

## KILM 10. Long-term unemployment

### Introduction

The indicator on long-term unemployment looks at duration of unemployment, that is, the length of time that an unemployed person has been without work and looking for a job. The indicator, shown in table 10, includes two separate measures of long-duration unemployment: (a) the long-term unemployment rate – those unemployed one year or longer as a percentage of the labour force; and (b) the incidence of long-term unemployment – those unemployed for one year or longer as a proportion of total unemployed. Both measures are given for a total of 55 countries, with all but two of them having data for men and women separately. Unfortunately, there is limited regional coverage for this indicator; countries covered are almost exclusively in the developed economies and European Union region with limited coverage in Central and Eastern Europe, Central America and the Caribbean.

### Use of the indicator

While short periods of joblessness are of less concern, especially when unemployed persons are covered by unemployment insurance schemes or similar forms of support, prolonged periods of unemployment bring with them many undesirable effects, particularly loss of income and diminishing employability of the jobseeker. Moreover, short-term unemployment may even be viewed as desirable when it allows time for jobless persons to find optimal employment; also, in employment systems where workers can be temporarily laid off and then called back, short spells of unemployment allow employers to weather temporary declines in business activity.

Reducing the duration of periods of unemployment is a key element in many strategies to reduce overall unemployment. Long-duration unemployment is undesirable, especially in circumstances where unemployment results from difficulties in matching supply and demand because of demand deficiency. The longer a person is unemployed, the lower his or her chance of finding a job. Drawing income support for the period of unemployment certainly diminishes economic hardship, but financial support does not last indefinitely. In any case, unemployment insurance coverage is often insufficient and not available to every unemployed person; the most likely non-recipients are persons entering or re-entering the labour market. Eligibility criteria and the extent of coverage, as well as the very existence of insurance, vary widely across countries.<sup>1</sup>

Research has shown that the duration of unemployment varies with the length of time that income support can be drawn. This occurs largely because jobless persons with long-duration unemployment benefits are able to extend their periods of joblessness in order to find the job most consistent with their skills and financial needs. It might also indicate simply that unemployment is caused by a long-term deficiency in the supply of jobs. Evidence of the

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1. The United States Social Security Administration's Office of Research, Evaluation and Statistics publishes a useful report that details social security coverage by country: SSA: *Social Security Programs Throughout the World*; available by country on website: <http://www.ssa.gov/policy/docs/progdsc/ssptw/index.html>. Users should also refer to N. Meager and C. Evans: "The evaluation of active labour market measures for the long-term unemployed", Employment and Training Papers, No. 16 (Geneva, ILO, 1998); website: <http://www.ilo.org/public/english/employment/strat/publ/etp16.htm>.

effect of “generosity” – that is, a high level of income supplement benefits – on the duration of unemployment periods is less clear.

Before drawing conclusions about the effects of features of the benefit system on unemployment duration, it is necessary to analyse the qualifying and eligibility conditions as well as the extent of nominal and real income replacement. Nevertheless, experts and policy-makers agree that long-term unemployment merits special attention and even, at times, political action. There are concerns that unemployment statistics fail to record significant numbers of people who want to work but are excluded from the standard definition of unemployment because of the requirement that an active job search be undertaken in the reference period. Alternatively, one may wish to apply a broader statistical concept known as “long-term joblessness”, covering working-age persons not in employment and who have not worked within the past one or two years. This measure of the long-term jobless includes “discouraged workers”, that is, persons who are unemployed but not seeking work because they believe no work is available to them. If long-term joblessness is high then unemployment, as strictly defined, is less reliable as an indicator to monitor effective labour supply, and macroeconomic adjustment mechanisms may not bring unemployment down.

Long-term unemployment is clearly related to the personal characteristics of the unemployed, and often affects older or unskilled workers, and those who have lost their jobs through redundancy. High ratios of long-term unemployment, therefore, indicate serious unemployment problems for certain groups in the labour market and often a poor record of employment creation. Conversely, a high proportion of short-term unemployed indicates a high job creation rate and more turnover and mobility in the labour market. Such generalizations must be made with great care, however, as there are many factors, including the issue of unemployment benefit programmes cited above, that can influence the relationship

between long-term unemployment and the relative health of a given country. Indeed, in the absence of some sort of compensatory income (or a limited period of support), unemployed workers may be obliged to lower their expectations and take whatever job is available, thereby shortening their period of unemployment.

### Definitions and sources

The standard definition of long-term unemployment is all unemployed persons with continuous periods of unemployment extending for a year or longer (52 weeks and over); it is expressed as a percentage of the overall labour force (long-term unemployment rate) or of total unemployment (incidence of long-term unemployment). For more details on the international definition of unemployment, users should refer to the corresponding section in KILM 8.

Data on long-term unemployment are often collected in household labour force surveys and are typically obtained by sex. Some countries obtain the data from administrative records, such as those of employment exchanges or unemployment insurance schemes. In the latter instances, data are less likely to be available by sex; moreover, since many insurance schemes are limited in their coverage, administrative data are likely to yield different distributions of unemployment duration. In addition, the use of administrative data reduces, and may even totally preclude, the likelihood that ratios can be calculated using a statistically consistent labour force base. Therefore, all the data for this indicator come from labour force surveys, alternative sources having been eliminated as likely to cause inconsistency across the countries for which data are provided.<sup>2</sup>

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2. Additional documentation regarding national practices in the collection of statistics is provided in ILO: *Sources and Methods: Labour Statistics*, Vol. 3: *Economically Active Population, Employment, Unemployment and Hours of Work (Household*

Because the data relate to the period of unemployment experienced by persons who are still unemployed they necessarily reflect persons in a “continuing spell of unemployment”. Researchers are often interested in measuring the length of “completed spells of unemployment” as well.<sup>3</sup> Unfortunately, direct data are rarely, if ever, available on this important measure, which would require continuous tracking of the labour force week by week, as well as following the same persons continuously over time (although estimations have been made in some countries with a fair degree of success). This cannot be done in typical labour force surveys, which essentially measure “stocks”, and administrative records of employment exchange registrants lose track of people once they are no longer reporting. However, countries with longitudinal labour force surveys are able to estimate the duration of completed spells. The results of one analysis of longitudinal data for European countries in the OECD Employment Outlook of 2002<sup>4</sup> may be of interest in this regard

### Limitations to comparability

Because all the data presented in table 10 come from labour force surveys, fewer caveats need to accompany cross-country comparisons. Nevertheless, while data from household labour force surveys make international comparisons easier, as data from a variety of sources, they are not perfect. Questionnaire design, survey timing, differences in the age groups covered and other issues affecting comparability (see the discussion under KILM 8) mean that care is

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*Surveys*). The *Sources and Methods* are available online at the country level on website: <http://laborsta.ilo.org>.

3. For an analysis of the issue of measuring completed spells of unemployment, see W. Karr: “Conceptual problems in the understatement of long-term unemployment”, Labour Market Research Topics, No. 21 (Nuremberg, Institute for Employment Research, 1997).

4. OECD: *OECD Employment Outlook* (Paris), 2002, Chapter 4.

required in interpreting cross-country differences in levels of unemployment. Also, as mentioned above, users will want to know something about the nature of unemployment insurance coverage in countries of interest to them, as substantial differences in such coverage – especially the lack of it altogether – can have a profound effect on differences in long-term unemployment.

It should also be acknowledged that the length of time that a person has been unemployed is, in general, more difficult to measure than many other statistics, particularly when the data are derived from labour force surveys. When unemployed persons are interviewed, their ability to recall with any degree of precision the length of time that they have been jobless diminishes significantly as the period of joblessness extends. Thus, as it nears a full year, it is quite easy to say “one year”, when in reality the respondent may have been unemployed between 10 and 14 months. If the household respondent is a proxy for the unemployed person, the specific knowledge and the ability to recall are reduced even further. Moreover, as the jobless period lengthens, not only is the likelihood of accurate recall reduced, but the jobless period is more likely to have been interrupted by limited periods of work (or of stopping searching), but either this is forgotten over time or the unemployed person may not consider that work period as relevant to his or her “real” unemployment problem (which is undoubtedly consistent with society’s view as well).

All things considered, then, it must be clearly understood that data on the duration of unemployment are more likely to be unreliable than most other statistics in the labour market field. However, this problem ought not to diminish the importance of this indicator for individual countries. The fact remains that the indicator covers a group of individuals with serious difficulties in the labour market. Whether the period of joblessness is one year and longer or ten months and longer, the group

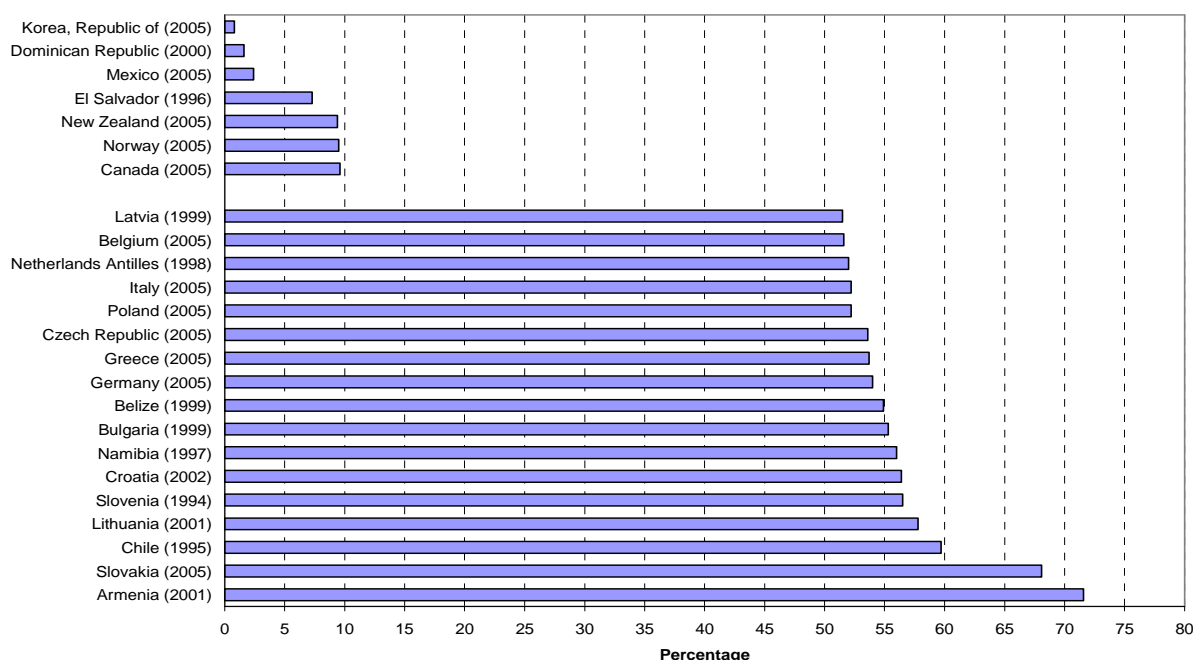
taken as a whole is markedly afflicted by an undesirable, unwanted status.

**Trends**

Almost one-third of the countries with available data show incidences of long-term

unemployment (long-term unemployment as a proportion of total unemployment) in excess of 50 per cent (see figure 10a). Six of these countries are recent members of the European Union and have been exhibiting an upward trend in recent years. Armenia had the highest incidence with 71.6 per cent in 2001, followed by Slovakia with 68.1 per cent in 2005. At the

**Figure 10a. Countries with incidence of long-term unemployment of 10 per cent or less or 50 per cent and over, latest years**



other end of the range, seven countries have an incidence of long-term unemployment below 10 per cent – Canada, the Dominican Republic, El Salvador, Mexico, New Zealand, Norway and the Republic of Korea.

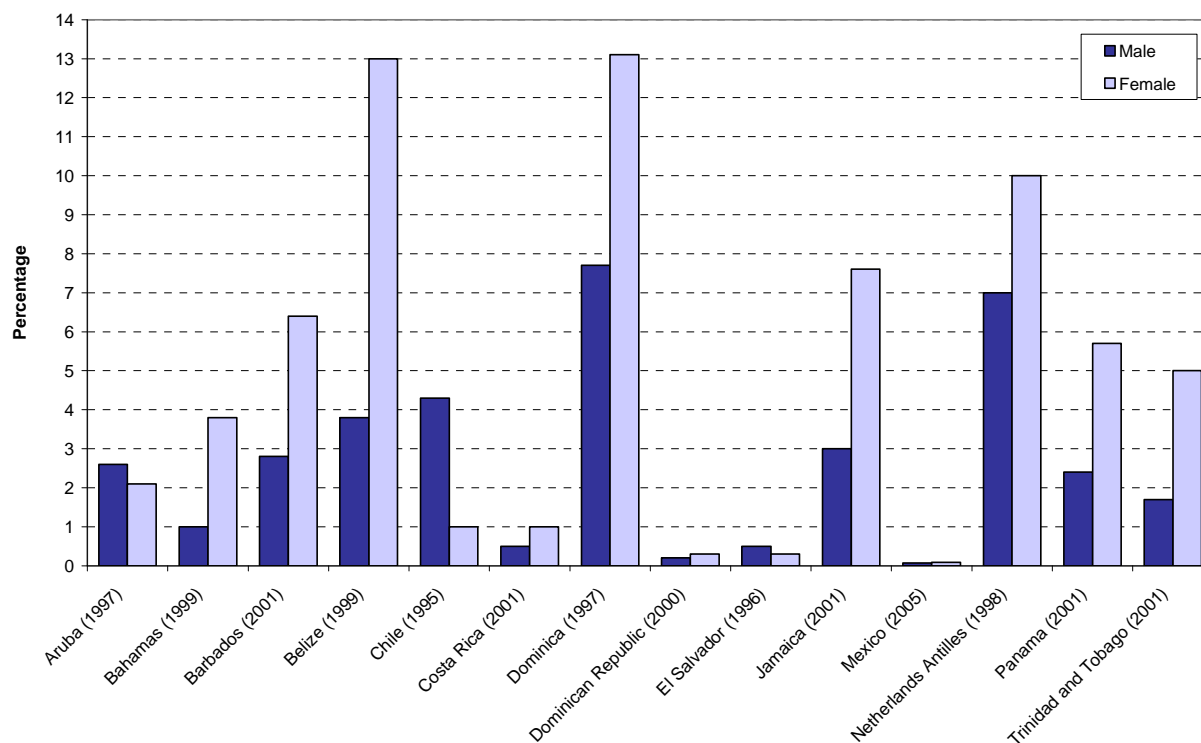
Do unemployment benefit programmes at the country level explain incidences of long-term unemployment? Yes and no. The Republic of Korea, for example, which has the lowest incidence at 0.8 per cent, has limited unemployment benefits that last for a period of only three months so that Koreans cannot afford to be unemployed over a long period<sup>5</sup>. On

the other hand, benefits in Norway can last up to two years, and are thus quite generous in comparison, but the country still has a low incidence of long-term unemployment at 9.5 per cent. This indicates that the existence or lack of social safety nets alone does not suffice as an explanatory determinant. Other factors to consider include the practice of active labour market policies that aim to retrain and find placement for long-term jobseekers, business cycles, levels of development and labour demand.

5. SSA: *Social Security Programs Throughout the World*; available by country on website:

<http://www.ssa.gov/policy/docs/progdsc/ssptw/index.html>.

**Figure 10b. Long-term unemployment rates by sex, selected countries in Latin America & the Caribbean, latest years**



Women tend to have higher unemployment rates than men, as reflected in KILM 8, and the same can be said for long-term unemployment rates. In more than half of the countries with data, long-term unemployment rates are higher for females than males. This situation is most prominent in Latin America & the Caribbean where the long-term unemployment rates for women are more than triple that of men in the Bahamas and Belize, for example. In this region, males fare much worse in only one country – Chile (4.3 per cent for males versus 1.0 per cent for females). (See figure 10b). Other countries with noticeable differences among the genders in long-term unemployment rates include Greece, Italy and Spain.

Due to limited data coverage, time trends can only be analysed for developed economies. In the European Union, long-term unemployment rates have been on the decline over the past decade for most of the member countries. Long-term rates decreased most significantly from 1995 to 2005 – by at least 3.0 percentage points – in Finland, Ireland, Italy and Spain. In contrast, there were noticeable increases of the same magnitude over the period in the Czech Republic, Lithuania, Poland and Slovakia – all new member countries of the European Union. Figure 10c displays selected countries in the European Union where there have been significant changes over the period 1995 to 2005. In the remaining developed economies for which data are available, changes over the past decade were usually minimal.

**Figure 10c. Long-term unemployment rates, selected countries in the European Union, 1995-2005**

