

LONG TERM UNEMPLOYMENT IN THE CZECH REPUBLIC IN COMPARISON WITH THE OTHER COUNTRIES OF THE EUROPEAN UNION

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Abstract

Unemployment brings considerable economic and non-economic losses to individuals but also the whole society. The negative effects of unemployment are deepening mainly with the duration of unemployment. The paper deals with long-term unemployment, or unemployment that lasts longer than twelve months. The labour market of the European Union as a whole and particularly labour markets of some Member States is traditionally characterized by high levels of long-term unemployment. The paper compares basic information about long-term unemployment among the Member States of the European Union. Attention is given especially to the comparison of the data for the Czech Republic with other European Union countries. The paper contains data on long-term unemployment over the past five years, for period in which the European Union's economy has experienced an economic cycle. Long-term unemployment can be significantly affected by employment policy. Brief comment on the effectiveness of employment policy is discussed at the end of the paper.

Key words: economic cycle, labour market, long-term unemployment, unemployment rate

JEL Code: J64, J65, J68

Introduction

The labour market of the European Union, and in particular some of its member countries, has been traditionally characterized by a high incidence of long-term unemployment, or unemployment that lasts longer than one year.

The economy of the European Union was fully affected by the worldwide economic recession in 2009. During this economic crisis we could see rapid increase of unemployed in all Member States of the European Union. Last year, approximately 22.9 million unemployed were in the the European Union as a whole. There was an increase of about 38% in comparison with 2008. Out of the total number of unemployed people, more than 9 million

people were unemployed for more than twelve months last year. The Czech Republic was in the group of countries that showed a lower overall unemployment rate at the period before the economic recession. However, the Czech Republic showed one of the highest incidences of long-term unemployment in the EU member countries in this period.

Considerable attention to the long-term unemployment is devoted in the world economic literature. Analytical publications are published especially by the Organization for Economic Cooperation and Development (e.g. OECD 1992, OECD 2004, OECD, 2011). Detailed description of long-term unemployment before 1998, including some of their causes, can be found in article by Machin and Manning (Machin, Manning, 1998). Unemployment and especially long-term unemployment may lead to higher unemployment in the future. This phenomenon is explained by the effect of hysteresis in the labour market, which in the context of unemployment in Europe, was stressed in Blanchard and Summers article (Blanchard, Summers, 1986).

The purpose of this paper is to describe the development of long-term unemployment in the European Union in the last five years. All data in this paper that are related to unemployment are taken from the Eurostat database and come from Labour Survey.

Total and long-term unemployment

In 2006 and 2007 real gross domestic product in the European Union as a whole grew by relatively rapid pace (3.3% and 3.1%). Some Member States reached a very high growth rates. The highest increase of real gross domestic product we could see in Latvia (11.2%) and Estonia (10.1%) in 2006. On the contrary, the slowest increase was in Portugal (1.4%) and Italy (2%). In 2007 the highest growth was in the Baltic States, Lithuania (9.8%), Latvia (9.6%) and Estonia (7.5%). On the other hand, the lowest rate can be observed in Hungary (0.8%) and Italy (1.4%). Generally, it can be argued that higher growth rates were in the state which joined the European Union in 2004 and 2007 than in the old fifteen European countries.

Development of real domestic product, with some time delay, influenced the labour market. Table 1 shows the data about the total unemployment rate and the long-term unemployment rate in the EU Member States between 2006 and 2010. And Table 2 shows data about the incidence of long-term unemployment in the same countries and for the same time period. The total unemployment rate is the percentage share of unemployed in the economically active population. The long-term unemployment rate is the percentage share of

long-term unemployed in the economically active population. And the incidence of long-term unemployment is the percentage share of long-term unemployment in total unemployment.

Tab. 1: Unemployment rate and Long-term unemployment rate in the EU

	2006		2007		2008		2009		2010	
	total UR	long-term UR	total UR	long-term UR	total UR	long-term UR	total UR	long-term UR	total UR	long-term UR
Belgium	8,3	4,2	7,5	3,8	7,0	3,3	7,9	3,5	8,3	4,1
Bulgaria	9,0	5,0	6,9	4,1	5,6	2,9	6,8	3,0	10,2	4,8
Czech Republic	7,2	3,9	5,3	2,8	4,4	2,2	6,7	2,0	7,3	3,0
Denmark	3,9	0,8	3,8	0,6	3,3	0,4	6,0	0,5	7,4	1,4
Germany	10,2	5,8	8,6	4,9	7,5	4,0	7,7	3,5	7,1	3,4
Estonia	5,9	2,9	4,7	2,3	5,5	1,7	13,8	3,8	16,9	7,7
Ireland	4,4	1,4	4,6	1,3	6,0	1,7	11,8	3,4	13,5	6,7
Greece	8,9	4,8	8,3	4,1	7,7	3,6	9,5	3,9	12,6	5,7
Spain	8,5	1,8	8,3	1,7	11,3	2,0	18,0	4,3	20,1	7,3
France	8,8	3,9	8,0	3,4	7,4	2,9	9,1	3,4	9,3	3,9
Italy	6,8	3,4	6,1	2,9	6,8	3,1	7,8	3,5	8,4	4,1
Cyprus	4,6	0,9	3,9	0,7	3,7	0,5	5,3	0,6	6,2	1,3
Latvia	6,8	2,5	6,0	1,6	7,5	1,9	17,1	4,6	18,7	8,4
Lithuania	5,6	2,5	4,3	1,4	5,8	1,2	13,7	3,2	17,8	7,4
Luxembourg	4,7	1,4	4,1	1,2	5,1	1,6	5,1	1,2	4,4	1,3
Hungary	7,5	3,4	7,4	3,4	7,8	3,6	10,0	4,2	11,2	5,5
Malta	6,9	2,8	6,5	2,6	6,0	2,5	6,9	3,0	6,9	3,2
Netherlands	3,9	1,9	3,2	1,4	2,8	1,1	3,4	0,9	4,5	1,2
Austria	4,8	1,3	4,4	1,2	3,8	0,9	4,8	1,0	4,4	1,1
Poland	13,9	7,8	9,6	4,9	7,1	2,4	8,2	2,5	9,6	3,0
Portugal	7,8	:	8,1	:	7,7	:	9,6	:	11,0	:
Romania	7,3	4,2	6,4	3,2	5,8	2,4	6,9	2,2	7,3	2,5
Slovenia	6,0	2,9	4,9	2,2	4,4	1,9	5,9	1,8	7,3	3,2
Slovakia	13,4	10,2	11,1	8,3	9,5	6,6	12,0	6,5	14,4	9,2
Finland	7,7	1,9	6,9	1,6	6,4	1,2	8,2	1,4	8,4	2,0
Sweden	7,1	1,0	6,2	0,9	6,2	0,8	8,4	1,1	8,4	1,5
United Kingdom	5,4	1,2	5,3	1,3	5,6	1,4	7,6	1,9	7,8	2,5
EU - total	8,2	3,7	7,1	3,1	7,0	2,6	8,9	3,0	9,6	3,9

Source: Eurostat. Employment and unemployment database. [accessed 2011-09-01].
http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

More than 18 million unemployed were in the European Union in 2006. In 2007, the number of unemployed decreased to about 16, 8 million people. The total unemployment rate was 8.2% in the European Union as a whole in 2006. In 2007, the total unemployment rate fell by 1.1 percentage points to 7.1%. The decline in the total unemployment rate occurred in all Member States of the European Union in 2007. Long-term unemployment also declined in the European Union as a whole between 2006 and 2007, from 3.7% to 3.1%. It is therefore evident that the total unemployment dropped more sharply than long-term unemployment. In most Member States of the European Union, the long-term unemployment also fell between 2006 and 2007. The exceptions were the United Kingdom, where long-term unemployment rate increased by 0.1 percentage point and Hungary, where the long-term unemployment has

not changed. The largest decline in overall unemployment rate occurred in the case of Poland (- 4.3%). At the same time the highest reduction of long-term unemployment occurred also in Poland (-2.9). In this context it should be noted that Poland showed strong output growth (over 6%) both years. In the Czech Republic, the overall unemployment rate fell from 7.2% in 2006 to 5.3% in 2007. Long-term unemployment over the same period fell by 1.1 percentage points to 2.8%. Also, the Czech economy recorded growth more than 6% in both years.

Tab. 2: Incidence of long-term unemployment in the EU

	2006	2007	2008	2009	2010
Belgium	51,2	50,4	47,6	44,2	48,8
Bulgaria	55,7	58,8	51,7	43,3	46,4
Czech Republic	54,2	52,2	49,2	30,0	40,9
Denmark	20,8	16,2	13,1	9,1	19,1
Germany	56,4	56,6	52,6	45,5	47,3
Estonia	48,2	49,5	30,9	27,4	45,4
Ireland	31,6	29,5	27,1	29,0	49,0
Greece	54,3	50,0	47,5	40,8	45,0
Spain	21,7	20,4	17,9	23,7	36,6
France	41,9	40,3	37,5	35,2	40,1
Italy	49,6	47,4	45,7	44,4	48,5
Cyprus	19,3	18,6	13,6	10,4	20,4
Latvia	36,5	26,4	25,7	26,7	45,0
Lithuania	44,3	32,0	21,0	23,2	41,4
Luxembourg	29,5	28,7	32,4	23,1	29,3
Hungary	45,1	46,8	46,5	41,6	49,3
Malta	40,6	41,9	42,3	43,5	46,4
Netherlands	43,0	39,4	34,8	24,8	27,6
Austria	27,4	26,8	24,3	21,3	25,2
Poland	56,1	51,3	33,5	30,3	31,1
Portugal	50,2	47,1	47,4	44,2	52,3
Romania	57,8	50,0	41,3	31,6	34,9
Slovenia	49,3	45,7	42,2	30,1	43,3
Slovakia	76,3	74,2	69,6	54,0	64,0
Finland	25,2	22,9	18,4	16,8	24,0
Sweden	:	13,8	12,6	13,3	17,7
United Kingdom	22,3	23,8	24,1	24,5	32,7
EU - total	45,2	42,7	37,0	33,2	39,9

Source: Eurostat. Employment and unemployment database. [accessed 2011-09-01].
http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database, own calculation

In 2006, the incidence of long-term unemployment was 45.2% in the European Union as a whole. The highest incidence of long-term unemployment we can see in Slovakia (76.3%). Or, in other words, out of 100 unemployed persons were more than 76 people unemployed for more than twelve months in the Slovakia. Slovakia had also one of the highest rates of total unemployment (13,7%) this year. The lowest incidence of long-term unemployment was in Cyprus. In 2006, the incidence of long-term unemployment was higher than 50% in nine European Union countries, among which was the Czech Republic. The incidence of long-term unemployment in the European Union as a whole decreased slightly with growing economy. The largest decrease in the incidence of long-term unemployment occurred in Lithuania (-12.3 percentage points) and Latvia (-10.1 percentage points). In contrast, the largest increase occurred in Bulgaria (3.1 percentage points). In the Czech Republic, the incidence of long-term unemployment fell by 2 percentage points, but still was higher than 50% in 2007.

In 2008, the early signs of global economic recession could be seen in the European Union. The growth of real gross domestic product slowed to 0.5% in the European Union as a whole. In eight countries out of twenty-seven, however, real gross domestic product dropped. The biggest declines were in Estonia (-3.7%) and Latvia (-3.3%). Conversely, the biggest growth was in Romania (7.3%) and Bulgaria (6.2%), in countries that joined the EU in the latest wave of enlargement. They are also countries that have the lowest GDP per capita in the European Union, so there is the influence of a low base here. The rate of total unemployment decreased slightly to 7% in the European Union in 2008 and long-term unemployment rate further decreased to 2.6%. Firms before the crisis employed new employees and as can be seen, some of them were also long-term unemployed. It is obvious that hysteresis effects in the labour market are weakened in case of strong economic growth. The highest unemployment rate was in Spain (11%) in 2008, what represents yearly increase by 3 percentage points. The highest rate of long-term unemployment we can found again in Slovakia this year. In the Czech Republic, the overall unemployment rate fell by 0.9 percentage points to 4.4% and long-term unemployment rate by 0.6 percentage points to 2.2% in 2008.

The incidence of long-term unemployment decreased to 37% in the European Union in 2008. The largest reduction of the incidence long-term unemployment was recorded in Estonia, Lithuania and Poland. In the Baltic countries, however, the decline of long-term unemployment was associated with an increase in the overall unemployment rate. In the case

of Poland, next to the reduction of the incidence of the long-term unemployment, we can see also decline of total number of unemployed. The Polish economy was in greater extent able to employ those who were previously long term unemployed. On the contrary, the growth of the incidence of long-term unemployment was recorded in four countries in 2008. They were Luxembourg, Malta, Portugal and the United Kingdom. With the exception of Malta in these countries also increased the total number of unemployed. This suggests that an indicator the incidence of long-term unemployment cannot be perceive as the measure of the success of employment policies, as it is sometimes stated. It is always necessary to have a look at complex issues of long-term unemployment. In the Czech Republic the incidence of long-term unemployment decreased after a long period below 50% threshold in 2008.

In 2009 the European economy was fully hit by global economic recession. The real gross domestic product declined by 4.3% in the European Union as a whole. The biggest drops were recorded in the Baltic states, Latvia (-17.7%), Lithuania (-14.7%) and Estonia (-14.3%). The total unemployment rate was 8,9 % in the European Union as a whole, which represented an annual increase by 1,9 percentage points. The unemployment rate increased in all Member States of the European Union this year. The highest annual increase of total unemployment rate was in Baltic States, in Latvia (9,6 percentage points), Estonia (8,3 percentage points), Lithuania (7,9 percentage points). In total, the highest unemployment rate was in Spain (18%), followed by Latvia (17.1%). The lowest increase in the unemployment rate occurred in the case of Germany (by 0.2 percentage points). The lowest unemployment rate, however, was in the Netherlands. The long-term unemployment rate grew to 3% in the European Union as a whole in 2009. The highest growth of the rate of long-term unemployment we can see again in the Baltic States. The cause of such increase in long-term unemployment was increase of total unemployment in these countries in 2008. And also there was a rapid deterioration in the labour market and unemployed from the previous period had minimal chance to find new jobs. In the Czech Republic total unemployment rate rose by 0.2 percentage points to 7.7%. The long-term unemployment rate, however, decreased from 4% to 3.5%.

Although the total unemployment rate and even the long-term unemployment rate increased in the European Union as a whole in 2009, the incidence of long-term unemployment decreased. The incidence of long-term unemployment declined by 3.8 percentage points to 33.2% in the European Union as a whole in 2009. The explanation for this is obvious. Although the absolute number of long-term unemployed increased, there was

a significantly faster growth of the short-term unemployment. In twenty EU member countries the incidence of long-term unemployment decreased, while in the remaining seven countries it increased. In five of these seven countries, there was an increase in the overall unemployment rate in the previous year. Thus some of the unemployed from last year became a long-term unemployed in 2009. In 2009, the largest reduction in the incidence of long-term unemployment occurred in the Czech Republic (-19.2 percentage points), Slovakia (-15.6%), Slovenia (-12,1 percentage points) and Netherlands (-10,0 percentage points).

In 2010, the European Union showed a slight recovery. Real gross domestic product of the European Union as a whole grew by 1.8%. The highest increases were registered in Sweden (5, 7%) and Slovak (4.0%). Twenty-two out of twenty-seven member states showed positive economic growth in 2010. In the five remaining countries, real gross domestic product fell, most in Greece (-4.5%). The positive development of real gross domestic product, however, was not reflected in the labour market. Once again, it confirms that the labour market responds to the development of production with delay. Last year, the total unemployment rate rose to 9.6% in the European Union as a whole. The total unemployment rate rose in the 23 Member States of the European Union last year. The highest increase of the total unemployment rate occurred in Lithuania (+4.1 percentage points) and Bulgaria (+3.4 percentage points) and Estonia (+3.1 percentage points). On the contrary, the total unemployment rate fell in Luxembourg (-0.7 percentage points), Germany (-0.6 percentage points) and Austria (-0.2 percentage points). In the case of Sweden, the total unemployment rate remained unchanged last year. Negative development of the labour market was also reflected in the development of long-term unemployment. The long-term unemployment rate increased from 3% in 2009 to 3.9% in the European Union as a whole in 2010. The long-term unemployment rate increased in all countries except Germany, where it dropped by 0.1 percentage point. The highest increase in the long-term unemployment rate showed the Baltic States and Ireland in 2010. The incidence of long-term unemployment rose significantly to almost 40% in the European Union as a whole. The highest increase of the incidence of long-term unemployment occurred in Ireland (by 20 percentage points) and in all three Baltic States Estonia, Latvia and Lithuania (by about 18 percentage points).

Conclusion

Long-term unemployment causes significant economic and non-economic losses to individuals but also the whole society. For this reason, long-term unemployment should be on

the major agenda of national employment policies. Adámek and Dobrylovský in their article stated that: “The influence of labour markets did not play significant role in the early days of European integration. The situation has changed dramatically during the 90th years, when high unemployment in most member countries raised the need to influence labour markets not only from the positions of Member States, but also the position of the EU institutions as a whole. The problem was not in the size of the unemployment rate but in its structure; a considerable proportion of total unemployment was formed by long-term unemployment” (Adámek, Dobrylovský, 2006, p. 128). There is no one general measure that is effective in all times and everywhere. It depends especially on the situation on the labour market, or precisely, if supply or demand is greater. In the case of excess of demand, it is necessary to increase the motivation of long-term unemployed to find work. In the case of excess supply, it is necessary to activate the demand for labour.

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