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STEVEN PEARLSTEIN

Big Three Lumbering Toward Failure

Six years ago it was Chrysler. Then four years ago, Ford was on the ropes. Now General Motors, facing a $2 billion loss this year from its carmaking operations, has been forced to lay off a quarter of its white-collar workers and plead with union workers to begin contributing to their health insurance.

As in the past, there is a tendency in the industry to believe that if GM simply closes another couple of plants, wrings a few concessions from its unions and comes up with a snazzier line of cars and trucks, all will be well. Don't believe it. In a global industry plagued by chronic overcapacity and steadily declining margins, the Big Three have been unable to earn enough to cover their cost of capital, even in their good years. They've already squeezed all the profit out of their supply chain. And now they are locked in a competition with foreign producers that they cannot win.

"The track they're on is heading toward a train wreck," says David Cole, who heads the Center for Automotive Research in Ann Arbor, Mich.

It's not that the Big Three and the United Auto Workers haven't already made tremendous strides in improving productivity, outsourcing work and dramatically reducing the time and cost for designing new vehicles. They've mastered just-in-time and continuous improvement and boast some of the best quality ratings. Measured by the time required to assemble a car, theirs are some of the most productive plants in North America.

But for all that, the Big Three remain prisoners of their past, not only in terms of retiree obligations that run to $2,500 per car, but also an outdated dealer network, inflexible industry-wide labor agreements and an entire system geared to maximizing volume rather than profit.

Today's marketplace, for example, demands a greater variety of distinct products aimed at ever-smaller market segments. But to pull off such market segmentation would require nothing less than a revolution. Final assembly plants would need to be flexible enough to turn out half a dozen different models. And to give customers the greatest choice of colors and options while reducing the number of cars sitting on lots, these plants would have to guarantee a two-week turnaround between order and delivery.

At the same time, companies would need to reorganize their marketing and distribution around these distinct market segments, rather than around meaningless nameplates such as Buick, Pontiac, Mercury or Dodge and their competing dealer networks.

Years ago, the United Auto Workers decided to accept lower pay raises in exchange for company promises to pay laid-off workers 90 percent of their regular wage. The perverse result is that Ford and GM run plants even when there is no demand, forcing dealers to take cars they don't want and automakers to spend $3,000 in incentives to move them off the lots. As a result, much of the dealer profit has been squeezed out of new car sales.

Government has also contributed to the industry's structural problems. By one estimate, state governments subsidize foreign transplants such as BMW and Honda plants to the tune of $1,000 per car. And state franchise laws make it prohibitively expensive to rationalize dealer networks and nameplates. Worst of all are clean-air rules that essentially require companies to produce and sell low-pollution passenger cars at a loss, just to offset the environmental damage done by all their trucks and SUVs.

Finally, it's just not possible for any firm in any country to stay in the game paying $60 an hour in wages and benefits to workers at every stage of the supply chain. Like it or not, the market now demands that parts be fabricated offshore, at "China rates." That still leaves opportunity for U.S. firms to combine those components into major subassemblies — but only if the UAW accepts lower wages and benefits at these first- and second-tier suppliers.

As George Stalk of the Boston Consulting Group sees it, the Big Three today are in roughly the same pickle as the integrated steel mills back in the early 1980s, or the full-service airlines around 1990: Their choice, he says, is either to make radical changes in their business model and cost structures or suffer a long, slow death.

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IRS Crackdown on Tax Shelter Nets $3.2 Billion

Regulation Has Curbed Abuses, But Experts Say Diligence Is Needed

By Jonathan Weisman
Washington Post Staff Writer

A mass-marketed tax-shelter industry that exploded in the boom years of the 1990s appears to be in retreat, driven by congressional action, a government crackdown and economic factors that have pushed major accounting firms back to their core businesses.

But tax experts warned yesterday that a new economic surge could bring back the shelter industry unless the Internal Revenue Service maintains and even strengthens its enforcement efforts.

The IRS announced yesterday that it had collected a record $3.2 billion in taxes and penalties from participants in an abusive tax shelter known as Son of Boss. But Sheldon S. Cohen, a former IRS commissioner, said that shelter was so egregiously indefensible that it took little effort to convince its users that they had little choice but to give up their gains.

"Yeah, they can pick out Son of Boss and say, 'We're putting a hell of an emphasis on this.' But

See SHELTERS, E4, Col. 4

BY DAVID SCULL — BLOOMBERG NEWS

Commissioner Mark W. Everson says "some people have had to sell their villas or their yachts . . . to cover their debt."

States Also Benefit, as Participants In the Scheme Amend Their Returns

By Albert B. Crenshaw
Washington Post Staff Writer

The Internal Revenue Service has collected more than $3.2 billion in back taxes, interest and penalties from participants in a single abusive tax shelter, including $100 million from one taxpayer and $20 million each from 18 others, the agency said yesterday.

The total take for the agency from participants in the shelter is expected to top $3.5 billion, making this by far the largest such recovery ever, Internal Revenue Commissioner Mark W. Everson said. The collections resulted from an initiative in which the IRS offered to "close the book" and take no further action against taxpayers who came forward and paid all they owed, including penalties.

Everson said nearly 1,200 of the approximately 1,800 taxpayers — mostly wealthy individuals but also a few corporations — who made use of the shelter known as "Son of Boss" had agreed to the settlement. An additional 200 were barred from the program because they had also been involved in marketing the shelter.

See IRS, E4, Col. 1

BY BRETT COOMER — HOUSTON CHRONICLE VIA ASSOCIATED PRESS

Firefighters pour water on a gasoline production unit at BP's Texas City refinery near Houston after an explosion that killed 15 and injured 100.

Blast Cuts Refining Capacity

Texas Explosion Not Expected to Create Gasoline Shortage or Price Spike

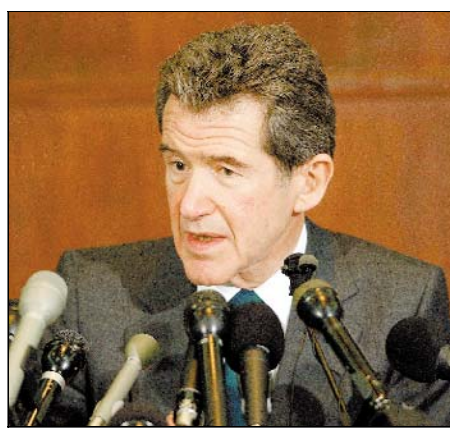
By Justin Blum
Washington Post Staff Writer

An explosion at a major BP refinery in Texas on Wednesday, which killed 15 people and injured more than 100, should not lead to gasoline shortages or significant price increases at the pump, analysts said.

Officials with the London-based company said that damage to its Texas City refinery would reduce gasoline production by about 5 percent or less a day. That would amount to about 500,000 gallons a day taken off the market — slightly more than one-tenth of a percent of overall U.S. gasoline production.

The company and federal investigators have not yet determined what caused the explosion. BP is uncertain how long it will take to repair the equipment.

The explosion is the latest of several mishaps at the refinery. Two workers died there in September after they were burned by superheated water.



BY TONY GUTIERREZ — ASSOCIATED PRESS

"This incident is one of the worst I can recall," BP chief executive John Browne said.

"This incident is one of the worst I can recall in my career with BP," the company's chief executive, John Browne, who was at the refinery yesterday, said in a statement. "Our compassion goes out to the families and friends of the dead and injured."

The loss of refining capacity comes at a time when crude oil and gasoline prices are hovering around record highs because of strong worldwide demand that is pushing global production to its limits.

The news immediately sent prices higher on futures markets on Wednesday. Prices receded yesterday morning, then moved up later in the day. Traders said the increase was largely unrelated to the explosion. U.S. benchmark crude for May delivery closed on the New York Mercantile Exchange at $54.84, up $1.03 from the day before.

Oil analysts said they did not expect any significant rise in prices at the pump as a result of the explosion. They said gasoline inventories are within their normal ranges and that there is still time to repair the refinery be-

See EXPLOSION, E4, Col. 4

New-Home Sales Rose 9.4 Percent In February

Mortgage Rates Prompted Buyers

By Daniela Deane
Washington Post Staff Writer

Sales of new homes shot up in February more sharply than they have in four years, as buyers raced to snap up lower interest rates while they were still available. The price of new homes also spiked.

The Commerce Department reported yesterday that new, single-family home purchases rose 9.4 percent in February to a seasonally adjusted 1.23 million annual rate. That was the biggest one-month increase since December 2000. Sales rose in all parts of the country.

The median price of a new, single-family house — with half selling for less and half for more — increased 9.6 percent in February, to $230,700 nationally, according to the Commerce Department, marking the biggest gain since February 1993.

Economists, housing watchers and builders attributed the February spikes to several factors: low mortgage rates before a six-week climb, milder weather compared with January, and the start of the spring construction season, traditionally a busy time of year for home builders.

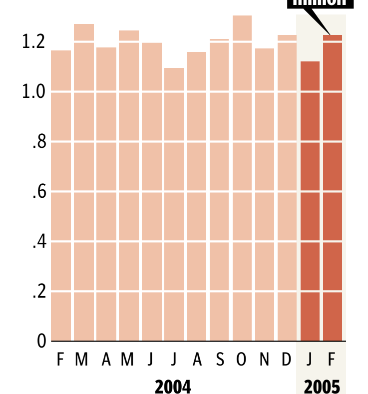
"Buyers were taking advantage of the low mortgage rates that we had in mid-February," said Frank

See HOMES, E3, Col. 4

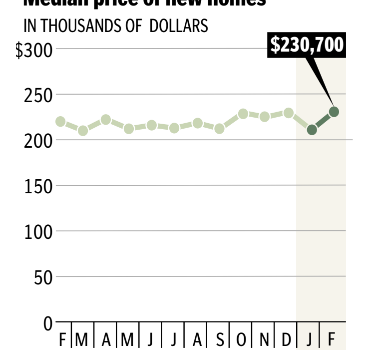
Housing High

More people bought new homes in February in anticipation of rising mortgage rates.

Sales of new homes
SEASONALLY ADJUSTED ANNUAL RATE, IN MILLIONS



Median price of new homes
IN THOUSANDS OF DOLLARS



SOURCE: Commerce Department

THE WASHINGTON POST

SpongeBob is among the new non-candy stars of prepackaged baskets.

PHOTO ILLUSTRATION BY JULIA EWAN AND PATTERSON CLARK — THE WASHINGTON POST

A Basketful of Branded Toys for Easter

By Michael Barbaro
Washington Post Staff Writer

With SpongeBob SquarePants sprouting rabbit ears and Spider-Man caught up behind a wall of cellophane and golden ribbon, big changes are afoot in the Easter basket.

Prepackaged baskets brimming with Scooby-Doo and NASCAR toys are pushing aside bright-colored eggs, chocolate bunnies and marshmallow chicks as the commercialization of Christmas marches on to Easter.

The handful of U.S. companies that assemble prepackaged holiday baskets have begun to quietly snap up licenses for well-known brands, splash the emblems on toys and accessories and wrap them up for Easter. The trend began in 2002 and has accelerated every year since.

One of the companies, Sherwood Brands Inc. of Rockville, is filling its baskets with Spider-Man CD cases, Spider-Man duffel bags, Spider-Man sunglasses and Spider-Man water toys. A few small packets of candy are tucked in, almost as an afterthought.

Debra Paulk, publisher of Gift Basket Review, said that just three months after

See BASKETS, E5, Col. 1

DOW 10,442.87 DOWN 13.15, 0.1% | **NASDAQ 1991.06** UP 0.84, 0.04% | **STANDARD & POOR'S 500** 1171.42, DOWN 1.11, 0.1% | **WASH. POST-BLOOMBERG** REGIONAL 259.41, UP 0.13, 0.1% | **10-YEAR TREASURY NOTE** DOWN $0.31 PER $1,000, 4.60% YIELD | **CURRENCIES** 106.33 YEN=$1, EURO=$1.2934