

- Before 1990, the SUV essentially did not exist. How do you think initial consumer demand for this product came about? How would the initial consumer demand for hybrid and fuel-cell automobiles come about? To what degree is marketing responsible for consumer demand?
- Is it fair to criticize automakers for selling SUVs?
- Is it fair to suggest that SUV owners and manufacturers are supporting terrorism?
- If the technology exists for more fuel-efficient cars and trucks, why are they not being built?
- Are there any government policies that subsidize SUVs? Should there be government policies to subsidize fuel-efficient cars?

Decision Scenario D

PACIFIC LUMBER

The 1980s witnessed a tremendous number of corporate takeovers financed largely by debt in the form of "junk bonds." Such "leveraged buy-outs" were driven by the possibility of enormous profits over short periods of time. Takeover specialists believed that they could either run the business more efficiently than present managers or, more commonly, that they could break up the existing company and sell it for large profits. "Junk bonds" refers to the risky loans that investors made to finance these takeovers. To balance the risk, these bonds promised high rates of return on investment. Since most of the purchase price for a takeover was financed by such high-interest loans, the new management (typically financial specialists with no experience in the particular industry involved) was under immediate pressure to generate substantial income to begin paying off the debt.

One such takeover target was Pacific Lumber Company, based in Humboldt County in northern California. Pacific Lumber was a publicly traded company run by the same family for almost one hundred years. The management philosophy of Pacific Lumber seemed to epitomize ethically responsible management. The company had a long record of satisfactorily meeting or exceeding the needs of many stakeholders: workers, shareholders, the local community, and the forests that it harvested. Pacific Lumber paid its employees well in good times, supported them financially in bad times, guaranteed jobs for family members, and generously supported scholarships for employee children and employee pension funds. Despite all of this, Pacific Lumber provided a steady profit picture and steady rate of return for investors and was debt-free. Throughout its history, the company harvested

little more than 2% of its trees annually, about equal to the annual growth rate of the trees. Unfortunately, perhaps Pacific Lumber managed its assets too responsibly.

Since the company was debt-free and possessed so many resources that it was not using to the maximum (for example, the other 98% of its forests), it made an inviting takeover target to outside financiers. In 1986, Charles Hurwitz and his company Maxxam, Inc., orchestrated a leveraged buyout of Pacific Lumber. Almost \$800 million of the nearly \$900 million purchase price was financed by high-interest junk bonds managed by Drexel Burnham Lambert, the home of the infamous junk-bond specialist and corporate raider Michael Milken.

The results of the takeover were predictable. The new owners increased the rate of timber harvest to help pay off their huge debt. Pacific Lumber was split into three separate concerns, and much of its debt was transferred to these new companies and refinanced with lower-interest loans, secured with the forest lands as collateral. Among these lands were thousands of acres of 100-year-old virgin redwood trees. The formerly overfunded pension plan was terminated. Some of this money was used to repay debt, and the rest was used to replace the pension fund with annuities purchased from an insurance company that Hurwitz owned. Employment in the area increased slightly as a result of the increased logging. From all appearances, the takeover was successful on economic grounds because virtually all resources were being used more efficiently after the takeover.

Hurwitz had been involved in numerous other controversial business deals. At one time he owned 24% of United Savings Association of Texas, a sav-

ings and loan company that was among the many that failed in recent years. This failure was traced to purchases of Drexel junk bonds that were also connected with Michael Milken. As a result of this collapse, taxpayers lost \$1.6 billion and the Federal Deposit Insurance Corporation had a claim for over \$500 million against United Savings' parent company, the United Financial Group. In light of this, some defenders of the old-growth forests now threatened by Pacific Lumber's increased logging have proposed a "debt-for-nature" swap. This proposal, supported by some in Congress and in the California state legislature, would forgive some of the debt owed to the government in exchange for thousands of acres of old-growth Pacific forests.

- Is the efficient and short-term use of resources always the ethically most responsible use? Were

Pacific Lumber's previous owners fulfilling their responsibility to shareholders when they did not maximize profits?

- Do 2000-year-old sequoia trees possess a value beyond the economic value that they could bring as timber? How would you explain and defend your answer?
- Assuming that increased harvesting of timber proves economically beneficial to an entire region, do people outside the region deserve "standing" in debates about resource use?
- Should the government pursue the debt-for-nature swap? Is the company holding nature hostage to pay for its own financial mismanagement?

Decision Scenario E

WALT DISNEY V. THE SIERRA CLUB

Mineral King Valley is an area of great natural beauty in the Sierra Nevada Mountains in California, adjacent to Sequoia National Park. It had been a part of that park since 1926 and had been left undeveloped as a wilderness area. Beginning in the late 1940s, the U.S. Forest Service began to consider plans for developing Mineral King as a recreational site. During the 1960s the Forest Service accepted bids from private developers, including Walt Disney Enterprises, to create a complex of motels, restaurants, swimming pools, ski slopes, and other facilities that would accommodate up to fourteen thousand visitors daily.

Representatives of the Sierra Club objected to the plans. They favored maintaining Mineral King as an undeveloped wilderness area. Failing in its earlier efforts to convince the Forest Service to stop development, the Sierra Club filed suit in federal court seeking an injunction to prevent the commercial development of Mineral King Valley.

This case raises many of the most significant ethical issues concerning business, economics, and the environment. Consider first the thinking of the Forest Service. As public servants in a democratic society, the Forest Service sought a decision that

would do the most good for society. But how to decide this? How does one measure what the public most wants when representatives of various public interests (the Sierra Club, Walt Disney) make conflicting demands? One very common answer, the answer suggested by market economics and the one presumably adopted by the Forest Service, is to determine what the public wants by looking to see what the public is willing to pay for. In effect, this is what the Forest Service did when it began accepting bids from private developers.

Walt Disney Enterprises was able to bid most for the right to develop this land because they believed (as did the financial institutions who would be loaning them the money) that they would be able to pay this price and still earn enough from this project to repay their loans and make a profit. They would be capable of doing all this, of course, because many people would be willing to pay large sums of money to visit a Disney ski resort high up in the picturesque Sierra Nevadas.

The Sierra Club was unable to compete with Disney in the bidding (they did not take part in the bidding but, presumably, could have). Although the Sierra Club does represent the interests of many cit-

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