

# Unemployment and spell duration during the Great Recession in the EU

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The current economic recession has had a tremendous impact on the economy of most developed countries. However, its consequences for the labor market are rather unequal depending on the country considered. While some countries are facing only a minor impact on their level of employment (e.g. France, Netherlands or Sweden) others are experiencing large increases in their unemployment rate. Indeed, the Baltic countries have experienced rapid increases in unemployment during 2008 and 2009 while countries such as Spain, Greece, and Ireland have experienced the largest increases in unemployment rates in the EU27 between the end of 2007 and the end of 2011.

Any unemployment spell is clearly associated with an individual loss of wellbeing due to its harmful effects on present and future earnings, and also on other non-monetary dimensions, such as, self-esteem, human relations and family life, cognitive abilities, mental health, etc. (e.g. Sen, 1997). It is generally accepted that the actual negative impact of unemployment can be very different depending on its duration, this is because long spells tend to harm wellbeing proportionally more than short spells and also because a long unemployment spell largely reduces the individual's probability of finding a job in the future (e.g. McGregor, 1978, Machin and Manning, 1999, Güell and Hu, 2006). However, the conventional statistics on unemployment do not adequately capture to what extent the recession is not only increasing the incidence of unemployment but also its severity in terms of duration in time for currently ongoing unemployment spells. Usually, this gap is only filled by the use of partial measures such as the share of long-term unemployment (12 months or more) on total unemployment or a measure of the average unemployment spell length.

The fact that the intensity (duration) of unemployment is considered in the analysis of this phenomenon also raises the question of to what extent the experience of unemployment is either concentrated in fewer individuals with longer spells, or instead, is more spread across a large group of people experiencing shorter spells. The traditional measures of other forms of lack of wellbeing, such as poverty or discrimination, suggest that the former, i.e. unemployment being long and concentrated in fewer individuals, is socially less desirable, assuming there is a social preference for equality. That is, in measuring the impact of unemployment on a society's wellbeing, the whole distribution of unemployment spells across the labor force should be considered as a base for constructing distribution-sensitive aggregate measures.

During the 1990s, a growing literature emerged proposing the use of aggregate unemployment measures incorporating the time dimension, but unfortunately these have seldom been used in empirical analysis so far (e.g. Paul, 1992, 2001, Riese and Brunner, 1998, Borooah, 2002, Sengupta, 2009, Shorrocks, 2009a,b)<sup>1</sup>. However, we claim that these measures can be helpful by providing more information for a better understanding of the nature of the massive increase in the unemployment rate in EU countries such as Spain, Greece, or Ireland in recent years (10-14 percentage points between 2007 and 2011). Indeed, there are clear signs of an increasing duration of unemployment spells during the crisis in a variety of countries within the European Union. For example, the long-term unemployment share increased, between the start of 2007 and the end of 2011, from 22 to 43 percent in Spain, from 34 to 52 percent in Lithuania, from 29 to 63 percent in Ireland, from 23 to 33 percent in the UK, and from 14 to 19 percent in Sweden.<sup>2</sup>

The aim of this paper is to provide comparative evidence on unemployment outcomes across a selected group of EU countries: Spain, Germany, Italy, UK, France, Greece, Portugal and Poland; before and after the start of the current global economic crisis, taking into account the duration of ongoing unemployment spells and their distribution across the population. These countries have been selected by their importance on overall employment in the European context and/or by their specific pattern in their unemployment performance. Based on European Labour Force Survey

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<sup>1</sup> The last three papers were written at the beginning of the 1990s, although they have remained unpublished until 2009.

<sup>2</sup> Long-term unemployment here refers to unemployed persons with a spell of at least 12 months, as defined by Eurostat in its webpage using the EU Labor Force Survey, quarterly data.

series quarterly results reported by Eurostat we measure unemployment using a duration-sensitive index proposed by Shorrocks (2009b) that uses the information on the time that each unemployed individual has spent in that situation. This index allows us to integrate within the same indicator not only unemployment incidence, as it is usually considered in a measure of unemployment, but also its intensity (mean duration) and the complete duration profiles that indicate the degree of inequality of the unemployment experiences among the population. The results will provide us with a more complete picture of both the heterogeneous pre-crisis situation and the asymmetric impact of the global economic crisis on unemployment across the EU.

This paper is organized as follows. In the first section we detail the methodology that allows us to incorporate time in the measurement of unemployment presenting the characteristics and properties of the indicators used. In the second section we describe the data source and present the empirical results obtained for these indexes describing the profile of unemployment duration before and after the crisis for the selection of EU countries considered. Finally the last section of the paper resumes the main conclusions.