The closure of MG Rover and the need for an international perspective

Part One

By Socialist Equality Party (Britain)
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This is the first of a three-part series.

MG Rover's administrators, PriceWaterhouseCoopers, announced on April 15 that the last British-owned volume car manufacturer would close with immediate effect.

It means a loss of 5,000 jobs at Rover's Longbridge plant, and 25,000 more at suppliers and distributors, mainly in the West Midlands. Workers will receive a maximum payoff of about £3,000. Once the 1,000 cars stranded on the production lines are completed, the remaining 1,000 workers will be laid off and the plant mothballed. Dealers are already sacking sales and showroom staff up and down the country.

The workers' pensions have gone. There is a £67 million shortfall—as of 2003, the latest date for which figures are available—in Rover's pension fund. Yet BMW transferred a fully stocked pension fund in 2001, when they sold MG Rover to Phoenix Venture Holdings.

Many of the redundant workers now face personal bankruptcy, as the liquidators seek to collect debts of up to £10,000 each from those who had purchased Rover cars on a delayed payment scheme.

Owners of 300,000 Rover and MG cars sold within the last three years also face uncertainty about the value of their new-car warranties.

The media has portrayed the end of MG Rover as the death of the British car industry. In truth, the company sold to Phoenix Venture Holdings in 2000 for the nominal sum of £10 was all that remained after the failure of the government's decades-long attempt to maintain such a nationally based industry. A mass national car industry had ceased to exist in any real sense in the 1980s, as the Conservative government of Margaret Thatcher abandoned past efforts to preserve a "national champion" through government subsidies.

While British auto companies were once one of the country's major employers—in 1973 a workforce of 210,000 produced more than a million cars a year—by 2005, MG Rover employed just 6,100 workers and was turning out about 100,000 cars a year, with sales declining year on year.

For autoworkers, it has been death by a thousand cuts. But the issues faced go far beyond the immediate fate of MG Rover or even the auto industry. The fundamental question is to understand how this catastrophe has befallen MG Rover in order to formulate an independent political response to the nationalist and pro-capitalist perspective of the trade unions, which has proved incapable of defending the jobs of workers everywhere.

The crisis at MG Rover has its origins in the development of a global market and the organisation of international production.

The "golden era" of nationally based car production only existed prior to the Second World War. Even then, the world's largest manufacturers, US corporations such as Ford, Chrysler and General Motors, set up branches overseas so they could penetrate the European market. But production took place behind protective national tariff walls and involved models designed largely for a domestic market.

At the end of the Second World War, the auto industry was substantially reorganised, against a background of efforts to utilise America's economic pre-eminence to resuscitate the war-devastated economies of Europe and Japan, and thereby rescue global capitalism. In return for massive financial aid under the Marshall Plan, the US demanded free trade and an end to tariff protection so that it could expand into international markets. Over the next four decades, such tariff barriers were virtually eliminated, and US investment in the European car industry rose four and a half times during the 1950s.

However, the Marshall Plan also resurrected the European and Japanese car industry and built up what became the major rivals to the US auto giants. The European countries most devastated by the war were able to retool their car industries with up-to-date assembly line techniques copied from the US. This reconstruction enabled the rise of such producers as Fiat in Italy, Volkswagen in Germany, Renault in France, and Toyota and Nissan in Japan.

Britain was unable to do so with the same degree of success because its industry never received the same massive overhaul, and its technology and productive techniques were soon overtaken by its rivals. Though it had emerged from the war as the second-largest car producer, as early as 1956 it was overtaken by West Germany. Much of Britain's car industry relied upon US companies such as Ford investing in their British and European operations.

The native car industry in the 1950s and 1960s was the product of the merger of smaller companies—the most notable being the combination of Austin and Morris to create the British Motor Corporation (BMC) in 1952. Its major British competitor was Leyland, which took over a number of smaller companies including Rover in 1967.

The inflationary post-war boom protected British industry from international competition. All the car companies enjoyed a sellers' market based on easy credit terms and advertising promotion designed to stimulate demand for the latest model. BMC's production rose to 900,000 vehicles in 1964, making it the fourth-largest car producer in the world.

But capital investment in new plant and equipment to replace more than 40-year-old production lines was totally inadequate. By the early 1960s, it was clear that Britain's fragmented and unevenly modernised car manufacturers were facing stiff competition in its own home market. French and German rivals and US plants in Britain could produce cars more economically on their new production lines. The loss of even a small share of the domestic market destabilised their financial position. The small car firms were the first to go. The rest sought refuge in further mergers and takeovers.

Access to the European Economic Community (the forerunner of the European Union) was crucial for the UK auto industry's survival. But with Britain's membership blocked by the veto of French President General de Gaulle in 1963, this possibility was severely curtailed.

BMC set about developing plants in Belgium, Spain and Italy that could assemble cars from kits manufactured in the UK. By 1966, 40 percent of exports were in kit form. But despite this overseas expansion, BMC's rate of return on capital, like that of the rest of British industry, continued to decline. By the late 1960s, drastic reorganisation was needed to withstand foreign competition and the intensified sales war launched by Ford, Vauxhall (GM's badge in the UK) and Chrysler (Rootes's parent company).

Before the war, trade union organisation in the auto industry was either non-existent (unions at Cowley were not recognised until the 1950s) or weak. However, the intense competition for labour after the war and the determination of the mass of working people never to return to the hungry 1930s meant the trade unions grew rapidly in the 1950s—achieving 100 percent unionisation in the 1960s. The car industry became an arena of bitter industrial strife, as the bosses sought to contain costs at the expense of the workforce. But the trade union leadership did not reflect this militancy. Rather, these struggles only spurred on its efforts to establish peaceful industrial relations.

In May 1968, the Labour government of Harold Wilson advanced a plan to rescue Britain's auto industry and curb damaging strikes. It brokered a merger between Leyland and BMC, with the aim of creating a giant "national champion," British Leyland Motor Company (BLMC), with 40 percent of the domestic market, and gave it a massive cash injection.

While the giant combine was now the third-largest car manufacturer in the world, producing more than a million cars and components, nearly half of which were exported, it was a paper tiger.

The management of this chaotic amalgam of companies jealously guarded its own privileges. Each of the constituent subsidiaries had its own models, sales arms, production planning departments and investment strategies. Fourteen years after the merger that had formed BMC in 1952, Austin and Morris still had separate boards of directors and kept separate accounts. The newly established BLMC produced 19 different body shells.

BLMC was even less internationally oriented than BMC, with managers focussing on a fragmenting domestic market that was being eroded by Japanese and European imports. In effect, they made BLMC more national when every other manufacturer was becoming more international. Ford was creating an integrated pan-European network of plants, with flows of components criss-crossing national boundaries, while the major European auto manufacturers were building a sales presence in every major market.

Without an international strategy, it proved impossible to overcome the parasitic legacy of the British car industry.

The trade unions ensured that the price for both management inefficiency and failure and the efforts to overcome the industry's backwardness was borne entirely by the workforce. In 1968, the engineering unions, working hand in glove with the Labour government, signed a productivity deal that granted the employers the right to use Work Study techniques and tied wages to productivity. It was to lead to thousands of redundancies in the great "shake out" in the engineering and manufacturing industries.

The drive to increase profits in the car industry sparked increasingly bitter conflicts with the workforce over the introduction of "measured day" work, meant to end the ratchetting-up of wages under the previous piece work system. A series of strikes followed.

Despite the constant refrain of the right wing and the media about the "British disease," the strikes were a symptom of a far deeper malaise afflicting British capitalism. They represented a defensive reaction by the workforce to the worsening situation they had been placed in. With the lowest investment per employee of any of the European manufacturers, BLMC was unable to rationalise production and cut costs. With only enough cash to produce one new model, sales remained static and exports fell. Profits rose just 22 percent in five years—not enough to keep up with inflation, which was rising rapidly.

BLMC was one of the first large corporations in Britain to collapse in the recession following the international financial crisis of 1971, the 1973 Arab-Israeli war and the quadrupling of oil prices in 1974. Over the six months to March 1974, it lost more than £16 million, despite starting the financial year with £50 million in cash reserves. In part, this was due to the three-day week, introduced by the Tory government to deal with the OPEC oil embargo imposed against Israel's supporters in the Yom Kippur War, just as the miners were preparing a national strike in support of their pay claim. More importantly, the company was haemorrhaging cash to its bankers, forced to borrow just to pay wages. BLMC was sitting on a growing £100 million mountain of debt—nearly double the value of its shares.

British capitalism was staring bankruptcy in the face—a massive balance of payments deficit was being financed with short-term cash flooding onto the London money markets. However, if the speculators chose to shift their money out of Britain, BLMC and scores of other major British corporations would go under, resulting in mass unemployment on an unprecedented scale. On May 21, 1974, one of BLMC's directors sent out a letter warning the company's workforce of the dire financial situation and outlining a series of demands for no strikes, speed-ups, cost-cutting and a "realistic review" of the production programme. Mass redundancies would clearly follow.

In the space of six years, the Wilson government's strategy of creating national champions had fallen into tatters. After consolidating the national producers into one giant combine, and providing a government injection of cash, the company had failed. The champion car producer was bust.

Though an extreme example, BLMC was not unique. All the car giants in the US and Europe were struggling. There was a huge surplus of productive capital, and markets worldwide were saturated. The logic of the profit system meant that this surplus had to be liquidated, car plants closed and workers thrown out on the dole.

Such a situation demanded an international political strategy to defend the wages and jobs of autoworkers in every country. This would have taken as its point of departure the irreconcilability of the interests of capital and labour, and the need to free the productive forces from the fetters of private ownership and put them to use to meet social need.

Instead, the trade union leaders, emboldened by the return of the second Wilson government in February 1974, simply clamoured for a state bailout for the national industry. Labour had come to power in the aftermath of a huge anti-Tory offensive—the 1973-1974 miners' strike bringing down the Conservative government. It was naturally anxious to preserve social peace and ensure a measure of political stability. It was therefore initially willing to proffer cash injections, but to no avail. In 1975, with BLMC staring into the abyss, the government was forced to take over the company, renaming it British Leyland (BL).

To be continued