in reality, resources are expected to be held by the rich, or what we call the ‘winner’? What determines the legitimacy of such unequal wealth distributed among humans who are so-called ‘equal beings’ ? Is it hard work? Information asymmetry? Different intergenerational heritage? Or simply ‘Luck’? Andrew Sayer illustrated the US wealth inequality in his book “Why We can’t Afford The Rich”. The top 20% own about 84% of total wealth in the country. Many of the unearned income are actually inherited assets accumulated through time, such as land, knowledge, rent. In addition, he discovered that the richer the group are, the faster their income will grow (Sayers, 2014, 25). Until this point, we can see that the 20% winners in this competition are awarded control of more than 80% of the resources (It coincides with Perato's power-law). Furthermore, we understand that most unearned income are inherited assets, and unearned income is a main factor to become rich. In other words, if you become rich, you can accuminate the wealth and pass it on to your children.



Source: Based on data from Norton, M.I. and Ariely, D. (2011) 'Building a better America – wealth quintile at a time'. *Perspectives on Psychological Science*. 6(1), pp 9–12.

Figure 1. U.S. wealth distribution: actual, estimated and ideal

(Sayer 2015,12)

This raises another interesting question of how inequality is actually initiated by random effects. To a greater extent, if a group was once oppressed by another, and their labor fruit being seized off, such 'robbery' will create an initial gap in wealth and that perpetuates through time. It would be unpleasant to be invited to play in the Monopoly starting with only $20, while others start with the usual $1500 and grab your money every round by rule. Dishearteningly, the African-American slaves were the oppressed group that was actually playing in such a game. Their children were the next poor player to join the game with the same hand their father had left. Obviously, we cannot choose which family or where to be born. So our life could appear to be an analogy of gambling and our net worth is similar to the chips on the gambling table, which is a game that totally depends on luck? To a greater extent, if you are the descendant of the “oppressed” group, despite the fact that most wealth is inherited, isn’t your wealth/success totally determined by chance (you may be the lucky one as you have more initial wealth than the oppressed group, if your ancestors are the oppressing group)? In reality, this group of oppressed people are the African-American slaves, ironically.

Rawls believes that income and wealth distribution, and opportunity allocation should not be based on arbitrary moral factors. The wealth distribution caused by the free market will be considered just; the premise of it should be that all individuals are on the same starting line, such that the winners with greater ability are entitled to rewards. Having the opportunity for everyone to participate in a race is a good thing, but if the starting points are different, true fairness in the competition is questionable (Sandel 2011, 174). But how should we attempt to alleviate the consequences of the wealth gap? In Minsky’s view, poverty can be resolved only through a combination of policies that would: euthanize the rentier; put in place a modest bias of taxes and transfers in favor of the poor; and maintain tight full employment (Wray 2007, 10). But with the exponential growth of the rich’s income, it is hypothetically impossible to eliminate relative poverty. Not to mention that some of the rich have accumulated even more wealth and assets over time, with some potentially having ancestors who were slaveholders.

Slavery is a by-product of human factors. Black people were unjustly enslaved by British American nations, who were forced to withhold at the lowest rungs of every production chain. Slavery left their descendants to endure this inequality that perpetrated a racial wealth gap with no choice. It may sound blasphemous and racist, but we cannot deny that being born in a black slave family will inevitably face a higher chance of lacking initial capital. In other words, they are definitely poorer. Same idea, from a moral standpoint, the outcome is easily left to the natural lottery, determining wealth distribution based on inherent intelligence or lack thereof, which may be no more reasonable than determining it based on social status at birth. Thus, the African-American slavery is one of the essential causes of the widened racial wealth gap. Considering its historical context, taxing the companies that exploited slavery will then be reasonable.

2. *How Random is Our Wealth Being Determined?*

As we discussed earlier, we cannot choose our birth and intelligence. So, the main conflict of reparations between the rich and the poor is actually their difference in natural attributes, which the question can also be interpreted into this: why should the U.S. society be responsible and compensate for the difference of natural attributes or social status with social resources? In addition, politicians concern mostly about how the resources are utilized on the best recipients if the society agrees to support the other racial group. But, how to assert justice and fairness under reparation if todays' wealth distribution is already determined by free market mechanisms? Before we claim natural attributes are the main reason for today's wealth distribution, we can study this interesting research called "Talent vs Luck: the role of randomness in success and failure" by Pluchino, Biondoy and Rapisardaz. This research explains there are random effects that substantially construct a 20-80 wealth distribution. They develop a toy model that reflects how luck (an external factor) correlates with success. In the Western cultures, the meritocratic paradigm is rooted deeply in the belief that success is mainly due to personal qualities such as talent, intelligence, skills, smartness, efforts, willfulness, hard work or risk taking. But sometimes, a certain degree of luck plays a significant role in achieving material success. In reality, intelligence such as talent and personal qualities follows a Gaussian distribution among the population, whereas the distribution of wealth is often considered a proxy of success and (always expressed in money terms) it generally follows a 20-80 distribution (Power law distribution), with a large majority of poor people and a very small number of billionaires. The wealth distribution can be graphed as a typical long tailed shape that exhibits the deep existing gap between the rich and the poor in our society-”eight men own the same wealth as the 3.6 billion people constituting the poorest half of humanity” (Pluchino et, al 2018,2). The team explicitly stated that "The meritocratic paradigm affects not only the way our society grants work opportunities, fame and honors, but also the strategies adopted by governments in assigning resources and funds to those who are considered the most deserving individuals"(Pluchino et, al, 2018, 2). Thus, the model counter-argues that the unequal distribution of individual wealth based on natural differences in talent, skill, competence, intelligence, ability or a measure of their willfulness, hard work or determination, results in an unfair distribution under the meritocratic paradigm. In other words, we do not have billions of working hours or 1000 IQ for us to achieve billions of income. Thus, the resources that should be “effectively” used on the ”best” recipients could be unjust, despite the fact that some of their achievements are actually determined by luck. Their view on the inefficacious distribution of government expenditure on education or other human capital investment which is dictated by meritocratic paradigm, aligns with the rationale behind our argument.

In recent years, risk analyst Nassim N. Taleb, investment strategist Michael Mauboussin and the economist Robert H. Frank, have explored the relationship between luck and skill in financial trading, business, sports, art, music, literature, science and in many other fields. To be successful, talent and effort are not enough: you have to be also in the right place at the right time; which means luck also matters (Pluchino et, al, 2018, 3). Their models show that randomness plays a fundamental role in selecting the most successful individuals. Therefore, to realistically quantify the role of luck and talent in careers, the team constructed the "Talent vs Luck" (TvL) model by adopting an agent-based statistical approach that mimics the evolution of the capital achievement under the effect of luck on a group of people over a working period of 40 years. The TvL model builds on a small set of very simple assumptions, aiming to describe the evolution of careers of a group of people influenced by lucky or unlucky random events.

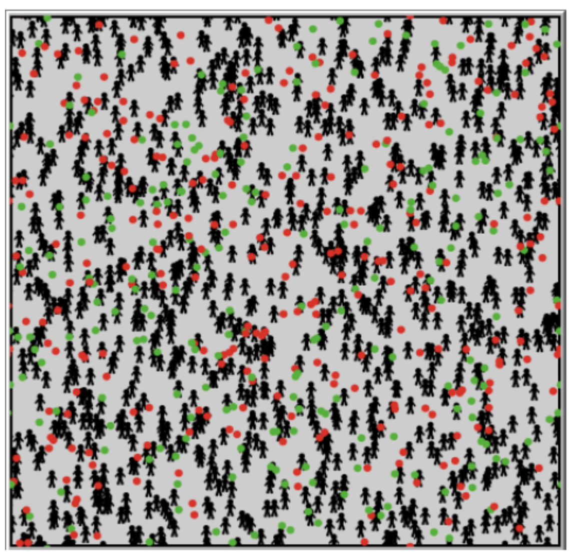


Figure 2. Talent vs. Luck Model

The initial setup of the simulations presented in their research were realized within the NetLogo agent-based model environment. The 1000 individuals (N agents), with different degrees of talent (intelligence, skills, etc.), are randomly located in their fixed positions within a square of 201x201 patches with periodic boundary conditions. During each running of the simulation, it covers several dozens of years. The individuals are exposed to 250 lucky (green circles) and 250 unlucky (red circles) events, which move across the square following random trajectories. A single run of the simulation assigns individuals working 40 years, with each year a constant increase of capital is accumulated. When the individual encounters a green circle, they have a certain chance to double their capital; if she encounters a red circle, their capital will be divided in half. The probability of doubling the the capital equals to the talent (IQ=T*=0.01~0.99).

After the first run, they observed a Pareto-like power-law distribution with unequal distribution of capital/success. A well fitted power-law curve with a -1.27 slope reflects the proportion of a large number of poor (unsuccessful) agents and a small number of very rich (successful) ones. From their results, the most successful individuals are not the most talented ones and, on the other hand, the most talented individuals are not the most successful ones. In particular, the most successful individual owns 2560 of capital with a talent T = 0.61, only slightly greater than the mean value 0.6, while the most talented agent with T=0.89 has the lowest capital owned. (0.625 capital) Furthermore, after 100 runs, they still obtained the same power-law curve with slope -1:33. The wealth gap between the rich and poor has even enlarged, where the most successful people surpass 40000 in capital units.

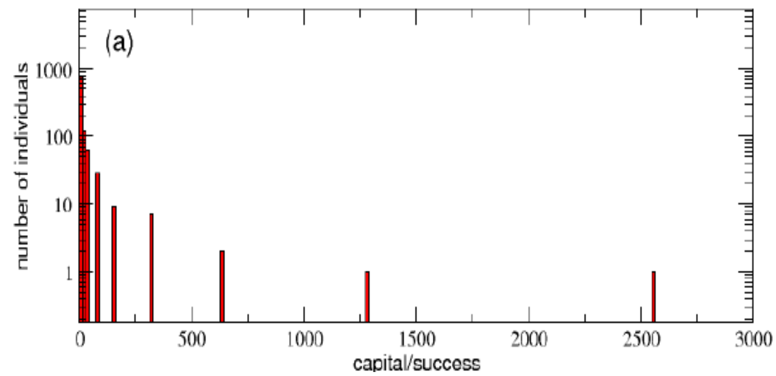


Figure 3

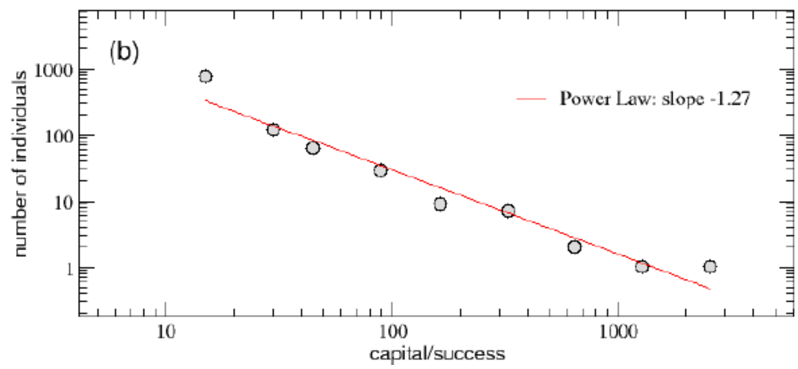


Figure 4.

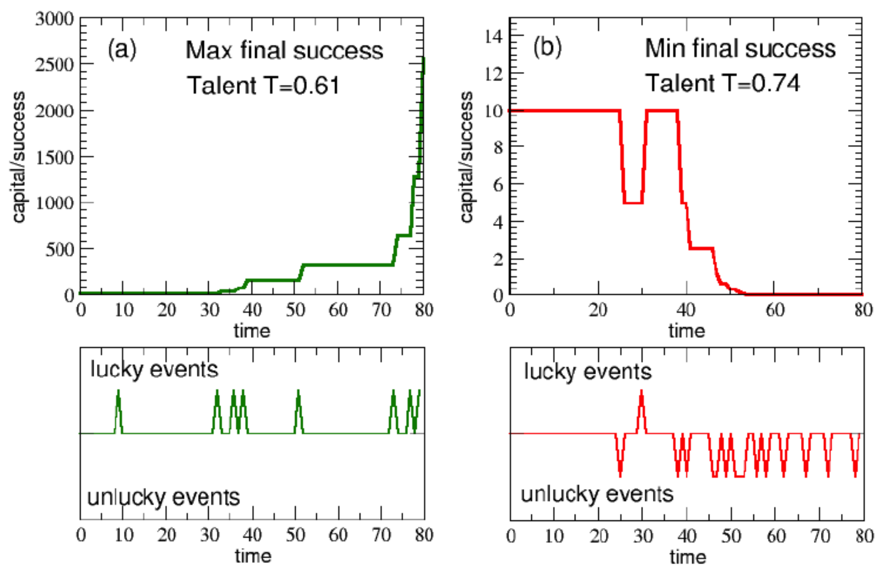


Figure 5.

From the model, which by omitting some premises such as social status or opportunities, illustrates wealth accumulation in the simplest and most primitive way possible: it can be determined by how lucky you are. It also shows that the current meritocracy paradigm is not the best strategy because wealth accumulation does not correspond to intelligence, thus, investing in the cleverest one may not be the most efficient solution to cultivate future human capital. Of course it is ridiculous to just simply tax the most lucky one to aid the poor unlucky people, and our world is such a complex entity that is not just constructed by lucky and unlucky events. But behind this model, two indispensable factors need our concern: Firstly, can education literally benefit everyone fairly when it represents meritocracy? Secondly, by putting African-Americans in this model and reflecting it with reality, they are the less successful group because the Black people tend to be less wealthy. whose life does not only imply randomness as luck, but also includes other enforcement of external human factors by the Whites (slavery, discrimination). If the richest person is not the most intelligent one, then why do the general public believe education is the most fair and efficient way to close interracial or intergenerational wealth gaps? Some common errors of education for the poor were pointed out in the Poor Economics by Banerjee and Duflo. In most cases, “a child who expects to find school difficult will probably blame herself and not her teachers when she can’t understand what is being taught, and may end up deciding she’s not cut out for school–”stupid,” like most of her ilk—and give up on education altogether, daydreaming in class or, just refusing to go” (Banerjee and Duflo 2011, 93). They also infer that “if parental income plays such a vital role in determining educational investment, rich children will get more education even if they are not particularly talented, and talented poor children may be deprived of an education” (Banerjee and Duflo 2011, 81). Because poor families have less savings and lower wages, they may not be able to maintain sustainable income for their children's education. Thus, poor children have to drop out from school and work as a labor to support their family. Sometimes this reluctance of schooling is deemed as laziness, but the environment actually does not allow them to pursue it. Therefore, a pseudo-direct-payment could be a positive solution to help the underprivileged, which is a subsidy on daily expenses.

3. *Why the tobacco industry?*

Why do we blame the tobacco industry only but not other cash crops plantations that also had exploited slavery? There were millions of slaves labored in cotton, and sugar plantations that suffered no less than the Virginia tobacco slaves. The deportation of many millions of African to the Americas intensified connections to India because it increased pressure to secure more cotton cloth (Beckert 2014, 37). Cotton and sugar trading are the first prioritized commodities that bolstered war capitalism, as the rigid demand that everyone needs it. So, taxing these commodities would be more reasonable than taxing a pack of cigarettes. However, it is hard to impose a rectification tax on most commodities as most raw materials that were grown on a plantation actually had exploited slavery. That means there would be a general inflation in the market if we simply impose taxes on them. Taxing these commodities can generate a greater effect to subsidize the black communities, but it can be politically unpopular as the general rise in the cost-of-living might outweigh the benefits of imposing rectification tax.

It is nonetheless the case that tobacco companies utilized Afro-culture musics to advertise their cigarettes into luxuries, this is an effect that some other raw materials or capital goods cannot react to. Sugar, cotton can be transformed into other goods like clothes, blankets, carpets, and alcohol like rum whereas tobacco can only be used for inhaling nicotine. Companies like the American Tobacco Company (ATC) created a sensation by sponsoring the Lucky Strike Radio Hour in 1928 (Enstad 2018, 197). This became so popular that it shaped the sound of jazz on the radio. Cigarette-sponsored shows did not simply transmit jazz, they also shaped and standardized a jazz product, making jazz part of the branding of cigarettes. We believe no other agrarian products can combine the music elements and enchant a corporate empire. No one will deny the Afro-essense of jazz music, and no one will also deny the distinct blackness of jazz music associated with popularity has spread cigarettes into a world-wide commodity that assured the cooperative's profit. At the same time, they exploited benefits from slavery and Jim Crow segregation, to construct a social hierarchy inside their production chain. The exclusion of particular job categories rendered black workers sweating at the lowest rungs of the hand-curing factories. The Alfro slaves were forced to grow tobacco for years and years, and their hard labor did not return in proportion, needless to say all the profits flew into the firm owners. After the rise of the abolitionist movement, they were still carrying for the lowest status and waging. They were trapped into poverty, and working as a wage slave. The tobacco companies exploited African culture to sell cigarettes back to the African-American, enslaved them and put their health in danger. Even worse, smoking emits greenhouse gas that creates negative economic externalities, and all the wastes are polluting the environment while the clean up cost falls on the taxpayers. Dr Ruediger Krech, Director of Health Promotion at WHO said “Roughly 4.5 trillion cigarette filters pollute our oceans, rivers, city sidewalks, parks, soil and beaches every year”

(WHO 2022). In 2021, a group tied to major cigarette manufacturers warned Congress that if lawmakers tax tobacco to help pay for President Joe Biden's domestic agenda, suppliers will market smokes to children (Fuchs 2021). Why should we turn a blind eye on such industries that those vested-interests always act like rouges?

We are not intended to elaborate on the environmental damage conducted by the tobacco industries. But if we are searching for additional resources to compensate a large racial group, we should target a group that creates the largest deadweight loss, instead of taxing more on the living hardworking White laborers who did not enslave one single African-American. The historical skin-color-based segregation was an efficient cost saving mechanism in colonial capitalism, which had hindered and slackened the intergenerational wealth accumulation of African-Americans. This racial segregation elicits discrimination, then it assimilates into the educational or waging system that perpetuates a larger wealth gap. The current situation of wealth inequality is caused by the unjust acquisition of resources from another ethnic group in the past. Previous audit research has highlighted the close relation between wage and wealth accumulation, coinciding with the wage gap between black and white Americans. With no doubt, those results are statistically significant and legitimate. African-Americans are not only the underprivileged within the prevailing wage structure, but also bearing higher living costs as being targeted as the tobacco consumers. Thus, the marketing strategy prompts a vicious circle and exacerbates economic vulnerability upon African-Americans.

The argument of this paper is: In the name of rectification of injustice, the tobacco industry needs to take responsibility for the long-standing financial disadvantage and wealth loss of the Black people. For the sake of long-term and sustainable development, the government should impose heavier profit tax on tobacco oligopolies, regulate the price of cigarettes, then channel the tax revenue into the educational and housing system for black communities to compensate for their earning penalty. Few questions are raised: How legitimate is the action of taxing tobacco companies nowadays? How should we implement taxation, and what is the mechanism behind it? The next section will explain the rationale for implementing the compensational policy by illustrating the discriminatory phenomena after slavery.

Chapter 2

"The problem was the money."

—Clyde Ross

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1. *Allocative Justice*

The enduring impacts of slavery, segregation for the duration of the Jim Crow era, and a history of anti-immigrant sentiment within the United States have resulted in large racial disparities in wealth among Black and White households. Before we legitimize a policy, we have to define fairness and construct a rational basis from a philosophical standpoint for the reason behind the policy implementation, thus avoiding violation to any rights of any stakeholders like slavery. In Robert Nozick's words:

> *"one cannot decide whether the state must do something to alter the situation merely by looking at the distributional profile or at facts such as these. It depends upon how the distribution came about. If these distributional facts did arise by a legitimate holdings process, then they themselves are legitimate. This is of course, not to say that they may not be changed, provided this can be done without violating people's entitlement"* (Nozick, 1974, 232).

From our standpoint, demanding that the wealthy pay more taxes to help the poor is equivalent to forcing the wealthy, thus infringing upon their right to control their own property. However, the unequal interracial wealth distribution in reality is not just random, it also includes exploitation and slavery from the past. Therefore, we believe that it is just to compensate the Blacks now from the industry that has enslaved them.

First of all, is slavery legitimate?We condemn its legitimacy from a humanism standpoint because we shall not enforce a human into a commodity for selling. Ironically, slavery was an economic decision that base on a fallacy agreement of a notion that negro slaves are stronger and cheaper, compare to the white-serverts from overseas or to the Indian slaves. Slavery notwithstanding, was allowed by the institutions and the government, taxed by the government and even so economically creating a deadweight loss in the future. The major tobacco merchants utilized the privileges brought by the system to enslave black people and seize their fruits of production. This deepened the difficulties of wealth accumulation for African-Americans and generated a perpetuated wealth gap nowadays. Should we compensate for that? Both Rawls and Robert Nozick did not address an explicit explanation of slavery legitimacy, but it certainly violates the essence of a "minimal state". A justified minimal state should not violate individual rights and liberties. Everyone should enjoy freedom and autonomy, they should have rights to the fruit of their labor.

The legitimacy of reparation and compensation has been discussed by Robert Nozick in his “Anarchy, State, and Utopia” (1974). In his book, he developed “entitlement theory”. One of the main principles is the “Principle of rectification of injustice” :

> *“No one is entitled to a holding except by application of Justice in acquisition of holdings and Justice in transfer holdings, if someone has a holding obtained directly or at some earlier point in a way other than these two, than a rectification of the injustice is necessary to attempt to re-create the situation which would have occurred under just acquisition and transfer”* (Nozick 1974,150).

Notwithstanding the perceived improvement in the social and economic popularity of African Americans, the socioeconomic status of African Americans is deteriorating under the influence of racial wage gaps, and the racial wealth gap is worse than it was thirty years ago. According to Bornstein, the median net worth of a mean White circle of relatives is almost ten times that of a mean Black own family (in 2016, $171,000 in comparison to $17,100) Less than 2% of households within the pinnacle 1% of the U.S. wealth distribution are Black; over 96% of the wealthiest U.S. Families are White. (Bornstein 2022,1416). As the above data have shown, the wealth inequality will be even more devastating because the income of the rich is exponentially growing, while the growth of the real wages of the general working class tend to be sluggish. Not all the white enslave the Alfro-Americans, but lacking social capitals and opportunities are definitely the aftermath of slavery, and that were done under the name of the Americans. As we mentioned before, no one can choose their birth. But society assigns social status to them as historically under-previleged that it is almost impossible to move up to the upper social classes.

Of course, we always have to climb out in our own way. We live in a society, no one is obliged to help out others. The one who does more work, the more intelligent one should be rewarded more. The original Philp Morris had been diverged or sold to other companies. If we have to insert fairness into this case, why are the corporate firms responsible for people's natural attributes? It needs a lot of hard work, tactics and commercial skills to maintain a company's profitability in such cut-throated business world, whereas many skill sets that the working class obtain are not generating great contributions to the U.S. GDP. The main financial transactions bonus earned by the hedge funds CEOs or M&A managers within the banking system are actually economically contributing much more than the working class, while those positions are engaging higher financial education and technical contents. This knowledge and skill set are free to choose, but only in which position the capable person is. One one hand, obviously the CEOs themselves would not create a knowledge barrier to exclude others from gaining the same financial education. On the other hand, it could be argued that if the lower income working class do not acquire these skills and, as a result, blaming slavery and diverting profits from corporate firms might not be reasonable. Yes, the skill sets that we choose will diverge us into workers or entrepreneurs , and of course we should be responsible for our own finances in the end too. Milton Friedman expressed his view on natural attributes and personal responsibility on social status in his great literature ‘’Free To Choose”, he said,

> *“Whether it is in the slums of New Delhi or in the affluence of Las Vegas, it simply isn't fair that there should be any losers. Life is unfair — there is nothing fair about one man being born blind and another man being born with sight.*

> *There is nothing fair about one man being born of a wealthy parent and one of an impecunious parent. There is nothing fair about Muhammad Ali having been born with a skill that enables him to make millions of dollars one night. There is nothing fair about Marlene Dietrich having great legs that we all want to watch. There is nothing fair about any of that. But on the other hand, don't you think a lot of people who like to look at Marlene Dietrich's legs benefited from nature's unfairness in producing a Marlene Dietrich. What kind of a world would it be if everybody was an absolute identical duplicate of anybody else. You might as well destroy the whole world and just keep one specimen left for a museum. In the same way, it's unfair that Muhammad Ali should be a great fighter and should be able to earn millions. But would it not be even more unfair to the people who like to watch him if you said that in the pursuit of some abstract idea of equality we're not going to let Muhammad Ali get more for one nights fight than the lowest man on the totem pole can get for a days unskilled work on the docks. You can do that but the result of that would be to deny people the opportunity to watch Muhammad Ali. I doubt very much he would be willing to subject himself to the kind of fights he's gone through if he were to get the pay of an unskilled docker*" (Friedman 1980 ,158).

This is the extraordinary argument opposing the notion of welfare state, and this seems to be defending the dis-connection between wealth inequality and slavery.

However, this is the argument we must oppose. As Rawls argued in his A Theory of Justice, because the distribution of talents and social contingencies is inherently unjust and unfair, this injustice is bound to permeate into human arrangements, resulting in inherent flaws in the system. Such thinking is not an excuse to ignore injustice, as if refusing to condone injustice is like refusing to accept death. Natural distribution is neither just nor unjust, and a person's birth in a certain social position cannot be considered unjust. This is simply a natural fact. The concept of justice and injustice pertains to how the system handles these facts(Sandel 2011, 186).

The rectification tax is the tool that “handles” the system. Black people were enslaved for centuries. The consensus of discriminatory wage structure was cultivated after slavery. The structure of racial wealth disparity was built on the basis of unjust acquisition of holdings. The current dilemma in which African-American laborers are facing should be compensated and hence the historical mistake shall be remedied. The structure of racial wealth disparity was built on the basis of unjust acquisition of holdings, in which we shall remedy the problem. Otherwise, it would be redundant to study the problem by conducting endless studies but not eliminate the crux of the problem.

2. History Of Slave Labor In Tobacco Industry

How did the colonial mechanism cultivate a wage structure based on social hierarchy? Before we investigate the African-Americans slave trading in agricultural plantations in Virginia, we have to break down the history of slave trading into its essence from the development of capitalism and the rise of mercantilism in European countries.

Williams quoted Merivale's explanation of the origin of slavery, "...[it] was an economic institution of the first importance. It had been the basis of Greek economy and had built up the Roman Empire. In modern times it provided the sugar for the tea and the coffee cups of the Western world. It produced the cotton to serve as a base for modern capitalism" (Williams 1944, 3). More historical evidence are also documented in Robinson 's Black Marxism: "[originally]...the feudal villains of western medieval Europe and England, and the *sclavi* of the Genoese and Venetian merchants who dominated commercial trade in the Mediterranean from the thirteenth to the sixteenth century, slave labor persisted as an aspect of European agrarian production up to the modern era…" (Robinson 2000) The masters in Europe and her colonies used both European and African slaves in agriculture on sugar plantations, in industry, and for work in mines. Aligned with the augmentation in trading routes and international finance, the rise of capitalism benefited the merchantists that worked under the landlords or aristocrats. More European proletarians and merchantists moved up to a middle class, and the expansion of colonized ports created a larger shortage in labor. Thus, as Sojoyner has mentioned, "the white victims of slavery were replaced by a much greater number of African Negroes, captured in raids or bought by traders" (Robinson2000,). As industrial capitalism developed, that the bourgeoisie withheld and interlocked with, had created a system structure. And such system structure associated with the empire and nascent bourgeois were seized by a passionate thirst of money, that all measures were applied in the effort to expand it. When foreign trade was held as the main source of a nation's wealth, national bourgeoisies perceived the others as 'natural enemies'. Subsequently, this altered into the ideological phantasmagoria of race and nationalism, in which constructed a marshal of national social force that prompted an expansion of domination and expropriation to the Third World, compelling slavery as a form of labor in Europe in a much more violent sense.

During the colonial era, the tobacco industry largely supported the "Virginia" State Government (benefited from such exporting market). Simultaneously, the colonial government encouraged slavery because it flavored influential people who profit by the African slave trade. The tobacco industry brought tax revenue and generated profits in the global market. Considering tobacco companies exploited cheap labor in production, the profit of this industry was exceedingly huge. In factories managed by white Southerners…[the US tobacco]...leaf department jobs carried the lowest status and lowest pay. In the US, such work had been associated with African Americans since slavery(Enstad,2018,131). Also according to the article by National Park Service, the oldest colonial Shirley Plantation enslaved black people in the 17th century. The plantation was constructed by "...using relatively cheap labor, (with) increasing demand and a system of regulation. Tobacco profits helped to buy indentured servants and slaves. They also were used to pay local taxes and buy manufactured goods from England" (NPS.gov,2022). Slavery and hierarchy was practiced as an economic decision that fits the notion of cost elimination. Thus, the initial accumulation of wealth by tobacco merchants relied on seizing the labor fruits of African-Americans. Whites captured control over the bubbling postwar industry and ensured that new white-collar opportunities in manufacturing, seed development, leaf grading and sales, and consulting work went to whites only (Enstad, 2018, 11). Furthermore, the discriminatory taxes imposed on imported tobacco and forbades local production by the English Government had accelerated and prompted its production in English Colonies since the 1850s .Thus, an adequate market was established and the enterprising tobacco growers in

English Colonies naturally maximized the scale of their operations by increasing slave labor demand (Russel,1937,308). Under the influence of national capitalism, social status was not only instituted but also further deepened and perpetuated through tobacco trading associated with economic decision. Besides, the workers in the tobacco industry were suffering heavier suppression as their wages were the lowest among other industries. The workers in cotton fields or sugar plantations were deemed as more productive because they were more familiar with the machines. Thus, "slave prices were always higher in the cotton and sugar areas than in the tobacco areas with the result that most of the slaves sold in the latter were brought up by traders who took them to the Lower South" (Russell 1937,315). Even worse, after the removal of slavery, the market cannot effectively absorb the Black workers and subsequently created a surplus of tobacco slave labor. The tobacco workers were facing a higher chance of being unemployed or underpaid. More precisely, they were the most discriminated groups within the market mechanism of racial and national capitalism.

After the rolling machine was invented, the working hierarchy was even more distinct. "In North Carolina, managers created job categories that animated race and gender in hiring but also in the organization of daily workplace identities and hierarchies. Leaf preparation remained in African hands, but employers reassigned the operation of cigarette machines from white girls to adult white men. The factory—and the machine—newly took up a place in the political economy of the South in ways consistent with and productive of Jim Crow hierarchies" (Enstad 2018,122). The workers were divided by "white side" and "black side" when they were approaching the factory, and they were divided again by gender when they went into their department. Such distinctive sorting by gender and race, which was in charge by the tobacco managers, had amplified and given new meaning to local hierarchies. However, the US Department of Labor inspector noted that " "black" leaf department was extremely hot, dirty, and dusty, poorly ventilated, and had insufficient toilets and sinks. This department lacked chairs for female stemmers, who sat on barrels or boxes or stood while working. In contrast, cigarette departments were newer and cleaner and often served as models of modern facilities. White women on the cigarette side always had chairs available. Black and white workers also ate in separate cafeterias designed to reinforce the higher status of whiteness. (Enstad 2018, 135,136) It is clear that slavery had created a structural racism that assimilated into each production chain, which is totally an ideology.

3. The Dilemma Of Black People

As we discussed earlier, when the Europeans entered into the New World—land was boundless but cheap labor was limited. When population kept spurring in the colony, the Virginia planters discovered that the enslaved Africans were an even more efficient source of cheap labor. Needless to say, all the indentured servants were protected and entitled under the legal subjects of the English crown, but the African slaves entered the colonies as aliens. The slaves were the early America's indispensable working class, endured the maximum exploitation and minimal resistance. The racial segregation piled up a devastating financial situation that trapped them into a ghetto, who were receiving a lower wage payment and geographically segregated. Such factors are the main reason for current wealth inequality in the U.S. that is mostly associated with race, and it is endogenously interlocking with each factor that compounds their disadvantage.

The structural racism inherited in the labor market engulfed the wealth inequality, historically. Goldsmith developed a theory of preference for whiteness as well, explaining the wage gaps are actually based on skin color nowadays. The theory is built up by Social Identity Theory, which is a social categorization phenomenon. Such categorization leads to segregation of in-groups and out-groups where out-groups are exposed to prejudicial attitudes and biased judgements, and in group members receive preferential treatment (Goldsmith 2007, 702). These in-groups gain self-esteem by differentiating as white skin. Subsequently, the prejudice creates the "status effect" and "categorization effect". The in-groups can endow greater resources and power over the out-group. This phenomena is explicitly cohesive with the relationship between slave labor and the slaveholders. A social hierarchy was cultivated and fundamentally controlled the labor market structure.

The social hierarchy substantially sets a discriminatory wage structure. The prejudice could elicit a result of taste-based employment, and generate social-psychological feedback effects. In the first place, black people are discriminated against, leading to lower salaries compared to white people. Secondly, the disadvantage in income further exacerbated the difficulty in accumulating assets. England and Lewin stated:

> "*Feedback from discrimination may also involve intergenerational effects such that the children of current employees are disadvantaged when they reach employment age because of consequences of discrimination against the*

previous generation of their race or sex group…..Black victims of discrimination have fewer socioeconomic advantages to pass on to their children, leading the next generation to have less education and other less tangible skills" (England and Lewin 1989,250).

The effect of discrimination can be intergenerational and perpetuate the problem of lacking social capital. Ramamurthy and Sledgley stated that "lower school quality decreases educational attainment and, consequently, the equilibrium wages" a worker can obtain; thus the Black-White wage gap can be explained in part by "the general lack of access to quality schooling for Black" as compared to White Americans (Ramamurthy and Sledgley, 2019).

Social hierarchy not only set lower wages for the Blacks, but also created a deeper devastating financial problem in the housing system. In the Case of Reparation by Ta-Nehisi Coates, there is an exceptionally detailed investigation of segregated housing and wealth inequality. He mentioned "And just as black families of all incomes remain handicapped by a lack of wealth, so too do they remain handicapped by their restricted choice of neighborhood. Black people with upper-middle-class incomes do not generally live in upper-middle-class neighborhoods" (Coates 2014). Researchers pointed out that black families with $100,000 income are typically living in the neighborhoods inhabited by white families making $30,000. It is impossible to compare the economic outcomes of black and white children.

One explicit example from a Chicago resident Clyde Ross, illustrates the general dilemma that all African-Americans were facing under the housing policy. After Ross had bought the house from the seller, he was still not really the homeowner as the contract combined all the responsibilities of homeownership with all the disadvantages of renting. The seller, not a previous homeowner but usually a middleman who brought much cheaper in just a few months earlier. Unlike the normal mortgage, the sellers kept the deed until the contract was paid in full and the payments were made to the seller instead of paying through the banks. In Ross's case , he would acquire no equity in the meantime. If he missed a single payment, he would immediately forfeit his $1,000 down payment, all his monthly payments, and the property itself. Not to mention the crazy spurred selling price that Ross had to accept, which the house bought by the seller at $12,000 six months before and sold it to Ross at $27,500. Typically, sellers would inflate home prices significantly, then evict families who are unable to meet the payments, and thereby siphon off the profit from their initial down payment and subsequent monthly installments. This cycle would then repeat with more other black families.

From the 1930s through the 1960s, a racial separation scheme was employed by the Chicago whites to keep their neighborhoods segregated from the blacks by every measure. African-Americans were largely cut out of the home-mortgage system and absent in all accessibility of financial apparatus both legally and extralegally by its own means. This effort was bolstered by the federal government. In 1934, Congress set up the Federal Housing Administration which insured private mortgages to decrease the interest rates and the size of the down payment in purchasing a house. However, the insured mortgage restricted African-Americans to have access. The FHA adopted a separation system in the city by rating their "perceived stability " of neighborhoods from "A" to "D", where the "A" district colored in green on the map that appears without "a single foreigner or Nergo". For the districts that rated "D" on the map with red color were the neighborhoods where most of the blacks dwells. These places were considered in less demand for whites, and black people were excluded from the FHA-backed loans.   By the 1940s, about half of all residential neighborhoods in the city of Chicago were efficaciously off-limits to blacks. Whereas the government hindered the blacks from obtaining a mortgage, the contract sellers utilized all available means to exploit their customers. They added extra insurance bills on the half-purchased house without acknowledging the blacks; they scared the white buyers into selling low then selling high to the blacks. They guided their clients to lawyers who were also involved in the scheme. They pretended themselves as real-estate brokers but in fact they were the owners. They misrepresented the adherence of properties to building codes, then shifted responsibility to the black buyers upon the arrival of city inspectors.

Following the interview of Ross, he had to keep up with his payments by taking a second and a third job. His wife also took a job working at Marshall Field. He can only afford public school for their children by taking two of them out of private school. He was not able to supervise his children or assist them with their homework because he simply did not have the time. The money and time that his children suppose to have went to enrich the white speculators. In Ross' words: “The problem was the money. Without the money, you can’t move. You can’t educate your kids. You can’t give them the right kind of food. Can’t make the house look good. They think this neighborhood is where they supposed to be. It changes their outlook. My kids were going to the best schools in this neighborhood, and I couldn’t keep them in there” (Coates 2014). This is not the only case in Chicago, this is the general black poor are facing throughout the country.

Under the regime of racial segregation, the planters seized the blacks' labor fruit, the employer discriminated against them by paying them less and the white spectator siphoned off their money through the housing market. The government set up a malicious system to hide the facilitation from an entire race. What else can also be done? The rich always share their experience on how to be successful, by their willfulness, hard work, determination or the ability to save. Who are their target audience? How would the poor blacks think of these false promises emanating from a man who has hundreds of brokers to manipulate stock prices in the options market? How would the poor blacks who work for three jobs a day think of these fake dreams that come out from a man who simply sits idly in his office, lighting up a cigarette, and watching the numbers in his bank account continually go up? Once again, we cannot choose our own birth, and we understand there is no absolute fairness. But, more than one third of black families are still working without a safety net and have zero to negative wealth. From 1955 to 1970, 4 percent of whites and 62 percent of blacks across America had been raised in poor neighborhoods. A generation later, the same study showed, virtually nothing had changed. And whereas whites born into affluent neighborhoods tended to remain in affluent neighborhoods, blacks tended to fall out of them (Coates, 2014). To maximize the chances of innovations and prosperity, we should create an equal platform and starting line, so that we can have access to true meritocracy. Therefore, we should not just prevent discrimination in the hiring process and wage structure, or just simply improve the educational system. We should help the whole race and their next generation to accumulate enough net worth. How far should we compensate the descendants of whom injustice were done? The following section will explain how the question should be addressed and how the policy should be shaped.

Chapter 3

Policy Implementation

This chapter measures the deadweight loss incurred by Black people due to smoking and suggests a possible solution: subsidizing African-Americans' daily expenses on housing-mortgage. We proposed this housing-mortgage subsidy from analyzing the history and the profitability of tobacco companies, and then evaluating how much tax should be levied on these companies. In the second section, we will reveal the taxing system and pricing mechanism of the tobacco industry, and what problems are inherited in this mechanism. This chapter ends with a reflection on our proposed policy.

1. A Victim Under The Tobacco Industry

Smoking induces huge medical and healthcare expenditure. According to the data from the Centers for Disease Control and Prevention(CDC), in the United States, about 1.1 million black people require public healthcare each year due to smoking. These public healthcare expenditures include medical insurance, medical assistance programs, and medical subsidies (CDC 2020). Moreover, according to a study "Smoking-Attributable Mortality, Morbidity, and Economic Costs", black Americans are estimated to pay approximately $9.3 billion in medical costs related to smoking each year in the private sector, such as healthcare insurance. These costs include direct medical expenses, lost productivity due to smoking-related illnesses, premature death and lost income. (CDC 2020)

Undoubtedly, smoking is a personal choice. But, what if they are designated to have a higher chance to expose themselves to cigarettes as being the targeted customer? American tobacco companies had more incentives to advertise and promote tobacco consumption to African-American and other minority groups . They invested in community infrastructure, such as the operation of smoking shops and liquor stores in black communities. The data from CDC reflects the "achievement" of tobacco companies' marketing strategy. It is estimated that *the probability of Black individuals being exposed to tobacco products is higher than that of White individuals. About 16.7% of Black individuals smoke, while the rate among White individuals is about 14.5%* (CDC 2020). In 1950, the segregationist publication White Sentinel attacked Philip Morris for being "the first cigarette organization to promote it within the negro press." However, tobacco and liquor advertising have been the economic mainstays of African American publications for decades. After the 1971 television ban, there was an upward thrust in print tobacco advertising whilst African American publishers requested the industry to target them. Cigarettes are closely advertised in African American-oriented magazines including Ebony, Jet, and Essen. African American owned and orientated newspapers and magazines acquire about $6 million in tobacco advertising revenues, or 1.5% of the tobacco industry's $400 million overall advertising price range (Robinson 1992,S26). In addition, Robinson documented that, Peter Bell, the former executive director of the Institute on Black Chemical Abuse had noted "I am not aware of any major Black does not have a liquor or tobacco company as a promy sponsor" (Robinson 1992,S25). Tobacco companies are increasing their sponsorship of influential figures in the media and society, using commercialization and other means to increase tobacco consumption among African-Americans. Their disadvantageous position in terms of income and social status leads to greater suffering in physical and mental stress, and the addictive nature of smoking makes it even more difficult for them to quit. These obstacles create a fraction which slackens the speed of wealth accumulation. Thus, widened the racial wealth disparity intergenerationally.

2. *Cooperate Empire*

The crux of the problem lies between the consolidation of corporate imperialism and the prevailing tax structure, which unanimously loosened their own tax obligation. The story begins with three infamous names signing on the “Frank Statement to Cigarette Smokers” in North Carolina; R.J Reynolds, American Tobacco Company and Philip Morris signed as the document sponsors from 1954. The Statement lauded the tobacco industry to fund an industry research consortium as responsible to aid research into the effect of smoking cigarettes. They reassured readers that the industry “accept an interest in people’s health as a basic responsibility” and “cooperate closely with those whose task it is to safeguard the public health”. Then, they announced the formation of The Tobacco Industry Research Committee (TRIC), as enlightened to find the causal connection between health and smoking. However, the TIRC had been operating for 43 years, they spent almost $300 million funding scientific projects that intended to find no relationship between smoking and cancer. Simultaneously, those main manufacturers formed separate institutional units that could lubricate their political accessibility and set a lobby for the industry, so as to preserve the TIRC’s appearance of scientific integrity. It is believed that in 1958, The Tobacco Institute (TI) and The Tobacco Growers Information Committee (TGIC) were formed under the protection of tobacco's PR effort, also, which is the same year that the Americans were still smoking 424 billion cigarettes(Milov 2019, 113).

The American Tobacco Company and R.J. Reynolds in the 1950s, were the successor companies dissoluted from the ATC monopoly by the Supreme Court in 1911 (Enstad 2018,122). Other two were Liggett and Myers, and Lorillard. The old ATC was such a massive monopoly that had controlled 71 percent of the market share in just 12 years, beginning with no tobacco manufacturing from 1890. It also controlled 85 percent of the market and absorbed 250 companies by 1910. Subsequently, the ATC was historically influential to the auction system against the growers. In the game of auction, the tobacco companies can secure the cheapest leaf price by bidding non-aggressively. All companies could buy tobacco leaf without actually engaging in the bidding war. The concept was that the growers were facing opportunity costs of auction fees and commissions paid to the warehouse. They cannot say no to any bidding if they have to leave the warehouse with unsold tobacco leaves. Tobacco is a perishable crop that needs to be re-dried after it is cured. No farmer would be willing to pay twice the auction fee and the sunk money for transportation. Moreover, the farmers needed free cash flow to pay off their deferred debts, they needed cash for their next season. Thus, the flue-cured tobacco needed to be sold fast in an auction, otherwise their opportunity cost will be greater and causing substantial loss. The ATC and other oligopolistic manufacturers manipulated this uncertainty by controlling prices in the present, and also buffered the overproductions so as to depress prices in the future. Therefore, establishing a price floor and production quotas for tobacco by the Tobacco's New Deal, intended to strengthen the growers economic power against the cigarette manufacturers of its utmost.

A nonprofit, non-stock corporation :The Tri-State Tobacco Growers Cooperative Association (TGCA) was formed during the agricultural depression of the early 1920s. The TGCA's goal was to subvert the hated auction system by paying the growers in advance payment, and remitting payment throughout the rest of the marketing season in proportion to the amount of tobacco sold, regardless of how much buyers paid for it. However, TGCA failed to achieve monopoly control over the handling of the tobacco crop compared to the gigantic bargaining power and market influence grew with the Co-ops. With the fall of TGCA, a production quota was imposed to increase the price of tobacco leaves for upholding planters' rights. But the cutting of planters surprisingly harmed the black farmers more because they sustained greater acreage cuts than white farmers. Black farmers saw their acreage cut by 50 percent, from an average of 6 acres to 3. White-owned tobacco allotments were cut by 30 percent, falling from an average 8 acres to 5.5. The foreseeable income of black farmers will drop lower than the white farmers, as a cut of harvest will lower the yearly flue-cured tobacco production (Milov 2019,64).

Recall those companies who signed the "Frank Statement to Cigarette Smokers" in 1954, they were ATC, Brown & Williamson, R. J. Reynolds, Phillip Morris and P. Lorillard. These companies grew into an enormous entity that rules the global cigarette market with all the merging and selling of franchises. Today, consumers seem to have a lot of choices over different brands of cigarettes, and they seem to be facing a monopolistic competitive market when they are looking at the cigarette shelf in a gas station. In a New York Sunoco gas station, consumers can pick cigarettes priced from $11.3 to $15.25. Consumer's behavior and preference reacting to cigarettes are quite similar to choosing what kind of iced tea to buy from the store. Consumers can choose from Lipton, Pure Leaf to Brisk with different flavors and prices, but they are all owned by Pepsi. Similar to the cigarette market, America actually has only two dominant branded cigarette suppliers, one is British American Tobacco (the former BTI) , the other one is Philip Morris. In other words, the consumers lack choices; these two companies secure their domination through market power.

Figure 6. A shelf of cigarettes in a New York gas station

Of all the popular cigarettes we can buy from a gas station, most of them are actually imported cigarettes. Only Maraboro (originated from Philip Morris), Chesterfield and L&M (created by ATC and Liggett and Myers) are for domestic consumption that is not sold by Britain only. The Lucky Strikes which was created by the ATC were sold to BTI. The Altria Group is the parent company of Philip Morris, which emerged from Philip Morris in 2003. They are solely responsible for the domestic supply of those 3 consumable branded cigarettes in the US, while

Philip Morris Inc (the international company of Altria Group) supplies the Philip Morris, Parliament, L&M and Maraboro to the world market. The corporate empire sets in here. The American market protectionism has blocked cigarette sales from other countries, and thus, consolidated two monstrous and formidable corporate cigarette empires. The British American Tobacco (BTI) and Philip Morris formed a cartel that dominated the cigarette market in the U.S.

The total number of cigarettes reported sold or given away by the major manufacturers in 2021, 190.2 billion units, represented a decrease of 13.5 billion units (6.7 percent) from 2020 (FTC 2021,2). The merging and selling of cigarette brands is not the reason to attract customers, or preserve profits. The action of the cartel is to lighten their obligation of the penalty. In 1998, 52 state and territory attorneys general signed the Master Settlement Agreement (MSA) with the four largest tobacco companies in the U.S. (The Philip Morris, R.J. Reynolds, Brown & Williamson and P. Lorillard.) to settle dozens of state lawsuits brought to recover billions of dollars in health care costs associated with treating smoking-related illnesses (https://www.naag.org/). Later on, several states participated in the MSA and joined as "The State Settlement Agreements", which requires the original participating manufacturers or "OPMs" (now PM USA, R.J. Reynolds and, with respect to certain brands), make annual payments of approximately $9.4 billion, subject to adjustments for several factors, including inflation, market share and industry volume. (Altria, 2022) The ideal MSA payment was measured by the market share of the companies and charging them with the equivalent penalty. The chart shows the initial market share in accordance with the manufacturers.

MARKET CAPITALIZATION PERCENTAGES

Philip Morris Incorporated	68.0000000%
Brown & Williamson Tobacco Corporation	17.9000000%
Lorillard Tobacco Company	7.3000000%
R.J. Reynolds Tobacco Company	6.8000000%
Total	100.0000000%

Figure 7 MSA market share (https://rjrt.com/youth-tobacco-prevention/responsible-marketing/msa/msa-fulltext/)

According to the 10-k released by the Altria Group in 2022, they claimed "The estimated amounts due under the State Settlement Agreements charged to cost of sales in each year are generally paid in April of the following year. The amounts charged to cost of sales for FDA user fees are generally paid in the quarter in which the fees are incurred. We paid approximately $4.6 billion and $4.7 billion for the years ended December 31, 2022 and 2021, respectively, in connection with the State Settlement Agreements and FDA user fees, primarily all of which was paid in the second quarter of each period." (Altria, 2022) In 2022, British American Tobacco paid $2.7 billion in MSA. (BAT, 2022) Although 45 companies have joined the MSA until now, in which the NAAG should be receiving the total amount of $9.4 billion, Philip Morris USA and BAT are only paying $6.8 billion. Before Lorillard was sold to R.J. Reynolds, they were paying $1.364 billion in 2014, and expecting to pay $1.5 billion in 2015. This payment was redistributed right after R.J. Reynolds bought Lorillard in 2015. R.J. Reynolds was already paying $2.251 billion in 2008. But after the merging and selling, today's BAT (which acquires R.J. Reynolds and most of the Lorillard's brands) are just paying $2.7 billion. The most questionable thing about the MSA is that the merging seems to have lightened their responsibility, and the MSA was supposedly creating a perpetuity fine for the companies. As we can observe from the gas station, the Philip Morris and BAT stacked almost the whole shelf. But the amount they are paying shows that the other 43 companies bailout some of the obligations in which PM USA and BAT should bear. It is exceptionally hard to check the amount of MSA that every company should pay, because most of the companies are in smaller sizes and private. Some pay the MSA but do not sell their product in the U.S., such as the Konci Group (USA) Inc. They are holding Chinese branded cigarette that includes Chunghua (中华) and Double Happiness (红双喜), but these are not trading in the U.S. territories. Why are they paying the MSA with no market share? Also, there are no restrictions placed on how the states spend the money, and less than 3 percent of MSA funds are used toward smoking cessation and prevention; more than half of the fund went to the attorney. (Milov, 2019) Moreover, with the lawsuits between the companies and the NAAG, the companies not only disputed the fund in respect of "decreased market share", but also wasted the cash enormously in lawsuits of "justifying" the payment. Although the MSA is supposed to penalize the tobacco companies, they are able to maintain their profit from NPM Adjustment Disputes. The "NPM Adjustment is a reduction in MSA payments made by the OPMs and those manufacturers that are subsequent signatories to the MSA (collectively, the "participating manufacturers" or "PMs") that applies if the PMs collectively lose at least a specified level of market share to non-participating manufacturers since 1997, subject to certain conditions and defenses (Philip Morris, 2021). Philip Morris can dispute 5.28 billion from 2004 to 2021 under the NPA Adjustment. (Philip Morris, 2021) This is not an exceptional case in the tobacco industry, and there were no objections spoken aloud in the public.

Apart from the normal excise tax and penalties, the government strived to disrupt the market power by setting up the MSA, and they also set up a separate market supply chain. However, this is still not able to minimize their profit margin. The corporations produce and sell the un-branded manufactured cigarettes to the agencies for stamping. Then, the retailers purchase the branded cigarettes from the agencies with higher prices. Cigarette taxes are levied by the federal government, each state government, and local governments. The legal incidence of federal taxes is on manufactures, while the legal incidence of state and local taxes is usually on wholesalers (Rozema, 2015). Because cigarette manufacturers exercise price-discrimination by state by charging a higher price in high tax states than in low states, the tax burden pushes onto consumers. In order to prevent younger smokers and price-discrimination, the stamping of the brand is taxed from the cigarette agencies, and there is a minimum price set for the wholesalers. The Cigarette Marketing Standards Act (CMSA) sets a minimum selling price for cigarettes, determined by a formula relying on the manufacturer's "list price" of the cigarettes. The law requires a minimum markup to be added at each level in the distribution chain (tax stamping agent to wholesaler to retailer). For instance, if the list price for a carton of cigarettes sold in New York is $100.50, the agent's “basic cost” will be $154 ; that is, the list cost plus the cost for excise tax stamps purchased by the agent. The agent must sell that carton of cigarettes to a retailer for no less than $155.55, and the retailer must sell it to a consumer for no less than $171.38. Each economic agency bears an additional sales cost on every transaction. Moreover, the law prohibits the use of certain retailer or wholesaler price discounts (such as “buy-downs” and “master-type” programs) to factor into the formula (i.e., to reduce the minimum required price). Thus, the law prevents some discount methods employed by tobacco companies to undermine the high state cigarette tax in New York. The BNew York cigarette tax is the highest among all states nonetheless, the

3. Imposing The Rectification Tax On Tobacco Companies.

Tax incidence is the study of the effects of tax policies on the distribution of economic welfare (Fullerton and Metcalf 2002). The focus of empirical research on the incidence of excise taxes has almost exclusively been on (i) the tax pass through rate and thus the division of the tax burden between consumers and producers, and (ii) the burden of taxes among different consumer groups in terms of income (Harding et al. 2012). In order to achieve the ideal economic welfare distribution, the implementation of this policy is to impose a rectification tax named the "Punishment Tax". A tax can be levied on the sale in the cigarette markets between the manufacturer and the wholesalers (or between the stamping agencies in some states).
According to the model developed by Rozema, because the wholesalers set the price, the marginal cost is the same, thus a horizontal line. (Rozema 2015, 17) The market is in monopoly competition thus the supply is equal to the demand. Considering cigarettes and tobacco related products are the higher addictive adolescents, the elasticity of demand for smoking products will be more inelastic. Imposing a tax on inelastic demand commodities will shift the tax burden to consumers. That means, imposing taxes without price regulation in the cigarette market enables the tobacco corporations to shirk their responsibility from the crime of slavery that they had committed. Thus, simultaneously setting a price ceiling with the taxation remits on the manufacturers, will reduce the incentive of tobacco production without shifting the tax burden to

the consumer. In this case, when the tax is levied, it will shift the marginal curve upward, and lower the quantity transacted. Also if a price ceiling is set at the previous equilibrium. The producer surplus will decrease and become the tax burden that they will bear all the tax burden, and also the consumer surplus remains unchanged. The tax revenue can be utilized to subsidize housing mortgages. In the long run, thus, interracial wage differential can be minimized. As the demand will not fall, so there will be a shortage and deadweight loss after the tax levied, but it will be considered as positive outcome because less people smoke.

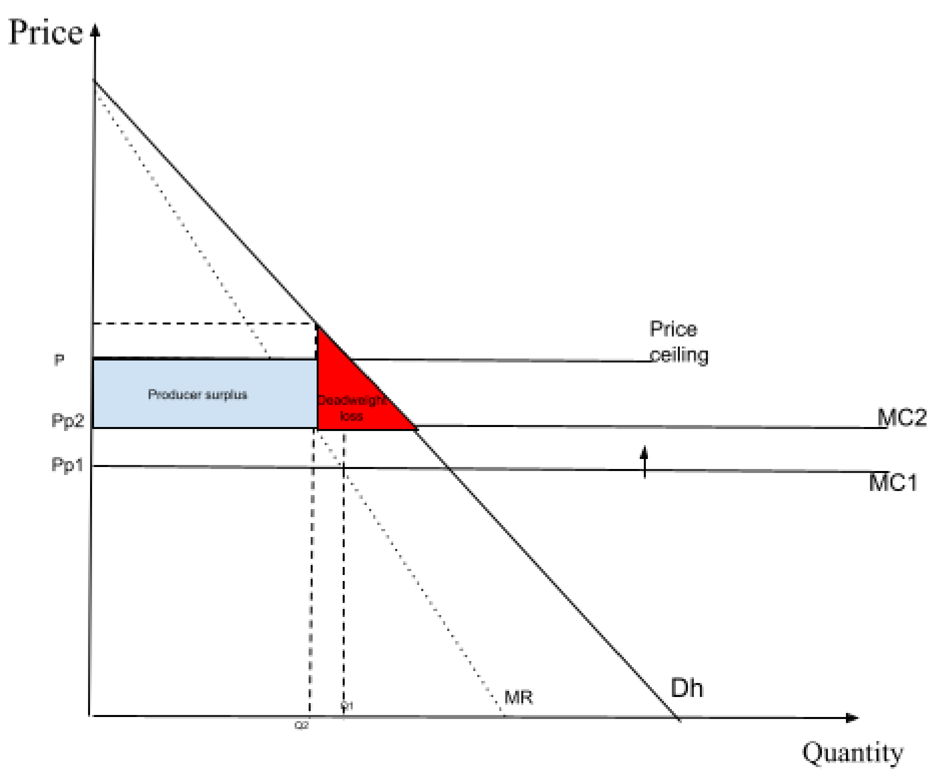

Figure 8. The cigarette market with major tobacco companies and retailers

4. *An analysis to the Rectification Tax*

Numerous audit research has been conducted to find the elasticity of demand for cigarettes and tobacco. The price elasticity of cigarette demand sheds light on the addictiveness of cigarettes or tobacco. There is strong evidence that cigarettes appear with an inelastic demand (the ratio between the percentage change in quantity demanded for a good versus the percentage change of the price of that good is less than 1). It is comprehended that the consumers are less sensitive to the price change of adolescents because of the reliance of nicotine, and tobacco products tend to have no close substitutes.

The National Bureau Of Economic Research (2016) found the price elasticity of cigarettes with their model, which was around -0.697 (Tauras et.al.2016,6). It is found to be more inelastic in demand. Their model is to find out how the increase of tax will react with the sales by year-fixed effect and state-fixed effect, including other control variables. The price also responds with the controls such as, import and export controls, smoke-free air index, inflation adjusted personal income and unemployment rate, gender, age, race, ethnicity, and educational attainment. The cigarette price elasticity also inspires researchers to find the racial responsiveness of consumer prices on cigarettes due to the tax increase. Kim and Lee (2020) state that cigarette taxes are less than fully shifted to consumer prices due to consumer search behavior, and cigarette tax shifting varies with demographic characteristics that includes income, education and race/ethnicity (Kim and Lee 2019, 1013). Harding et. al. (2012) also stated that cigarette taxes are shifted less to the prices for lower-income families and high school graduates relative to higher-income families and college graduates. The Black are less likely to purchase cigarettes by pack rather than by carton. The black are more than two times as price elastic as whites. The African-American are more likely than whites to compensate for price increase by smoking cigarettes higher in tar and nicotine. Because the lower-income consumers are more likely minorities, have a lower opportunity cost of time, so they have a lower probability of tax compliance. Therefore, the pass-through rate of tax will be less among the blacks. Kim and Lee found the decrease of tax pass-through rate with the higher population shares of minority areas (Kim and Lee 2019, 1025). The negative coefficient reflects the low tax pass-through in racial groups. Therefore, it is believed that if a $1 of the punishment tax is imposed on the sales, it will shift less on Alfro consumers, and bear a higher tax burden on the demand side. So, using taxation as the only solution to prevent people from smoking is ineffective because the lower tax shift to African-Americans smokers cannot stop them from changing their consumption behavior.

As only the slavery were convicted under the companies name, the consumer should not bear the obligation of the punishment tax. And, it is insignificant to raise tax on the consumer because the effect on price increase will not change their smoking habit (due to lower opportunity cost of time) as pass-through rate is lower among blacks. What if we impose taxes on the supply side—the manufacturer. The tax with a price control on suppliers will stop the tax shifting to the stores and supermarkets, and subsequently to the consumer. If there is a price control, the stores will not increase their purchase on cigarettes because of the remaining price. After the government tax on the sale of cigarettes by the manufacturer, then it will lower the profitability of the corporate firms. Then, the supply will decrease with less quantity transacted.

In addition, the punishment tax can be utilized as a subsidy in housing, which can subsidize the interest payment on a 30-year term mortgage for the Blacks aged from 30-40.In reality, there are too many different scenarios in the housing market. We acknowledge that the borrowers may have different terms of maturity, some in 10 years and some are already paying back the debts. The reduction of interest rates could be very hard to adjust in an ongoing contract. Furthermore, the ever-changing interest rates in the market can also be a main factor which determines the profitability of our recipients. ie) When the interest rate goes up, the borrowers will be facing a net loss as the monthly payment goes up. ie) If the interest rate dropped, should we also reduce the interest rate further for our target recipients? But, ideally and for simplicity, we can set an example to observe the possible amount of interest we can subsidize and how much tax can be utilized.

The formula to calculate mortgage:

$$P = \frac{r(PV)}{1-(1+r)^{-n}}$$

$$\begin{aligned} &P = Payment \\ &PV = Present\ Value \\ &r = rate\ per\ period \\ &n = number\ of\ periods \end{aligned}$$

According to Forbes, the average housing price is $491,500 in the second quarter of 2023. We can assume a black household takes a 30-years term $500,000 loan with a fixed annual interest rate of 6.87% and puts 25% down payment. The cigarette tax and the punishment tax can be added up to subsidize 0.5% of interest in the monthly payment. The original monthly payment with 6.87% interest rate will be \$2537.50, the total amount in interest for 30 years will be \$538,500. (\$2537.50×12x30-\$500,000+\$125,000) After a subsidy of 0.5%, the monthly payment is \$2310.61, and the total amount in interest for 30 years will be \$456,819. Hence, by subtracting the total amount, each recipient can enjoy \$81,681 in a 30-years term loan. Assume the total number of recipients is 5,000,000, so for each year the program has to give out \$13,613,500,000. (\$81681×5,000,000÷30 years)

Nonetheless, 13.6 billion dollars every year is a huge amount of money, and it may seem impossible to run this program. However, it could be feasible if we compare the sales of cigarettes to the cigarette tax that has been collected. According to the Statista Research Department, the cigarette tax collected in 2022 is 11.26 billion dollars, with 190 billion cigarettes sold in 2021. If we tax 10% of profit and set a price ceiling before the manufacturers sell their cigarettes to the agencies, we can collect 5.5 billion dollars out from the market. For a carton of cigarettes, the price list can range from \$58.5 to \$100.05. For the least we can tax, a carton can be taxed \$5.85, and 190 billion cigarettes are 190 million of cartons. (190 billion÷200 cigarettes per carton), then we can multiply it with \$5.85. Hence, it can reach 5.5 billion dollars of tax money with the cheapest brand. When allocating \$5.5 billion to the program, the government is able to partially fund it by leveraging \$8.1 billion generated from cigarette tax revenue, leaving a surplus of \$3.5 billion. But, cigarette manufacturers sell at different prices throughout the United States. In Iowa, the retail cost of a carton of Philip Morris Merit cigarettes stands at \$90.6, while the minimum price at which retailers can purchase them is \$99.5. If a 10% tax is imposed on these cigarettes, retailers would face a selling price constraint, as the taxed selling price would amount only $89.55. This is lower than their cost. This policy will definitely incur hatred and opposition from tobacco companies, and the lower priced brands will not generate profit anymore. These companies may shut down their operations, but should we keep our mercy to such a harmful and toxic industry?

To conclude, the African-Americans are the lower income group that are facing higher cost in smoking, which tobacco companies created their own demand by supply. In the 70s and 80s, tobacco companies specifically targeted African-Americans as the designated audience for their cigarette advertisements. Also, more smoker shops are opened around the black communities. These gradually rendered the Blacks gaining easier access to smoking, and thus, more to become regular smokers. Such intergenerational problems induced tremendous medical costs and health problems, not to mention discrimination in wages and finance. Simultaneously, the inelasticity of cigarettes passes a heavier tax burden on consumers. We also found that the tobacco companies performed cartels or merging inside the industry, to enlarge market share and avoid obligation of penalties. We proposed that we should levy a 10% “punishment tax” on each pack of cigarettes before they sell to the cigarette agencies. With the cigarette tax collected, it is sufficient to sponsor 5 million African-Americans’ housing mortgages for 30 years. We can subsidize 0.5% of housing mortgages for 5 million people with 13.6 billion dollars each year.

Chapter 4

Conclusion

This paper argues that the tobacco companies (Philip Morris, The Altria Group, The British American Tobacco Company) are responsible for the African-Americans reparation scheme, as they are one of the culprits that benefited from slavery. According to above research on wealth distribution, or the correlation between success and luck and the history of racial discrimination, we argued that housing mortgage subsidy is a better solution than education. This paper also argues that the government should have better utilization of the tax money, which supposedly can benefit the lower income group years ago. Disheartenedly, most of the MSA payments did not sufficiently compensate for the social cost of smoking, as only 3% of trillion dollars are funded into medical research. African-Americans were confined in the lowest rung in the tobacco production chain, where they could only work as a leaf picker or cigarette rollers and could never be promoted, even though the rolling machine had been invented. It is of utmost importance to tax the tobacco companies if today's reparational scheme aims to remedy a historical mistake of slavery, or to subsidize their housing mortgage if today's affirmative actions are attempting to close the interracial wealth gap created when the Blacks did not have any access to loans during the Jim Crow Segregation. Tobacco is only one of the commodities that had exploited slavery, sugar, cotton, diamond and many other crops should be taken into account. On top of that, why should the middle-small firms and the general working class bear the crime that they did not convict? Will today's general working class wholeheartedly feel guilty and force themselves to use their tax money, and aid the other racial groups? Will this spin hatred upon two racial groups as none of the Whites today own any slaves while their benefits are being taken away? How could we end racism if the working Whites will have less opportunities because the firms have to hire more Blacks under limited availability of job positions? Needless to say, it is absolutely just to compensate the oppressed group as all the data have pointed out slavery is the reason for today's interracial wealth gap in America, and it is legitimate to employ affirmative actions to bring equality back to the African-Americans. Therefore, according to our research and in order to uphold fairness, we should urge the tobacco companies to be the first organization that represents an entire industry to compensate the Blacks under the name of reparation.

However, we noticed some blind spots of our policy, and we will discuss these potential problems throughout the chapter. Also, we are open to more alternative perspectives on this project, and we are hoping to inspire more quantitative research later on.

Because of the punishment tax, the profit of the cigarette companies will dramatically evaporate. Hence, this policy will be politically unpopular. First, we are uprooting the whole system from price floor to price ceiling, and this may cause agency cost in the government apparatus. The paperwork and lawsuit between setting up the entirely new policy requires tremendous social resources, where the involvement of attorneys and officers could be eradicated. In addition, would our policy enlarge the fiscal burden in government expenditure if we transfer the tax revenue into a subsidy of mortgages? Is it considered as a wasteful of public resources if the 2% of tax revenue can only benefit 1.5% of populations? Also, one critical aspect of cigarette taxation should be concerned: “All tobacco products should be taxed on an equivalent basis. For example, when cigarette taxes are increased, taxes on non-cigarette tobacco products should also be increased on an equivalent basis to discourage substitution of one harmful form of tobacco for another (such as smokeless tobacco)" (Lynch, Bonnie, 1994, p.192). This economic doctrine is reasonable and righteous, but it certainly violated the Entitlement Theory. Since African-American did not participate in the production of other smoke-less tobacco products such as electronic cigarettes or tobacco patches, it is a far-fetched idea to impose the punishment tax on these commodities. Furthermore, the existence of the price floor originally is to create deadweight loss in the market, which is considered as a gain in society. The deficiency brought by the deadweight means that less cigarettes are produced and thus, less people smoke. However, if we set a price ceiling and prevent prices from rising, the consumer has a lower opportunity cost compared to the supplier. Will it encourage smoking too? Last but not least, the percentage of smokers has continuously dropped (FTC 2022, 1), from 20.9% (nearly 21 of every 100 adults) in 2005 to 11.5% (nearly 12 of every 100 adults) in 2021 (CDC 2023). Therefore, as the number of smokers declines, less cigarette tax will be collected due to reduced profits for the companies. That means the punishment tax is not sustainable in the future.

We have acknowledged these problems before we suggest this policy, taxing a commodity will definitely decrease the supply and increase the price. The unpopular essence and other obstacles that we mentioned allow us to foresee the difficulties in imposing the punishment tax. This paper could be blasphemous because we are challenging economic doctrine. We are not proposing a prevention of smoking, but tobacco is an addictive drug that harms human beings. As we stated before, should the government allow such toxic drugs to circulate in the market? Also, cigarette taxes are over-shifted to consumers and are consistent with the notion that the "tobacco industry" is dominated by a tight oligopoly (Rozema 2015, 4). How could we turn a blind eye to tobacco companies creating their own demand with such addictive and harmful goods to secure their profit, while intoxicating their consumers and claiming fairness from us?

Of course, we understand that the overly shifted tax is to stop consumers from smoking, and it is a policy set on the demand side. Despite the fact that smoking evicts lung cancer and emits air pollutants, it is a consumer choice, eventually. But, we believe the producers should bear the responsibility because their supply creates their own demand too. Besides, these firms can live for more than 100 years because the general public bears more tax burden for centuries and this guarantees their profits. Our reason behind this policy is to find out who is the culprit of slavery. To study this question ,we set our perspective from a reparational aspect, which means we are not trying to prevent people from smoking. Also, our policy originates from a supply-side approach, which means we hope the burden of the punitive tax will not fall upon consumers, as they should not be held responsible for slavery.

Finally and importantly, this paper elucidated two crucial questions: Firstly, setting aside race, why should we assist the impoverished, and secondly, why do poor people remain in poverty? From the "Talent vs Luck" model, we understand that intelligence does not function as the main factor to success, but luck does. We remedy poverty because we have no reason to condone the waste of talent and lives that poverty carries with it. Moreover, the poor remain in poverty because they are facing much more temptations. According to the Poor Economics, sugar, sex, fatty foods, cigarettes are some sort of temptation goods. It is much effortless for the rich to satisfy their "tempted selves", whereas the poor have to decide whether to save or not in every second. The rich are not necessarily more disciplined or know how to save more, but because they can afford so much that they do not have to worry about future spending. However, self-control is similar to a muscle: it gets tired as we use it too much. In fact, a lot of goods that the poor might want, such as a computer or a stove or admission to a private school for their children, are relatively more expensive than a pack of cigarettes. The temptation goods fit perfectly well to proclaim (you can never save enough for that computer, Lighten up a cigarette instead…The voice in our head). Thus, saving is less attractive to the poor because the goal is too far for them (Banerjee and Duflo 2011, 109-200). Even worse, the financial burden renders the poor live under considerable stress, and stress -induced cortisol generates more impulsive decisions. The $1.5 cigarette became the best gift as the nicotine can bring instant satisfaction to ease their stress. All these compounded into a vicious circle, the poor do not and cannot save, thus, remain poor. The Blacks are the most pitiful ones who are being discriminated against among the poor.

All in all, The tobacco companies control all the research and data, and they are clear about how their products can affect their customers. The temptation and discrimination and slavery that the Blacks are facing, has elongated their intergenerational poverty. The concern that big tobacco companies earn huge profit from the low income African-Americans should be projected further throughout the U.S.

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