

The impact of the economic recession on long-term unemployment in Central-European countries

Tomas Pavelka^{1,3}, Tomas Löster²

¹ Department of Microeconomics, University of Economics, Prague, CZECH REPUBLIC

² Department of Statistics and Probability, University of Economics, Prague, CZECH REPUBLIC

³ Corresponding author: Tomas Pavelka, e-mail: pavelkat@vse.cz

Abstracts

The recent economic recession has had a significant impact on the labour markets of the Member States of the European Union. Unemployment is associated with considerable economic and non-economic negative impacts. It is well known that these negative effects are growing with the duration of unemployment. The paper analyses the development of long-term unemployment, i.e. unemployment lasting more than one year, in selected countries of Central Europe - the Czech Republic, Slovakia, Hungary, Poland, Slovenia, Germany, and Austria. Unemployment and long-term unemployment does not affect all population groups in the same way and with the same intensity. Some population groups are affected more strongly, some less. The paper analyses how the economic recession has impacted the incidence of long-term unemployment in particular age groups of the workforce. Some scholarly studies also suggest that the existence of long-term unemployment is one of the causes of a high level of overall unemployment. The dependence is explained by the effect of hysteresis which means that the long-term unemployed lose interest in work and also employers refuse to employ the long-term unemployed because they believe that the long-term unemployed have lost their working habits. The paper, in this context, examines whether a relationship exists between the level of long-term unemployment incidence and the level of overall unemployment in the countries of Central Europe.

Keywords: Economic cycle, duration of unemployment, hysteresis, labour market

1. Introduction

The European Union as a whole has undergone an economic cycle in the last past five years. The economic cycle was also evident in the countries of Central Europe. Relatively strong economic growth in 2008 turned into a significant drop. The only country where there was no decline in real GDP was Poland. The fall in GDP of course affected the labor market with a lag. The unemployment rate rose sharply and as a result long-term unemployment started to grow steadily. The European Union had always shown a high level of long-term unemployment. The economic recession, however, has worsened the situation.

A lot of attention is devoted to long-term unemployment in the world economic literature. The reason is that the costs associated with unemployment grow significantly with its duration. A key contribution that is concerned with the impact of long-term unemployment is an article by Blanchard and Summers (1985), in which the authors discussed the risk of the existence of hysteresis in the labour market. In the second article, Blanchard (2006) analyses the impact of high unemployment on the level and duration of unemployment in the subsequent period. He used the data from the European labour market in the 1970's. Some authors see the existence of strong employment protection as a cause of the European Union's high incidence of long-term unemployment (for example Ljungqvist, Sargent 2008). In this context, an

interesting comparison of three countries, Spain, France, and Great Britain, can be found in the article by Petrongolo and Pissarides (2008).

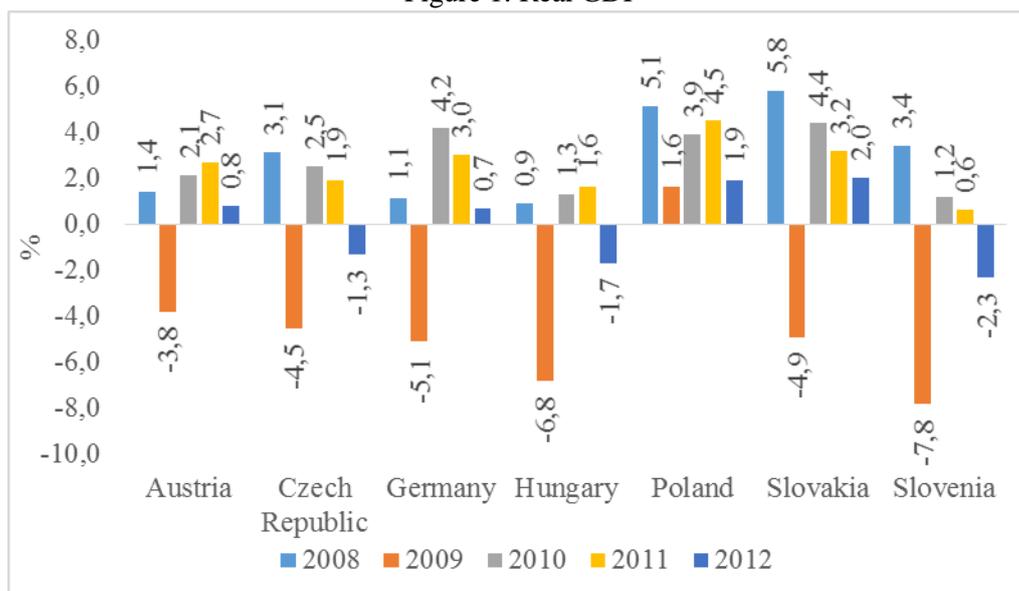
There is also much literature that deals with the impact of long-term unemployment on different groups of the population in different countries. A detailed analysis of long-term unemployment according different population groups for the Czech Republic can be found in the publication Pavelka, Löster, Makovský a Langhamrová (2011).

The article is dedicated to the developing long-term unemployment in the selected group of Central European countries: Austria, the Czech Republic, Germany, Hungary, Poland, Slovakia and Slovenia.

2. Results

The EU Member States that joined the EU in 2004, showed solid growth in 2008, although a slowdown was already evident. The growth of Germany and Austria was slower in 2008. The fall in GDP occurred in 2009 in all the countries except Poland. However, the economic recession had also impacted Poland, and the GDP growth rate dropped by 3.5 pp. The largest decrease was recorded in Slovenia, followed by Hungary. The recovery of the next two years proved to be unsustainable. In the last year, there has been an annual decrease in real GDP in the Czech Republic, Hungary and Slovenia. In other countries under review there has been a slowdown in growth. It seems, finally, that there is a double-dip recession.

Figure 1: Real GDP

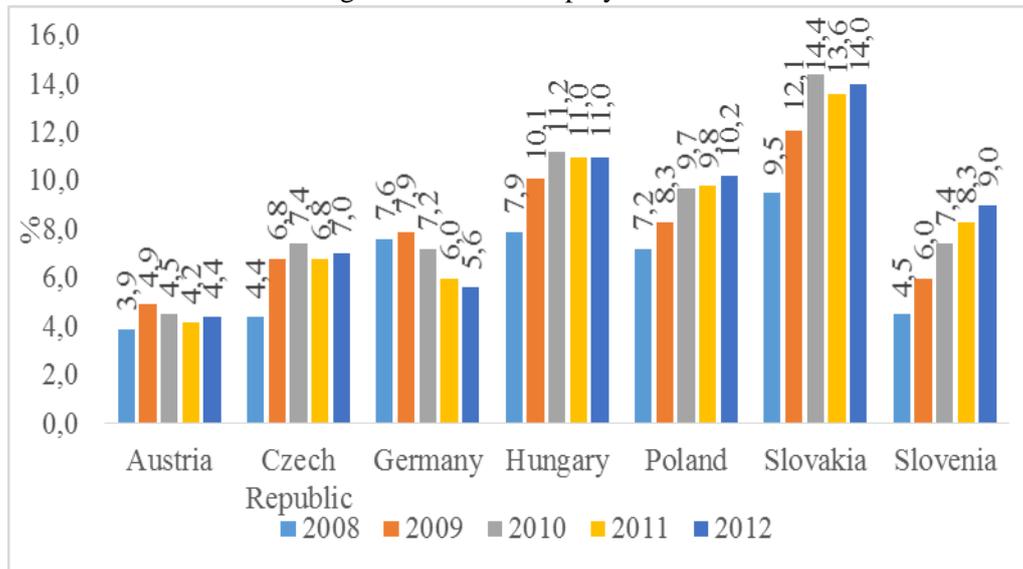


Source: Eurostat

The economic downturn had an impact on the labour market. The overall unemployment rate had already risen in all the countries in 2009. The largest increases in unemployment rates were recorded by Slovakia (+2.6 pp.) and the Czech Republic (+2.4 pp.). On the other hand, the smallest increase in the overall unemployment rate was recorded by Germany (+ 0.3 pp.). The overall unemployment rate continued to rise in 2010 in the Czech Republic, Hungary, Poland, Slovak and Slovenia. In Germany and Austria in contrast, the overall unemployment rate dropped in 2010. If we compare the value of the overall unemployment rate in 2008 (the year before the recession), and last year, 2012, we find that with the exception of Germany, all the countries had higher unemployment rates in 2012. Austria by 0.5 pp., the Czech Republic by 2.6 pp., Hungary by 3.1 pp., Poland by 3.0 pp., Slovakia by 4.5 pp. and Slovenia by 4.5 pp. Germany's total unemployment rate was lower by 2.0 pp. in 2012

in comparison with its value in 2008.

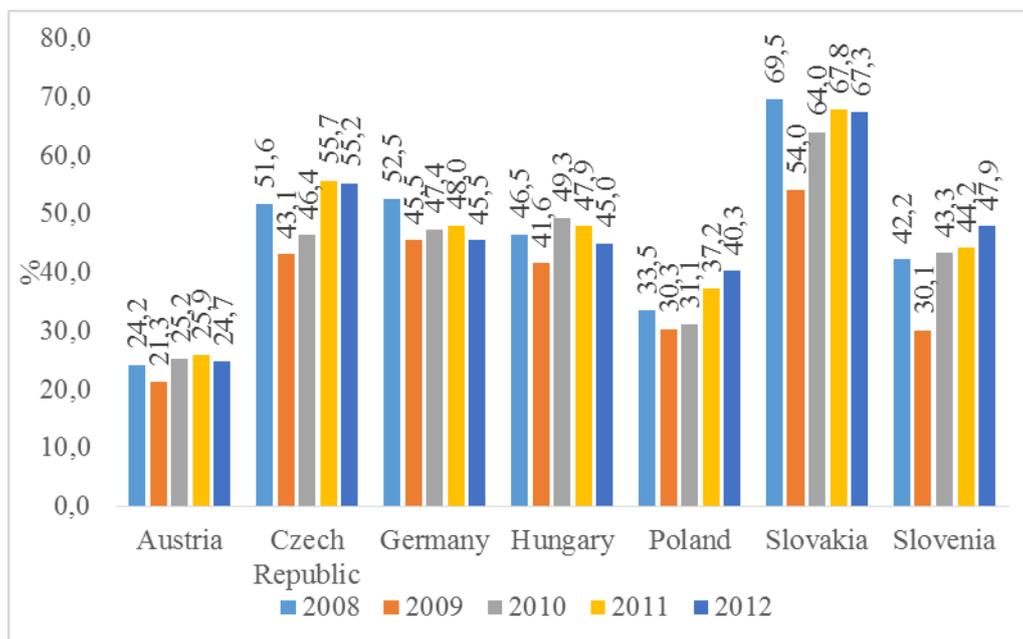
Figure 1: Total unemployment rate



Source: Eurostat

The economic recession initially led to the increase in the overall unemployment rate, but gradually long-term unemployment started to increase too. This essentially follows from the very definition of long-term unemployment, which assumes that the duration of unemployment lasts longer than one year. This article will be working with incidence of long-term unemployment, which measures the proportion of long-term unemployed in the total number of unemployed.

Figure 3: Long-term unemployment incidence

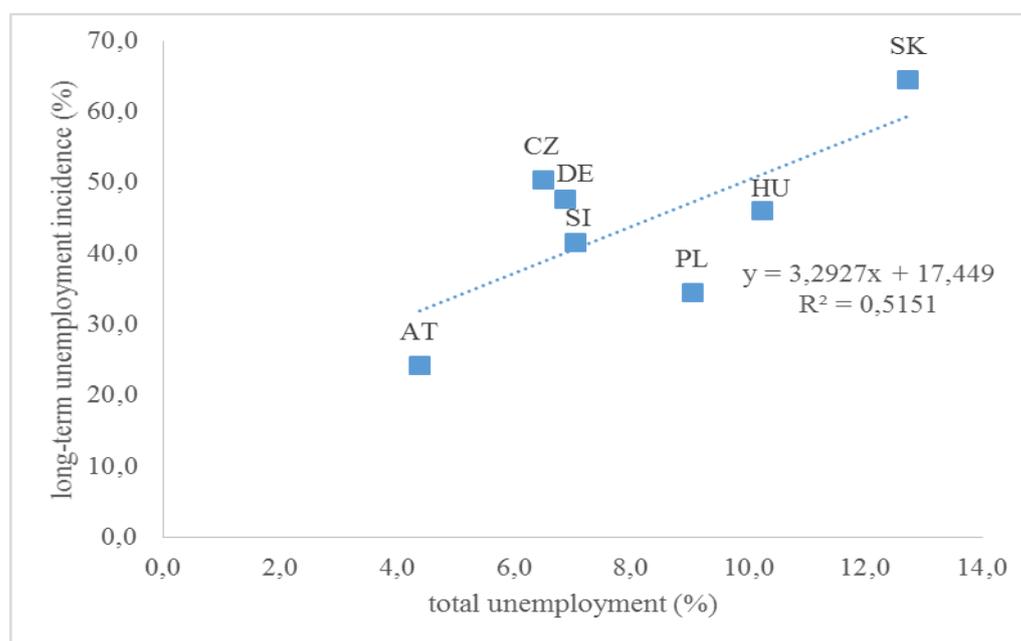


Source: Eurostat

The incidence of long-term unemployment ranged from 24.2% in Austria to 69.5% in the Slovak Republic in 2008. In the Czech Republic and Germany more than 50 person out of 100 unemployed were unemployed for more than one year in 2008. In

2009, the incidence of long-term unemployment has fallen in all surveyed countries. Total numbers of long-term unemployed has not decreased rather increased. There were a rapid growth of newly unemployed and this is the reason why the incidence of long-term unemployment has increased. The situation has change in 2010. The data from this year demonstrate the fact that some people who became unemployed in 2009 did not find a new job during the year and so they moved into the category of long-term unemployed. A similar trend continued in most countries in the coming years too. If we compare the value of the incidence of long-term unemployment in 2008 (the year before the recession), and last year, 2012, we find that Germany, Hungary and Slovakia had lower values in 2012 and Austria, the Czech Republic, Poland and Slovenia in 2008.

Figure 4: Relationship between total unemployment rate and long-term unemployment incidence



Source: Eurostat, own calculation

There are data about the total unemployment rate and the incidence of long-term unemployment in the selected countries in the Figure 4. Both quantities are average values for the period 2008 - 2012. From Figure 4 a generally valid statement about the relationship between the total unemployment rate and the incidence of long-term unemployment in total unemployment cannot be derived. It seems logical that countries with higher overall unemployment also has a higher incidence of long-term unemployment and vice versa. This simple rule does not apply. For example, the Czech Republic had a relatively low overall unemployment rate, but the incidence of long-term unemployment had relatively high. On the other hand, Poland had a relatively high overall unemployment rate, however, the incidence of long-term unemployment rate had rather low.

In addition to long-term unemployment as a whole, attention should be paid to the structure of long term unemployment too. What is important for example is a structure of long-term unemployment by age. Some age groups are affected by the occurrence of long-term unemployment more, some less. In this regard, we can consider three age groups. The first age group consists of young people aged from 15 to 24 years. In this age group a high incidence of long-term unemployment is high risk, because these young unemployed often never had a job. They do not create work habits, and some of

them even think that "no work is normal." Some of them often attended high school and so costs for the society as a whole are very high. These young people are frustrated by their situation and there is the danger of their radicalization. The second group are people aged from 25 to 49 years, i.e. people in the main working age. And the last group are the elderly, or persons aged from 50 to 64 years. These people are in the last period of their productive age. There is a risk of social exclusion and the associated risk of falling into poverty for these elderly people.

Table 1 contains data about how the long-term unemployed of a particular age group participate in the total number of the unemployed in this age group. Or in other words it is the incidence of long-term unemployment for each particular age group.

Table 1: Long-term unemployment by age

	2008	2009	2010	2011	2012
	15 - 24 years				
Czech Republic	31,2	19,8	31,7	29,2	33,4
Germany	29,3	27,3	26,9	23,9	23,3
Hungary	32,2	29,9	39,2	35,9	31,2
Austria	13,7	12,7	17,3	14,1	14,6
Poland	22,0	21,1	20,6	26,4	30,3
Slovenia	20,2	20,3	33,8	35,3	32,2
Slovakia	52,8	41,9	54,7	54,4	56,3
	25 - 49 years				
Czech Republic	51,1	31,3	43,7	41,7	45,1
Germany	51,2	44,2	46,2	47,3	43,3
Hungary	48,0	42,6	50,6	48,4	45,7
Austria	24,2	21,3	24,0	26,0	24,3
Poland	35,5	31,5	32,1	38,8	41,8
Slovenia	46,1	30,2	42,9	44,2	49,6
Slovakia	72,1	55,6	65,4	70,0	68,8
	50 - 64 years				
Czech Republic	58,7	36,2	42,1	47,4	48,3
Germany	69,1	59,5	61,2	62,7	61,2
Hungary	56,0	50,6	53,8	56,1	55,8
Austria	49,4	39,1	45,3	46,9	43,8
Poland	43,9	40,0	42,2	46,8	48,4
Slovenia	62,1	44,3	58,0	52,3	57,9
Slovakia	79,7	63,2	70,1	75,4	73,6

Source: Eurostat

The data in Table 1 shows that the highest incidence of long-term unemployment had the oldest group and lowest in the youngest group. The incidence of long-term

unemployment in all age groups has fallen in 2009. In subsequent years, however, the incidence of long-term unemployment has gradually increased in all age groups.

3. Conclusions

Central European countries were affected by the economic recession in 2009. The recovery in the following years was weak and in some countries GDP declined last year. This development had impacted the labour market. The overall unemployment rate increased significantly, and after a brief slump in 2009, the incidence of long-term unemployment has increased. The situation of the labour market in different countries show differences. We cannot say that the higher is overall unemployment rate, the higher is the incidence of long-term unemployment. Some age groups are affected by the occurrence of long-term unemployment more, some less. It can be said that the incidence of long-term unemployment increases with age.

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