THE EFFECTS OF THE WORLD ECONOMIC CRISIS ON THE EMPLOYMENT IN THE AUTO INDUSTRY

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Abstract

The paper aims to realize an analysis of the employment evolution in Romania and in all the European Union member states in the context of the economic crisis, with an emphasis on the employment on the auto industry, one of the most affected sectors by this crisis.

In the same time, we will analyze the employment policies for soften the impact of the economic crisis on the labor market. We will also analyze the link between the employment rate, labor productivity per employee and the car production and export.

The unprecedented crisis in global financial markets which gathered pace last year has led to the most severe recession since the Second World War, affecting the wider economy and increasingly impacting on labor markets in the EU. After many years of relatively high growth and job creation the global financial crisis and its repercussions on the real economy are hitting businesses, jobs and households.

As unemployment continues to rise, the spotlight has fallen more and more on limiting the effect of the crisis on jobs and addressing the social impact.

Acting in concert, the EU has already taken important steps to address the fallout from the crisis, having taken action to prevent a meltdown in the financial markets last autumn. In December it agreed to put in place a European Economic Recovery Plan to lessen the effects of the downturn and create the conditions for recovery.

The top employment challenge for the EU must be to minimize job losses, prevent unemployment from becoming entrenched, favour transitions back into employment and boost job creation, and pave the way for economic renewal and for sustainable recovery and growth.

Keywords: *labor market, employment, auto industry, economic crisis, employment policies;*

JEL Classification: E24, E27, J21

Introduction

Until the financial crisis broke in the summer of 2007 the EU labor markets had performed relatively well. The employment rate, at about 68% of the workforce, was approaching the Lisbon target of 70%, owing largely to significant increases in the employment rates of women and older workers.

Labor markets in the EU started to weaken considerably in the second half of 2008, deteriorating further in the course of 2009. Increased internal flexibility coupled with nominal wage concessions in return for employment stability in some

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firms and industries appears to have prevented, though perhaps only delayed, more significant labor shedding so far.

Even so, the EU unemployment rate has soared by more than 2 percentage points, and a further sharp increase is likely in the quarters ahead. The employment adjustment to the decline in economic activity is as yet far from complete, and more pronounced labor-shedding will occur as labor hoarding gradually unwinds.

However, on a more positive note, in a number of European countries, job losses have been contained so far, largely due to recourse to increased internal flexibility in the form of shorter hours or temporary partial unemployment benefits.

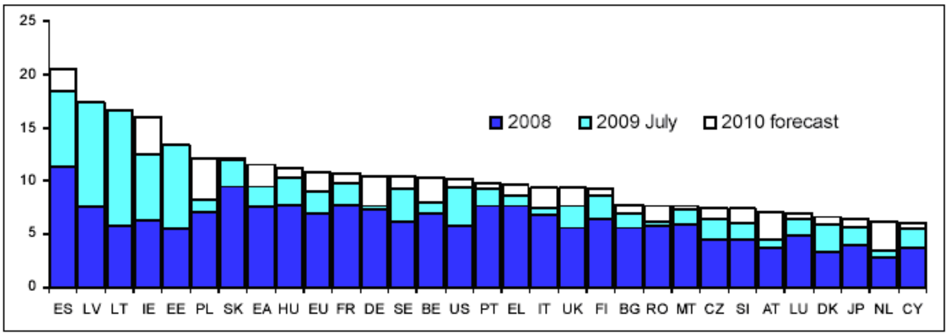
The impact of the economic crisis on the labor market and employment

The economic and financial crisis and the ensuing global downturn are beginning to impact significantly on labor markets. While the bulk of the increase in unemployment so far has been concentrated in Spain and the United Kingdom, it is now beginning to rise across all Member States. The Commission forecast indicates that, on current policies, employment will decline substantially in absolute terms over the next two years leading to a steep rise in unemployment. Employment is expected to contract by 1½% in 2010. In sharp contrast with the creation of about 9½ million additional jobs during 2006-2008, employment is thus expected to fall by some 8½ million in the EU. As a result, the unemployment rate would increase to close to 11% in the EU by 2011 (11½% in the euro area). The most pronounced increases in unemployment are expected in countries facing substantial downturns in activity, notably Estonia, Ireland, Latvia, Lithuania and Spain.

The in-built capacities of the social safety nets are also fully playing their role as automatic stabilizers to cushion the impact of the economic downturn. In addition, Member States are pursuing a wide range of employment policies aimed at containing the impact of the crisis on labor markets.

Accordingly, the European Commission's latest forecast indicates that, on current policies, employment would contract by 2½ % this year and a further 1½ % in 2010. The unemployment rate is forecast to increase to close to 11% in the EU by 2010 (and 11½ % in the euro area).

Figure no.1 *Unemployment* **rates in the European Union**



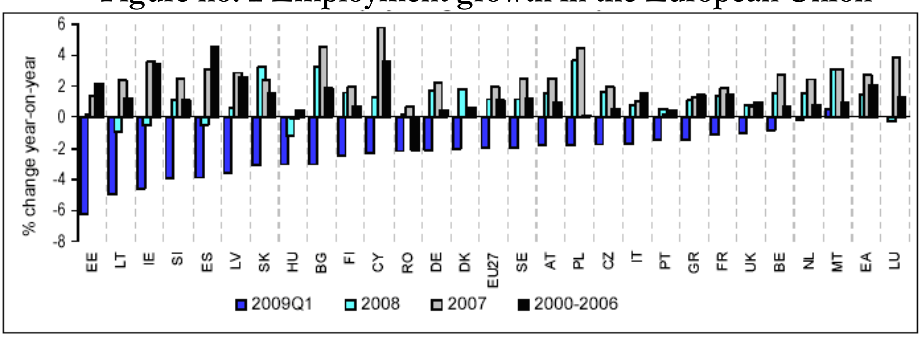
Source: European Commission, winter Forecasts, 2009

A considerable increase in unemployment is registered among craft workers and those previously employed in elementary occupations, largely working in services. Women are less affected than men, given that the crisis hit first and foremost sectors where male employment is relatively high (car industry, construction). Even so, in the first quarter of 2009 a decline in female employment was registered for the first time since the fourth quarter of 2005.

As noted, increased internal flexibility (flexible working time arrangements, short-time working schemes, temporary closures etc.), coupled with nominal wage concessions in return for employment stability in some firms/industries, may have prevented, though perhaps only delayed, more significant labor shedding so far (with short-time working and temporary closures in the car industry as the most prominent example).

Given the decline in output, this has led to significant increases in unit labor costs which are unlikely to be sustainable for an extended period of time. The increase in unemployment has so far been limited also by a contraction of the labor force (which declined by 0.3% in the fourth quarter of 2008 and 0.5% in the first quarter of 2009), which may be due to discouraged worker effects.

Figure no. 2 Employment growth in the European Union



Source: European Commission, spring Forecasts, 2009

On current policies, employment is forecast to decline substantially over the next two years, by 2½ % in both the EU and the euro area this year and a further 1½ % in 2010. After 9½ million jobs had been created in the EU in the period 2006- 2008, employment is thus expected to fall by some 8½ million during 2009-2010. In the early phases of the crisis, the bulk of job losses were concentrated in just a handful of Member States, largely as a result of pre-existing weaknesses as well as a larger exposure to the direct consequences of the shocks (e.g. adjustments in the financial sector and housing markets, relative exposure to international trade).

Employment in the auto industry in the context on the context of the world economic crisis

The first signs that something is going on the Romanian car market has started in autumn of 2008, when automotive companies like Ebyl Romania and Lisa Draexlmaier sent the first people on unemployment. In their turn, suppliers of the producer Dacia Pitesti announced offs of employees.

Dacia Pitesti plants estimated at the begining of 2009, that it could fire from 3,000 to 4,000 employees, a plan later abandoned due to success of the fleet renewal program started by the German Government.

In Romania, for example, there are over 400 companies producing automotive parts which had in 2008 a combined turnover of eight billion euros. Three quarters of them are small companies that usually produce for a single beneficiary. They feel extremely harsh effects of the crisis, especially if they depend on one manufacturer.

In these circumstances, firms are forced to resort to layoffs or to find solutions like reduce working time, vacations without pay. Equally serious affected are tire manufacturers.

Given the large number of employees of all these companies, we consider that it is necessary to include auto parts and tire manufacturers in any future support formula in the context of the economic crisis.

Most employees in the economy, regardless of age, gender or training feel their jobs threatened.

The current situation will have serious repercussions on employment, given that in 2008 were sold with 8% fewer cars compared with 2007.

Table no. 1 The situation of the employment in the auto industry in Romania

Year	Car production change over the previous year (%)	Automobile export change over the previous year (%)	Employment rate (%)	Employment rate change over the previous year, in the car industry (%)	Labor productivity per employee comparatively with EU 27 (EU 27 = 100)	Growing rate of the labor productivity per hour (%)
2001	-12,0	+69,7	62,4	-	25,6	6,8
2002	15,6	241,9	57,6	-6,2	29,3	16

2003	19,9	+52,5	57,6	-12,5	31,1	7
2004	28,3	-15,5	57,7	4,0	34,5	9,8
2005	59,4	-5,4	57,6	-4,6	36	5,4
2006	9,6	+70,2	58,8	-2,1	39,6	6,2
2007	13,2	+202,2	58,8	1,2	43,3	5,4
2008	1,5	+37,0	59	-	50,2	7,6

Source: Realized by the author bases on the dates from www.apia.softnet.ro

Annual capacity of the European automotive industry amounts to 12 million vehicles, representing 6% of jobs in the EU that representing the sixth EU export industry. If in 2007 were 19.6 million cars produced, in 2008 their number decreased by one million. Currently, 2 million unsold vehicles are in stock, representing a capacity in excess of 20%.

Table no. 1 The situation of the direct automotive employment in the auto industry in the European Union

	Direct automotive employment	As share of total manufacturing
Portugal	22590	2,7
UK	173184	5,7
Latvia	1433	0,7
Sweden	85561	10,7
Finland	6346	1,7
Ireland	3863	1,8
Lithuania	2500	0,4
Poland	137000	4,6
Germany	833837	11,8
Czech Republic	122223	8,3
Austria	33075	5,3
Slovak Republic	76000	7,1
Hungary	58806	6,6
Slovenia	12200	3,8
Romania	60281	4,0
Bulgaria	3155	0,4
Greece	2913	0,7
Italy	168435	3,6
Spain	159052	6,1
Denmark	6758	1,5
Estonia	2729	1,7
Netherlands	22284	2,9
France	258304	7,3
Belgium	45075	7,7
EU- 27 - average	95608.5	4,46

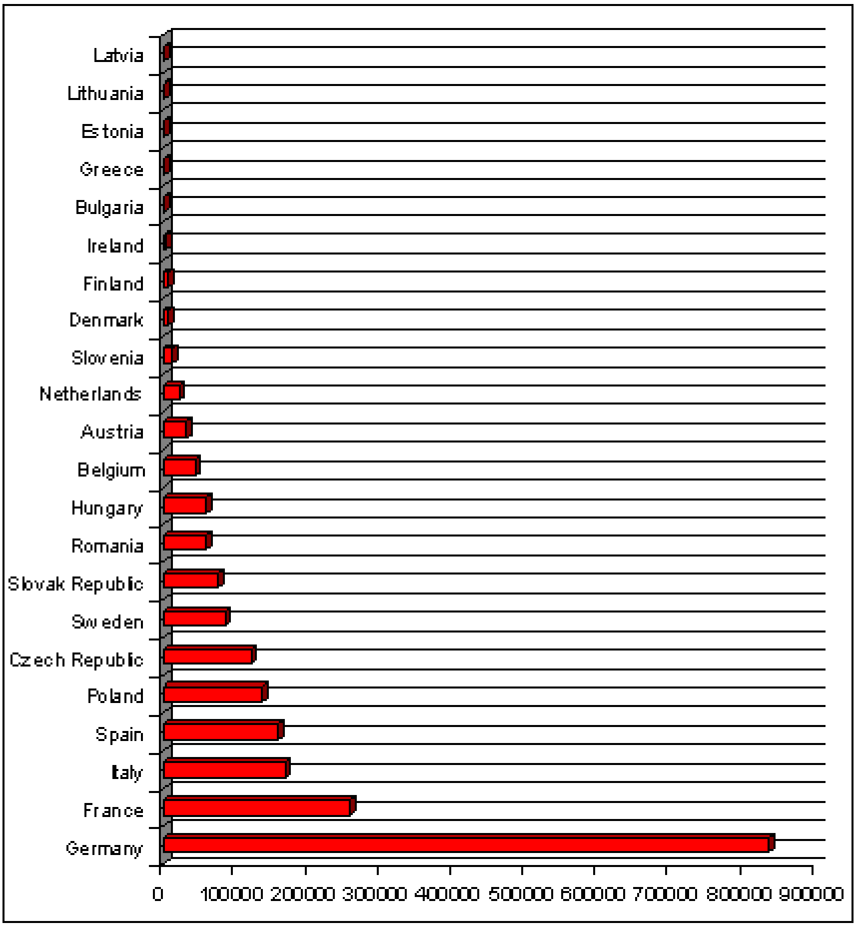
** The study does not include: Cyprus, Malta and Luxembourg.*

Source: Realized by the author bases on the dates from www.eurostat.ec.europa.eu

June 2009 marked negative performances in all 27 EU countries in terms of registration of new motor vehicles, accompanied by lower production, confirming the downward trend of the business. If at the end of 2007 the automotive industry gave a total of 2.3 million people directly working and indirectly to a total of 10 million people, in the first quarter of 2009 the situation looks very different. Approximately 10% of employees were dismissed, most of the raw materials, parts, etc., supplying companies of car manufacturers.

If this trend continues, automotive producing companies will emergency this year measures to rationalize, leading to loss of a significant number of jobs.

Figure no. 3 Direct automotive employment in the auto industry in the European Union



The study does not include: Cyprus, Malta and Luxembourg.
Source: Realized by the author bases on the dates from www.eurostat.ec.europa.eu

Among the measures proposed at EU level is included the facilitation of loans through the European Investment Bank, including for manufacturers of automotive components, amounting to 9 billion euros.

This crisis has serious consequences for employment in the automobile industry and must be taken rapid measures. Europe must take a greater role in this respect and support jobs. Coordinated policy is needed, especially in state aid area, and should be encouraged the competitiveness in the automotive sector.

Policies for soften the impact of the economic crisis on the labor market

The European Economic Recovery Plan which was endorsed by the European Council underlined the importance of stabilizing economies, restoring growth and maintaining social cohesion and called for a co-coordinated approach given the increasing interconnections, spill-overs and common challenges.

The basic approach is articulated around a set of overarching principles to devise appropriate labor market measures aimed at mitigating the impact of the crisis and shaping a sustainable recovery.

In particular, measures should aim at reducing the costs of adjustment and speed up transitions from old to new jobs to avoid more permanent losses in employability (hysteresis effect). In addition, policies should be in synergy with the social policy goal of supporting the incomes of the most disadvantaged groups of the population, which in itself will assist with stimulating aggregate demand given the relatively high propensity to consume out of these incomes. Especially in euro area countries these policies should also facilitate structural adjustment, in particular with regard to addressing significant divergences in external competitiveness, through their impact on unit labor costs.

Finally, short-term measures should be time-consistent with long-term reform objectives: policies to address the crisis should not run counter to long-term reform strategies, notably the implementation of the flexicurity principles under the Lisbon strategy. A major responsibility of the governments is to avoid damaging the long-term health of their economies and to look beyond the crisis at the recovery that will eventually come. The European Commission is intensifying its efforts to help governments overcome the crisis and prepare an "exit" strategy for the longer term.

The most recent employment measures undertaken by the European Union member states to combat the employment effects are:

- *maintaining employment, creating jobs and promoting mobility;*
- *upgrading skills and matching labor market needs;*
- *increasing access to employment;*

The top employment challenge for the EU must be to minimize job losses, prevent unemployment from becoming entrenched, favour transitions back into employment and boost job creation, and pave the way for economic renewal and for sustainable recovery and growth. This requires stronger cooperation between all stakeholders, better policy coordination and mutual learning – i.e. with a shared commitment to develop and implement the right policies and actions: to preserve sustainable jobs in sound economic activities and help people into productive employment; to support the most vulnerable; and to prepare for the jobs and skills of the future.

Conclusions

Although the picture varies across Member States, the economic crisis is expected to have significant consequences for all of their labor markets; for many this will manifest itself as a substantial increase in unemployment. Initially the bulk of the negative impact on labor markets was concentrated in Spain and the United Kingdom (UK), but more recently unemployment has begun to rise across all Member States.

In a number of European countries, job losses have been rather restrained to date, largely due to recourse to increased internal flexibility in the form of shorter hours or temporary partial unemployment. However, even if labor markets have proven to be more resilient, the European Union (EU) is still expected to lose some 8.5 million jobs over 2009–10, with unemployment potentially reaching around 11% by 2010. Indeed, historical experience shows that employment reacts to economic conditions with a certain lag; hence labor market conditions can be expected to worsen for some time even after the trough in the economic situation has been reached.

At the same time, the crisis appears to be affecting some groups of workers more deeply than others. Although men still have higher employment rates than women, to date the former have been more affected by the downturn than the latter, reflecting that many of the sectors hit hardest by the crisis are predominantly male oriented in terms of employment.

There has also been a continued strong rise in unemployment among young people, with young men being particularly affected, highlighting a rising need for support to tackle youth unemployment.

Measures undertaken so far are moving in the right direction. The in-built capacities of the social safety nets are fully playing their role as automatic stabilizers to cushion the impact of the economic downturn and there is considerable "policy innovation" to avoid significant labor shedding. However, the forecast figures suggest that, given the risk of a particularly deep and protracted recession, policies may need to be intensified in order to avoid very high levels of unemployment with potentially long lasting effects on the labor markets and potential growth. While it is impossible to put a precise figure on the budgetary impact of an intensification of policies, it is clear that this could be significant. This means that decisions on key structural reform measures relating to social security systems, which are needed in any event in many Member States to guarantee the long-term sustainability of public finances in view of an ageing population6, should be brought forward even if the implementation of such reforms would only kick in over time. This would restore confidence in the sustainability of public finances which has come under pressure as a result of the crisis and which would further suffer from additional expenditure on labor market measures.

Finally, in view of the spill-over effects these further measures are likely to have and to minimize distortions in competitive positions, especially across the euro-area; a better coordination of such measures would be warranted. In particular, a common approach to the design of supporting measures to temporary unemployment or adjustment schemes to working time would be highly beneficial.

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