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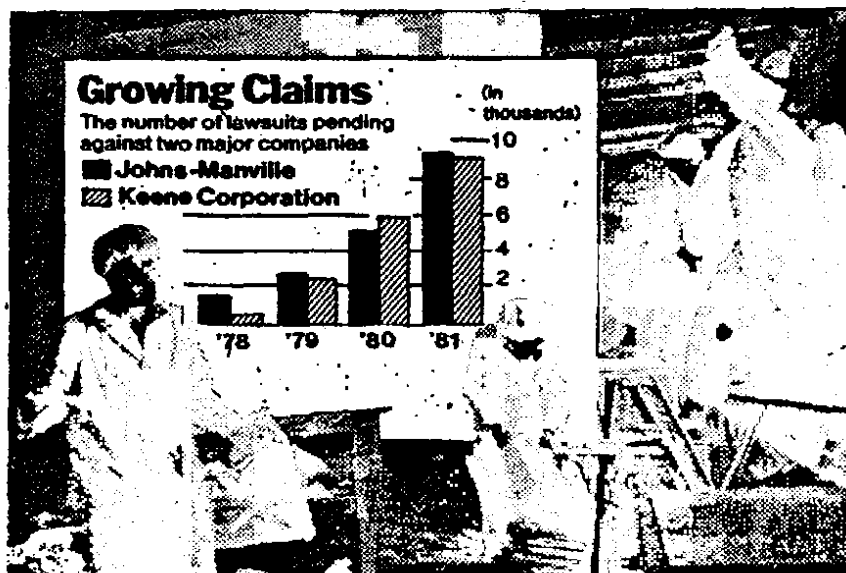
ECONOMIC AFFAIRS / Paul W. MacAvoy

# You, Too, Will Pay for Asbestosis

THERE are enough economic problems to be solved in 1982 to keep us all busy. Even so, you should begin working on one that's just beginning to emerge above the horizon. Little is known about this problem except that there are going to be thousands of occupational disease victims each year, that they have to be provided substantial compensation, and that such compensation will be so large as to impair operation of an important sector of the economy.

The source is asbestos. Asbestos is a mineral with many highly productive industrial applications, some of which, such as automobile brake linings, have no substitutes. Over the last 20 years, however, serious health hazards have become associated with exposure to asbestos in the work place. The medical evidence linking work in asbestos plants, shipyards and insulation companies to such diseases as lung and trachea cancer is now definitive.

Dr. Irving J. Selikoff and his associates at Mount Sinai Medical Center in New York estimate that nonsmoking asbestos workers were five times more likely to contract lung cancer than nonsmoking workers in other industries. And for smoking asbestos workers in the 1950's, this probability increases to 53 times greater than for nonsmokers who were not asbestos workers.



Source: Asbestos Litigation Reporter

By the middle 1970's, work safety rules had eliminated the most dangerous conditions. But these cancers take 10 to 30 years to develop, so that workers exposed earlier are now beginning to show the results in increased numbers. Asbestos-related deaths and disability will increase in the next few years to account for some 8,000 to 10,000 victims a year at least until the end of this century.

These workers or their families should be provided with compensation for having an occupational disease. By going to work with asbestos, all heavily exposed workers on average gave up five to 10 years of life expectancy. Those actually contracting cancers from exposure gave up 15 years of life expectancy.

Such dangers were not unknown. (Indeed, when I was a teen-ager looking for a summer job, approximately

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(OVER)

30 years ago, my parents warned me against going to work in an asbestos insulation factory.) Faced with such dangerous operations, workers should have demanded higher wages or insurance against these hazards. Even without strong union support, in an expanding economy merely following advice such as that of my parents should have created relative scarcity and consequently higher wages in the insulation industry.

But in fact the wages offered were not much higher than in less dangerous occupations, so that workers were not being compensated for taking risks. Indeed, the asbestos companies carried insurance against claims of victims for product liability.

These claims are now beginning to add up. There are more than 20,000 court claims cases outstanding against the asbestos manufacturers. The awards in completed cases averaged \$100,000 in the middle 1970's but have risen to \$350,000 in the last year, according to case compilations in the "Asbestos Litigation Reporter."

Such claims are not out of line. Few would deny that a human life is worth at least half a million dollars, or \$20,000 per year of additional worker longevity. Thus the social cost of an asbestos death involving 15 years of foregone life is at least \$270,000 in present value. Multiplying this appropriate but cautious estimate of claim by the present caseload, and adding prospective future claims resulting in cases, would have the court awarding \$2 bil-

lion to \$3 billion or more per year.

This is an enormous liability when considered in terms of the responsibility to pay all such future claims. The total depends on how many claims are brought. Since some victims have no survivors, and others fail to connect their lung cancers with work in asbestos mills 20 years earlier, less than 100 percent of all cases of death due to asbestos exposure will result in claims. On the other hand, claims will be brought against the asbestos companies by lung cancer victims who worked in the mills, but do not have lung cancer because of asbestos exposure.

**M**Y guess is that these excess claims will not make up for the number of deficient claims, so that only about 90 percent of all potential claims will be brought before 1990. Even so, the total liability equal to the present value of future claims can be expected to come to \$40 billion based on cautious estimates of death rates, caseload and court award. If death rates are higher and payments stay at \$300,000 per case, then total claims should exceed \$80 billion.

**Who pays?** The asbestos companies settle court-awarded and private claims and pass the bills on to some 50 insurance companies that provided liability insurance for those in the asbestos industry in the 1950's and 1960's. In turn, the insurance companies are supposed to pay the claims bills from their earnings on investments they

have made with the insurance premiums received in those earlier years from the asbestos companies. That is completely out of the question at the present time, since the original premiums were much too low to generate enough earnings to pay out claims over the next few years as large as those estimated.

Thus the insurance companies have the equivalent of a disaster on their hands. The problem is similar to writing earthquake insurance for Californians for a few cents a day, collecting these premiums and investing them, and then having California collapse in one huge earthquake. The premiums from this or even unrelated liability insurance in the same pool would not be sufficient to pay all the resulting claims. These insurance companies now do not have an average of \$1 billion each in excess assets to liquidate so as to provide the cash required to cover the liability of asbestos-related future claims.

**So who will pay?** Other policyholders. Premiums for insurance against other liabilities will have to be used to pay these asbestos claims as they come in, thereby eliminating the value of that other insurance. After all, if the premiums on automobile, fire, theft and other such policies are not used to make investments to cover automobile, fire and theft liabilities, but are used to pay emerging asbestos claims, then there is no protection provided for the policyholders of this other insurance.

In the extreme, when current premium revenue sources are insufficient, the insurance company with \$2 billion or \$3 billion of asbestos liabilities in one year would have to liquidate, leaving its policyholders without claims on the liquidated assets. At the other extreme, in order to provide both current insurance protection and asbestos claims payments, current premium charges for all product liability and automobile insurance would have to double.

The increased premiums of that magnitude might possibly be sufficient to pay off future asbestos-related claims while still providing investment assets to protect against claims on other insurance.

Thus there are good self-interest reasons to work on the obscure problem of asbestos-related claims liability. Another social disease has struck, and the bell tolls for those at the insurance office, as premiums go up to pay for it.