

# Economy: Cars, the end of a cycle

Thursday 26 March 2009, by [VESSILLIER Jean-Claude](#) (Date first published: January 2009).

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In the thirty five years since the first oil crisis world car production has doubled, going from 33 million in 1975 to 73 million in 2007. In most developed capitalist countries, the usual mode of management of this growth has been that of crisis with restructuring among firms, factory closures and suppression of jobs. The car industry in the oldest capitalist economy, Britain, has been profoundly reduced over this period. Detroit and Boulogne-Billancourt in Paris bear the scars of closed factories with industrial wastelands in the heart of the city.

The new crisis of the car industry, which has just exploded in the second half of 2008, is singular in its simultaneous impact on all continents, its breadth, its potential consequences for the labour force mobilised in this industry, its links with the end of oil as an abundant energy and the environmental crisis. In this sense, the crisis of the car industry concentrates all the dimensions of the crisis currently ravaging the planet. Just as the first oil crisis of 1973 initiated a new cycle in the history of the car industry, the events of the last quarter of 2008 mark the end of this cycle and prefigure a new period where, through new crises, it is very much the future of the petrol powered car and the millions of workers making it which is at stake.

The weight of the car industry in the world economy is well known. Around 8 million people are employed around the world in car construction and the manufacture of parts. The turnover of this industry was nearly 2 thousand billion euros in 2007. This industry, internationalised and concentrated in capitalist terms, is organised in factories of several thousand workers. Car factories have often been the crucible of the workers' movement, whether in Western Europe, Detroit in the USA, Latin America with the factories of the industrial belt of São Paulo in Brazil, or more recently the Renault Dacia factory in Romania. As a consumer good whose use fashions and disfigures the urban space of the megalopolises of the entire world, the car has an impact on social relations as a whole.

## The crisis of 2009

The fall in car sales has been general in most countries. This exceptional synchronicity is the consequence of the global character of the economic crisis. The rapidity of the development of the crisis has also been exceptional. For a decade up until the autumn of 2008, the level of car sales varied with the conjuncture: stagnation in Western Europe, North America and Japan, growth in the rest of the world. The generalised fall only began in September 2008 and has spread to all continents

in less than three months [1]. China has also been affected with a strong slowing up of the growth of previous years.

Country	USA	Germany	France	Italy	Spain	Japan	China
Oct-Dec 2008	-35 %	-10 %	-15 %	-13 %	40 %	-20 %	2 %
Total 2008	-18 %	-7 %	-0.7 %	-13 %	-28 %	-6 %	+6.7 %

The depth of the crisis is not revealed by these results alone because falls of around 20 % of sales have already been observed in the past. If we only take the sales of the last quarter, the crisis would not have the singular traits which distinguish it from the previous ones. The fall in the last quarter of 2008 prefigures a lasting depression from which no possible date of recovery is currently envisaged. This uncertainty is aggravated by the doubts weighing on the future of the car and its engines. What was the field of the prospective hypothetical has become a given which determines the practices of the whole industry.

### **The current depression: a structural crisis**

The social attacks observed in the last quarter of 2008 are all the more violent in that they are not content with responding to the falls observed in recent months, they anticipate a long term crisis.

The car industry is indeed confronted in a structural fashion to a crisis of outlets which has three aspects: a classic crisis of outlets in the sense that the products of this industry are not finding buyers at their sale price because of the pressure on wages in the developed capitalist countries, a crisis linked to the types of cars demanded potentially in the countries which today draw production and world consumption, and finally the environmental crisis which tends to render obsolete the mode of propulsion which ensured the rise of the car industry over a century ago.

This crisis of outlets sharpens the competition between internationalised firms on the “traditional” markets of the developed countries but also in the other countries, starting with the main “new” growing market, that of China. Even before the outbreak of the crisis of autumn 2008, overcapacities of production were obvious. Only 54% of the production capacities of Renault in Western Europe were used in the first half of 2008 [2].

In this pitiless universe each group is playing for its survival. There is no longer a stabilised oligopoly which could control production and markets. The short term threats to the future of General Motors or Chrysler illustrate the fragility of the collapsing world oligopoly.

New firms from China or India will compete with the existing firms, thus increasing surplus production capacities at the world level. A new division of the relation of forces between car constructors and equippers has existed for fifteen years. In the areas of on board electronics or petrol substitution technologies, certain firms will strengthen their positions because of the financial difficulties of the traditional car builders.

Internationalisation of markets and products, globalisation of capital

The globalisation of markets is as yet unfinished in the sense that the same cars are neither produced nor sold in all continents.

The observed duplication of car production over the last thirty years is not homogeneous in terms of time or geographic zone. In the USA, production fell by 15% over the last thirty years and this in a continuous manner throughout the period. Across Europe, production fell by 60 %, but in Western

Europe, it has stabilised over the past twenty years, and in central Europe it has grown since 1990. In Japan, the essence of internal growth took place between 1975 and 1990. The most striking phenomenon of the last decade is the emergence of China which should in less than five years produce more cars than Japan or the US and thus become the second biggest world car producer.

The growth of world production is not accompanied by a growth in the proportion of exchanges. The cars are in their majority manufactured to be sold locally, in a specific country or group of countries. The trend is thus towards rapprochement between the big zones of production and big zones of sale. As a consequence, there is no geographic zone towards which the majority of production would be relocated so as then to be resold in the rest of the world. Such was the reality in 2007 on the eve of the eruption of the crisis of 2008.

Year	<b>Europe Import</b>	<b>Europe Export</b>	<b>USA Import</b>	<b>USA Export</b>	<b>Japan Import</b>	<b>Japan Export</b>
1990	12%	20%	29%	3%	1%	55%
2007	14%	20%	30%	13%	2%	55%

source [ [www.ccfa.fr/statistiques/faits-et-...](http://www.ccfa.fr/statistiques/faits-et-...) ]

The share of exports of European car production to the rest of the world has remained astonishingly stable at around 20% of the total product in the continent, while imports have gone from 12% to 14%. Japanese exports to the rest of the world have also remained at the level of 55% of production because it was before 1980 that the growth of exports of Japanese cars took place. So far as the USA is concerned, the share of imports has remained at the level of 20% of the total of production. The emergence of China over the last decade has not until now contradicted this trend in that the big majority of cars produced in China are intended for the internal market.

The globalisation of the car industry has been at the level of the firms who have created subsidiaries and factories outside of their territories of origin and who have launched numerous operations of merger and restructuring. This growing internationalisation of firms renders the crises observed currently still more synchronised. Whereas in the 1990s a presence over several continents was presented as an “insurance” against very strong variations in one of the countries, the simultaneous nature of the crisis combines its effects.

This internationalisation has first affected the most profitable markets, that is the triad constituted by North America, Western Europe and Japan.

US firms only produce half of their production in the USA. In addition to the subsidiaries existing in Europe since 1945 (Ford, Opel and Vauxhall), activities in the South American continent, China and buyouts of companies have developed, General Motors being the US firm the most committed to this strategy of globalised implantation.

Japanese firms practice the same type of deployment. Since 2005, more than half of the cars of Japanese brands are produced outside of Japan in factories situated nearer to their outlets. This is the case in the US and in Europe where the growth of sales of Japanese cars is based on cars produced locally.

The European car industry has internationalised in the same way with new installations in Latin America and China. It has in its neighbourhood a new space for development, that constituted by the former Stalinist countries. The attraction which leads all European manufacturers to build factories there is linked to the immediate interest for the employers of having qualified workers at lower

wages than in Western Europe, but also the general policy of seeking to bring production closer to the new markets. It is the combination of these two factors which explains the “rush to the East”. The production of cars in central and Eastern Europe reached the volume of 2,900,000 vehicles in 2007 whereas sales did not exceed 1,300,000 units. Most countries in this zone are seeing new installations: Poland, Czech Republic, Slovakia, Rumania and Slovenia. The gaps in development and car engines between the two parts of the European continent indicate that sales will increase more in central Europe, but this will concern smaller cars that generate less profit than the type of models which ensured the profitability of car firms in previous decades.

Compared to the policy of the European leader Volkswagen VAG, the French car industry has been late in participating in this deployment. But now the two French groups PSA and Renault carry out the majority of their production and sales outside of their national historic base, although the two groups remain still in their majority European. So far as Renault goes, 35% of its sales are outside Europe against 15% in 1990.

Less than 50% of Renault’s car production is now based in France, but this phenomenon accompanies the internationalisation of sales to Europe and the rest of the world. All European manufacturers are in the same situation in relation to their historic country, a phenomenon amplified by intra-European transfers caused by the new growth in Eastern Europe.

Internationalisation of capital and stability of exchanges between big geographical zones: the argument according to which the current crisis would be due to the competition of the new emergent countries is then not valid. The roots of the crisis are at the very heart of the functioning of the capitalist economies.

### **A crisis of outlets for the car industries**

Since the 1990s, the big globalised firms have tried to maintain their profits by higher prices in terms of equipment and the cost of each car, since they are unable to increase the volume of sales.

The know-how of most firms is oriented toward the manufacture of increasingly sophisticated and expensive cars. It is against the tide of the trend observed in the rest of manufacturing industry with the prices of final sale incessantly falling. The car has thus become inaccessible to the final consumption of the greater number in Western Europe; a third of new cars produced are sold to long and short term rental companies, and to companies for the needs of their own travel activities as well as for the use of their higher managers [3].

In the urban peripheries, which are increasingly vast geographically, a car is needed to get to work or go shopping, but this is increasingly a second hand car whose average age is ever older, a factor which acts in the direction of a fall in the sales of new cars.

The stagnation of the sales markets observed since the 1990s in western Europe, the USA and Japan has been transformed in recent years into a downwards trend because of the growing exclusion of the majority of insecure employees from the purchase of a new car. New cars as designed and manufactured today find fewer and fewer buyers in the developed capitalist countries. The globalised firms are less and less capable of finding profitable outlets for the types of products emerging from their design offices and their former factories.

Insofar as the consumption of cars in these new emergent countries is dominated by narrow layers on exorbitant incomes, the models produced in the US or European factories could yet find outlets there. The limited example is that provided by the luxurious Mercedes cars sold in the oil

monarchies of the Middle East.

The growth in the number of potential buyers of new cars leads to the reorientation of the demand for cars towards new less luxurious models, the types of models progressively abandoned by the big globalised firms. The biggest share of the growth in world car production should be that of consumers in the emergent markets, for whom the price factor is crucial. Vehicles like the Tata Nano manufactured in India or other low cost products should attract millions of consumers to the car market. During the motor show in Shanghai in April 2007, Suzuki boss Hiroshi Tsuda did not hide his interest in the models presented by the Chinese, judging that the latter were now in a position to take shares in foreign markets, notably in the emergent countries, where the main demand remains price [\[4\]](#)

But this type of agreement is no longer the only means of developing the Chinese car industry. Chinese manufactures are beginning to emerge and prepare to play a role in globalised capitalist competition. Geely and Chery are among them. With 180,000 cars, the volume of their production is still very weak compared to that of the joint-ventures. The four Chinese state owned manufacturers (BAW/BAIC, DongFeng, FAW and SAIC) could also soon develop without joint-ventures. Possible associations with western capitalist firms could be in an inverse relationship of dependence with the buyout of foreign companies in difficulty who cannot find buyers in their territories of origin. The competition will only be strengthened, first on the Chinese market, then on the world market.

This competition will sharpen first in China. The type of development chosen by the Chinese leaders privileges competition as a stimulant to increased productivity. The joint-ventures are places for sharing technical knowhow but also experiences in the area of the exploitation of workers.

The Chinese manufacturers benefit from low wage costs. For example: 3.50 dollars per hour at Geely. There is a ferocious outbidding of wage policies from one province to another. Less developed, the interior provinces offer very low costs. Such is the case of the province of Jianxi where new car factories are being established.

There is then no natural or spontaneous tendency to an increase of wages in the context of an increase in production. But demands for wage increases and the improvement of working conditions are expressed in a more collective and organised fashion in the big workers' concentrations in the car factories : this observation, valid on all continents for a century, also applies in China.

The factors explaining the development of the crisis in cars will also act in China, even if in a deformed fashion, starting from the time when this country is plunged into the contradictions and exploitation specific to capitalist economies. The rapidity with which China has begun to be affected by the world cars crisis shows that this country is immersed in capitalist competition and its crises.

## **Cars and the environmental crisis**

The car industry is not only confronted with a crisis of profitable outlets and the sharpening of competition among firms, it is also directly involved in the threats to the climate and the scheduled end of growth of the extraction of the oil used by the combustion engines of cars.

The billion cars today in circulation on the planet are the biggest consumers of oil. The transport sector represents around half of all world oil consumption, road transport alone accounting for 80% of this half. It only represented a third of total consumption of oil in 1971, which shows that the transport sector has been the least effective sector in using oil substitutes.

Because of the damage caused by the pollution generated by the combustion of oil fuel, and the end of oil as abundant energy, the car as it has existed for a century sees its future jeopardized.

In the balance sheet of world emissions of CO<sub>2</sub>, the transport sector is the second most responsible sector with 21% of total emissions. Its emissions are the most difficult to combat. Transport is by its nature a mobile source and disperses greenhouse gas emissions and pollutants.

But beyond this technical diagnosis, what was accepted or tolerated in previous decades has become socially unacceptable. The use of the car is confronted with a set of new constraints caused by this growing social rejection of car pollution. It is true that each new car produced is less polluting than in the past. But the car industry is still lagging behind and is only following the standards laid down by the different public authorities. The application of these standards makes new cars still dearer in price whereas one of the determinant causes of the crisis is the inability of the car industry to find outlets for its production of cars which are too dear. The contradiction between the individual mode of appropriation of cars and the growing cost of social use becomes ever deeper.

The increase in oil prices is another factor of crisis. Beyond the fluctuations which now characterise the evolution of the price of crude oil, and consequently that of the world financial crisis, a new period opens. The peak of world production is already on the horizon of prediction, even if the date cannot be fixed with certainty.

What is important is not the exact date but the fact that the date of the peak of production is already on the horizon of prediction. Calendars are very diverse in the car industry: the time from the design of a motor and its industrialisation can be up to a decade. In the previous period the Renault "Cléon Fonte" motor was manufactured for forty years from 1962 to 2004, equipping notably the R4, R6, Twingo and Clio. The motors designed and manufactured today by the car industry will be still in circulation when the peak of oil production has been reached and passed.

Of course, there will still be production and consumption of oil for decades. But the threshold reached in the coming years of the maximum peak of oil production will lead to a change in behaviour and price levels. Those who do not take account of this reality are myopic and irresponsible.

### **The false response of the electric vehicle**

In these conditions, can an industry in crisis be revived by the development of the electric car as substitute for the combustion engine? All the big car firms will now explore this new road.

If cars with modes of propulsion other than the combustion engine are not today sold in significant numbers, it is because the car industry was not concerned with investing in this area when it was timely and possible. The gains of the previous periods have been redistributed in dividends to shareholders and invested in other areas. Investment has been concentrated on enrichment on an unchanged technological basis of ever more sophisticated products. When little has been done during periods of growth, who could believe that an industry would do more in the midst of a crisis and in a situation of ever exacerbated competition?

The electric cars which will be sold in the five coming years will be heavy, dear, not very autonomous and very demanding in electricity. Renault talks about a "rapid break" in the deployment of electric vehicles with a fleet of 100,000 vehicles of this type in France in 2015 [