

Lord Weinstock and the near terminal decline of British industry

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Lord Weinstock, the former managing director of GEC, Britain's premier engineering corporation, died Tuesday July 23 at the age of 77 years. Variouslly eulogised as "Britain's best manager" in the *Financial Times* and a "giant of industry" in the *Guardian*, it is instructive to review his career to understand what constituted his much vaunted success.

For more than three decades until he retired in 1996, Weinstock presided over and profited from the demise of Britain's electrical engineering industry at the expense of hundreds of thousands of workers in Britain and countless more in the former British Empire.

His career epitomises the economic decline of British capitalism, its corporatist approach, its dependence upon the state owned industries and the Ministry of Defence in the post-war period, and latterly its bankruptcy in the face of global capital. Weinstock pioneered the hostile takeover in the 1960s, which he used to create a monopoly position in the electrical engineering and defence electronics industries. His obsessive concern with ruthless cost cutting, rationalisation and sackings in search of profits made him a role model for other CEOs. Never a self-publicist like other members of the *nouveaux riches*, he became the trusted advisor of four prime ministers, from Labour's Harold Wilson in the 1960s to the arch-Conservative Margaret Thatcher until 1984.

Born in Stoke Newington, London, Arnold Weinstock was the fifth and youngest son of middle-aged, relatively prosperous working class Jews from Poland. Orphaned when he was 11 years old, he was later evacuated during the war to Warwickshire. He did well in school, gaining a place at the London School of Economics.

Graduating in 1944, he did his military service at the Admiralty, working on government procurement in the Production and Priority Branch at Bath. In 1947, he returned to London. With the help of one of his brothers, Weinstock soon found work with a property investor, Louis Scott, where his task was to sort out the planning applications and finances. Scott was an early exponent of the sale and leaseback technique, now one of the major money-spinners of the property world. This, plus the lifting of controls on the construction industry in 1954, led to a new breed of property multi-millionaires that included Weinstock's boss.

During his stint in property development, he met and married the daughter of the wealthy founder director of Radio and Allied Industries, a company that assembled radios, televisions and other electrical goods. In 1954, the ambitious young man went to work for his father-in-law and put his financial skills to work in an engineering context. There he learnt that the key to financial success in assembly line production was high volumes and tight cost control, since assembly work, as opposed to component manufacturing, requires relatively little labour and hence tends to generate a lower rate of profit. Weinstock turned the company into the premier assembler of electrical goods for the now burgeoning consumer market.

By the early 1960s, Britain's European competitors had rebuilt their factories with newer more advanced technologies and once again traditional British industries faced competition, falling profits and excess capacity. At the same time, Britain's bosses faced a very militant working

class determined to defend their jobs, wages and conditions.

In 1961, Radio and Allied made a takeover bid for the giant but ailing GEC. With sales revenues 20 times larger than Radio and Allied, GEC was the smallest of the big three electrical engineering companies supplying equipment to the nationalised electricity and telecommunications industries. Weinstock introduced financial information systems and tight budgets to control operations that were so successful in turning round his division of GEC that he was offered the position of group managing director in 1963.

With no engineering training and less than nine years of industrial experience, Weinstock had risen to become CEO of one of Britain's largest heavy engineering companies. He set about reorganising the company. Unprofitable divisions were closed. Workers and managers were laid off. Company headquarters were moved to smaller, less luxurious premises. He started buying up companies.

GEC was fortunate in that the incoming Labour government under Wilson actively encouraged the merger and consolidation of Britain's fragmented and antiquated manufacturing industry. Wilson established the Industrial Reorganisation Commission (IRC) under Tony Benn, to create "national champions" able to compete on the world markets, and gave it an initial £150 million to fund ventures. The second half of the 1960s saw a wave of mergers, often hostile, the like of which had never been seen before.

Unquestionably, the largest and most controversial was GEC's takeover of Amalgamated Electrical Industries (AEI), its larger and more conservative rival, mounted with the IRC's backing and financial support in the summer of 1967. AEI's bitter opposition to GEC's bid was in no small part a reflection of the shock and horror, not to say anti-Semitism, at falling prey to this new breed of businessman. AEI was also bitterly opposed to the Labour government's meddling in industry.

Ironically, in the light of today's accounting scandals, the GEC-AEI takeover was to lead to the most well known accounting scandal in Britain up till then. While AEI had, half way through the financial year, forecast profits of £10 million, GEC reported some ten months later that AEI had made losses of £4.5 million for the financial year—a difference of some £14 million, a huge sum for those days. While some of the losses reflected AEI's changed circumstances, most were due to GEC's judgement about the value of its inventories and contracts.

The losses were part of GEC's wider campaign firstly to discredit and get rid of the old management, and secondly to close down many of AEI's plants. In other words, the accounting chicanery was bound up with bitter factional fights between fractions of capital—all in the cause of generating profits for the City. This was the first time that the wider public became aware of the malleability of profit figures.

It was this scandal, plus similar ones in relation to a number of takeovers by the criminal tycoon, Robert Maxwell, that was to lead to the setting up of the Accounting Standards Committee and the London Stock Exchange's Takeover Panel. Their brief was to clean up Britain's

accounting regime and takeover rules at a time when there were fears about the survival of capitalism, not just in Britain but all over the world.

Soon after swallowing up AEI, GEC took over English Electric, the last of the big three electrical engineering companies. Weinstock now employed 228,000 workers in some of the most capital-intensive industries that suffered from huge over capacity.

Within a few months of the AEI takeover, the axe fell. Only 29 of the 171 major plants were left unscathed. The hardest hit was the Woolwich plant and a number of other London plants that were slated for closure. Production was to be concentrated in Scotland and the north of England, where costs were lower. It set the scene for huge industrial struggles. But despite the strikes and demonstrations, the trade union leaders made no serious attempt to halt the closures. Their tactics were designed to diffuse the workers' anger and get some compensation. Woolwich became a byword for the brutality of big business in general and Weinstock in particular. In 1970, he was knighted for his services to British capitalism and the Labour government and given a peerage by Thatcher in 1980.

By 1974, he had cut the workforce to 170,000, a 25 percent reduction, and became known as Britain's largest "unemployer", as he reorganised the British electrical engineering industry. This formed the backdrop to the industrial struggles that intensified during the early 1970s under Edward Heath's Conservative government, culminating in the miners' strike in 1973-4 that brought a minority Labour government to power in February 1974.

When Wilson tried to win a working majority in a second election later that year—with a corporatist manifesto for the rescue, nationalisation and rationalisation of some of Britain's ailing industries and the formal involvement of trade union representatives on company boards—Weinstock openly opposed him. He warned that GEC would not comply with measures it considered illegitimate, called for a national coalition government, and even hinted that he might go into politics himself.

GEC then made some of its rare political donations. It gave £25,000 to the Liberal Party, which had gained six million votes in the February election and threatened to break the stranglehold of Britain's two party system, and, hedging its bets, £25,000 to the Tories.

Weinstock continued his policy of buying up companies, stripping out surplus capacity, cutting costs and laying off workers throughout the 1970s and up until the mid-1980s, by which time GEC spanned the entire engineering industry. Between 1970 and 1977, GEC's profits grew fivefold. But his international ventures were not a success, leaving GEC largely dependent upon the domestic market, government procurement, and markets and governments in the former British Empire. At no point during the 1970s were sales to Europe ever more than 15 percent of GEC's total.

In 1976, the Labour government's nationalisation with compensation of GEC's aerospace interests and their merger with other smaller companies in an effort to form a coherent and viable aircraft industry, brought it into conflict with Weinstock who complained bitterly at what he called its "expropriation". The ensuing row rumbled on for years, but Labour's generous terms may be gauged by the fact that Weinstock got short shrift from the Thatcher government and later the European Court of Human Rights. The compensation served to swell GEC's growing cash mountain and led commentators to claim that GEC was more of a bank than a manufacturing company.

Far from being an innovatory manager who expanded the productive forces, Weinstock cut all research and development that was not underpinned by government subsidies, and developed a reputation for failures in early warning systems, and torpedoes, to name but a few.

He exemplified the parasitic breed of British capitalists who rested upon two pillars: Firstly the cosy regime of the government's cost-plus pricing contracts for the armed forces, electricity generating industry,

telecommunications and related areas, and secondly a trade union leadership that could be relied upon to keep their members under control while he cut labour costs. Cushioned in this way, GEC shunned or missed numerous opportunities to move into newer expanding products and markets.

But by the 1980s, the very expansion of the productive forces in the post war boom that had led to the re-emergence of falling profit rates generated a policy shift.

Weinstock was initially a keen supporter of the 1979 Conservative government under Thatcher, particularly her anti-union agenda and hands-off approach to industry. She in turn helped him win key contracts overseas, particularly in the Middle East. But Thatcher's economic policies soon brought her into conflict with Weinstock, particularly over the high interest rates and the value of the pound that closed markets to British manufacturing goods and led to the closure of more than one third of British manufacturing in the early 1980s.

Furthermore, her espousal of neo-liberal economic policies, including privatisation and liberalisation that were aimed at providing new sources of capital accumulation to combat the falling rate of profit, put an end to GEC's status as preferred, albeit not explicit, contractor to government departments and state owned enterprises. She brought private sector personnel into key positions in the civil service to put an end to cost plus pricing in defence procurement.

In the face of these developments, despite repeated rounds of cost cuttings and closures, GEC's rate of return stagnated and it became increasingly unpopular in the City, which was by the mid-1980s gripped by a new takeover frenzy. Since its cash mountain made GEC an attractive target for a takeover bid by an international corporation, Weinstock formed a series of defensive joint ventures with Alstom in France, Siemens in Germany and General Electric in the US to make a takeover all but impossible. This did little to arrest GEC's decline. The end of the Cold War following the collapse of the Soviet Union in 1990 and the economic recession in the early 1990s further eroded GEC's defence interests.

Weinstock clung onto power until 1996 when his successor, George Simpson, decided to sell off GEC's defence electronics and power generation divisions, its core businesses, and focus on telecoms, which were at that time the stock market's darling. Renaming the company Marconi, he went on a shopping spree, buying up expensive telecoms companies in the US and plunging the company into debt. Despite his disastrous record, Simpson walked away with a £1 million golden handshake.

On the day that Weinstock died, the rump of his company, once worth £35 billion, was burdened with £2.1 billion debts and, valued at a mere £100 million, and was staring corporate oblivion in the face.

Weinstock was successful in that more than many others, he recognised and grasped the lifeline provided by the post-war arrangements: the Keynesian regulated economy, the welfare state and the state-owned enterprises that operated behind protected national barriers. He used this framework to build a sheltered domestic monopoly that ruthlessly shed surplus capital and labour. But as the demands of globalised capitalist production swept away the nationally regulated economy, Weinstock's strategy became untenable. It was his good fortune to retire before that process had fully worked through and thus to retain, to some extent at least, his aura of "success".

Bibliography:

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