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BRITAIN

British auto giant put on 'slimming program'

Britain has come up with the ultimate solution for firms plagued by labor problems and low productivity: close down the plant and eliminate the industrial workforce. That's what is being planned for British Leyland, the country's only national mass-production automobile manufacturer and the last of the British-owned auto giants.

Leyland, properly known as BL Ltd. since its nationalization in 1975, announced plans last week to cut 25,000 of its 165,000 employees and close all or part of 13 plants over the next two years. The future of 36 other plants, including one in Belgium, is also in question. Besides streamlining corporate operations the company will also terminate production of the MG sportscar, once the most popular "prestige" export.

BL Chairman Sir Michael Edwardes said that the plant closings, which he called a "slimming program," were directed mainly at inefficient plants, especially those which had poor productivity records due to industrial disputes. In a letter sent to each individual Leyland employee, Sir Michael made it clear that the firm's policy henceforth would be to back "winners"—the plants where output is high and workers cooperate in productivity schemes. "We just do not have the resources to back losers," Sir Michael wrote. "Where plant loading or performance does not justify modernization, the plants will generally be phased out."

Although Sir Michael told the press that the company's sweeping reorganization plans reflected no government pressure, it is widely believed that BL must demonstrate the likelihood of greater efficiency before it requests additional state finance. The company is seeking £225 million (about $6.7 billion) in new capital to finance new car

CORPORATE STRATEGY

The Pennsylvania phoenix

On June 21, 1970 the Penn Central Railroad filed Chapter 77 bankruptcy proceedings halting all payment of dividends and all taxes, jeopardizing $1.8 billion in company securities. Today, the Penn Central Corp. is back in the news, and it's spending money by the fistful. This year so far the company has acquired four other companies, the largest of which is the $330,000 acquisition of the Texas-based Marathon Manufacturing Company, an off-shore oil rig and diversified manufacturing company.

If this emergence from the ashes comes as a surprise, it is worth explaining. After all, U.S. taxpayers are paying for it.

Most railroads, especially the Eastern roads, are run into the ground by the bleeding off of revenues into pyramided leaseholds, franchises and operating subsidiaries—building up real-estate investments at the expense of the operating company, the actual railroad. The Interstate Commerce Commission, which regulates rail tariffs, has historically provided the limits which restrain speculation against railroads and ultimately the nation.

The former Pennsylvania Railroad, then Penn Central, now—with further additions—Conrail, is an excellent example of the bleeding process. At the time of transfer of its operating lines to Conrail, the "for profit" arm of the U.S. Railway Administration created by a panicked U.S. Congress in 1973, the Pennsy operated through some 13 major leaseholds, some of which had extensive subleaseholds, and other entities leeching revenue.

When the Penn Central blew in 1970, it merely prepared the way to dump its operating company, by now a moving junkheap. It also prepared the way to fleece the smaller creditors, stop payment of all taxes, and accumulate a massive $1.5 billion carry-forward tax loss with which to start a new round of acquisitions, particularly of real estate, whose income would be sheltered from taxation, and then wait for the results of the "valuation case." This case is expected to give the new Penn Central Corp. between $600 million and $7 billion in payment by the Federal

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models in the middle range of its product line and to fund a joint venture with Honda of Japan—measures which hopefully will keep the company viable until 1982.

The Tory government however is committed to ending the policy of pumping state money into industrial sinkholes. If Sir Keith Joseph, the Industrial Secretary and chief proponent of Thatcher's "free enterprise" economics, coughs up anything like the sums that BL is likely to need, he risks being accused of making an unthinkable U-turn. The government is therefore counting on Sir Michael Edwardes to get it off the hook by starting the radical cuts on plants and models that will make BL into a profitable venture which sources say could eventually be returned to the private sector—the treatment the Tories plan for several other nationalized companies. This would probably be the only justification for a further injection of state aid to the company, which is Britain's seventh largest industrial concern and largest exporter.

Sir Michael admitted that apart from needing further equity funds from the National Enterprise Board (the state holding company which owns BL), the company would be exploring other sources of finance "including the raising of funds from the disposal of assets and businesses." Although the company recently announced a pretax profit of $21 million in the first half of 1979—up 16 percent from last year's $18 million—Sir Michael said that the outlook "warrants our taking action before the trading profit deteriorates to ensure our trading position through 1980 and 1981." He said prospects are clouded by a falling share of the U.K. market, the strength of the pound which made exports noncompetitive, and recurrent labor problems which were costing the company "tens of millions of pounds" and were to blame for "an appalling lack of productivity."

Trade unionists have bitterly denounced Sir Michael's accusations and cited the lack of skilled labor as the reason for low productivity. "We can't produce the number of buses they say we should," said a shop steward at Leyland's Titan bus plant. "It can't be done with the number of men we've got here." Union leaders expressed shock at the "very grave proposals" for Leyland's reorganization and blasted them as "disastrous for BL and for the British motor industry in general."

However, the British government has no intention of continuing to subsidize an industrial workforce which will in any event become redundant when Britain shuts down what remains of its heavy industry and consumer goods production, in favor of micro chip technology and defense-related programs.

—Marla Minnicino

Government for the lines acquired by Conrail on April 1, 1976.

This is how it worked. The Chapter 77 bankruptcy landed in the Eastern District Federal Court, which in 1972 decided that the company could not be profitably reorganized. The panic spread. Congressmen had visions of the track being ripped up and sold for scrap and security holders sitting with $1.8 billion in jeopardized papers (the equipment mortgages continued to be paid). Capitol Hill was thus stampeded into creating Conrail. Three years later Conrail received all the operating entities unwanted by the Penn Central—which was now controlled by its $52,000-a-month "consultant," Victor Palmieri, a graduate of the well-known Los Angeles asset stripping law firm, O'Melveny and Myers. Penn Central kept its real estate operations and its very profitable Buckeye Pipeline Co. (now Buckeye Energy Corp.) and the Edgington Oil Co.

Socking it to the taxpayers

The federal government had poured into Conrail a total sum of $3.2 billion to date just to keep the rubble moving. According to Donald C. Cole, president of the parent U.S. Railway Administration, another $1.4 billion will be mustered to keep it moving until 1983, even though he intends to abandon 6,200 miles of the 17,000 mile system. This does not include the valuation case award to the Penn Central Corporation.

This staggering taxpayer-borne loss, on top of lost taxes over the past decade, is the basis for Cole's appeal for deregulation of the railroads. Since the 999-year leaseholds were cancelled, there emerged a new form of bleeding: equipment leasing, one of the fastest growing "industries" in the United States today—fed by the promises of deregulation.

Then the bankrupt railroad settled with the bond-and stockholders. They got $.112 on the dollar and the remainder in stocks and bonds in the new Penn Central Corporation. The worst hurt were the small creditors who had bought the securities with 1950s and 1960s dollars and were paid in 1979 pennies. But that, after all, is what bankruptcy is for.

On Oct. 24, 1978 the period of bankruptcy ended. The phoenix was ready to fly. With its $53 million profits on $666 million in sales in 1978, and a $1 billion carry-forward tax loss, the company was just looking for income to shelter. In additon to Buckey and Edgington, and the four recently acquired companies, it now controls the Six Flags company, which operates five amusement parks, and wax museums in Georgia, Texas, Missouri, New Jersey, California and Florida. Also controlled is the Arvida and Great Southwest Corp. which owns properties in California, Florida, Georgia, Michigan, Ohio, Pennsylvania, and Texas. It took a decade, but what a haul!

—Leif Johnson