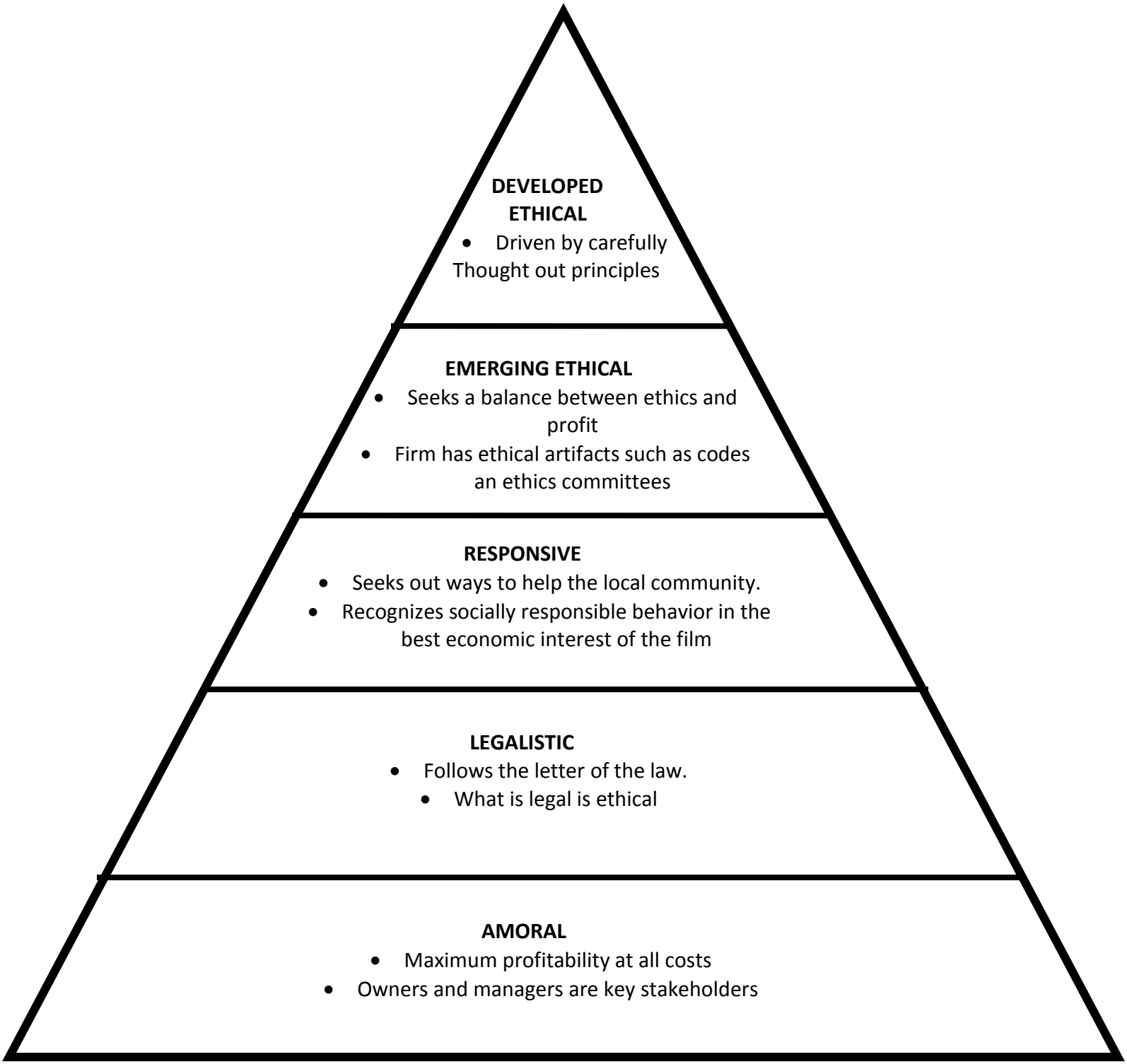
THE PINTO CASE

A SHORT SUMMARY

In the early 1960s Ford's market position was being heavily eroded by competition from domestic and foreign manufactures of subcompacts. Lee Iacocca, then President of Ford, was determined to regain Ford's share of the market by having a new subcompact, the Pinto, in production by 1970. Then Ford engineers crash tested an early model of the Pinto. They found that when the automobile was struck from the rear at 20 miles per hour, the gas tank regularly ruptured. Stray sparks could then ignite the spraying gasoline, engulf the car in flames and possibly burn the trapped occupants.

Nonetheless, Ford management decided for several reasons to go ahead with production of the Pinto as designed. First, the design met all applicable federal laws and standards then in effect. Secondly, the Pinto was comparable in safety to other cars being produced by the auto industry. Third, an internal Ford study indicated that the social costs of improving the design outweighed the social benefits. According to the study it was estimated that a maximum of 180 deaths might result if the Pinto design were not changed. For purposes of cost/benefit analysis the Federal government at that time put a value of $200,000 on a human life. Consequently, the study reasoned, saving 180 lives was worth about a total of $36 million to society. On the other hand, improving the 11 million Pintos then being planned would cost about $11 per car for a total investment of $121 million. Since the social cost of $121 million outweighed the social benefit of $36 million, the study concluded that improving the Pinto design would not be cost-effective from a societal point of view.

Questions:
1. Identify the relevant issues for decision making.
2. Is Pinto Management's decision correct under the conditions? Explain.



Source: Adopted from the works of Reidenback and Rebia, 1991, p. 2742 Figure 1