Programme « Society & Future »

Final report – "Description of the Research Project"[1]

RESEARCH CONTRACT: TA/00/11

PROJECT ACRONYM: **SUIVICHO**

TITEL: EVALUATION OF THE ACTIVATION OF JOB-SEEKING BEHAVIOUR

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DATE: 08/04/2011

The purpose of this summary is to disseminate the research findings via the internet. The network coordinator has forwarded it to the programme administrator, for approval, in three languages: French, Dutch and English.

[1] Art. 5.5.2 of the research contract.

Liens vers les sites Internet où les travaux de l'équipe dans le cadre du projet sont mentionnés :

- http://sites-final.uclouvain.be/econ/Regards/Archives/RE085.pdf
- http://sites-final.uclouvain.be/econ/Regards/Archives/RE085-NL.pdf
- http://www.uclouvain.be/en-356120.html
- http://www.uclouvain.be/en-311627.html
- http://econpapers.repec.org/paper/ctllouvir/2010041.htm

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1. Objectives

This research studied the impact of an important reform in Belgium that introduced for the first time job-search requirements into the national Unemployment Insurance (UI) scheme. Since July 2004, the job-search efforts of long-term unemployed benefit claimants are monitored and sanctions are applied if these efforts are insufficient. Recent micro-economic evaluations in other countries conclude that this type of policy might be very effective in stimulating the return to employment of participants. Such a conclusion is important if account is taken of the rather weak effects of most evaluated active policy measures for unemployed workers. This research aims at verifying whether these positive conclusions likewise apply in Belgium.

The **main objectives** of this research project are the following. *First*, we need to check whether and to what extent this new monitoring scheme causes an increase in exit rates towards employment (and other destinations such as training as well) of those who were notified of the monitoring procedure. *Second*, if more unemployed people get a job thanks to this scheme, we want to verify to what extent the accepted jobs have worse characteristics (in particular, a lower level of earnings) compared to what would have happened in the absence of the scheme. To that purpose, we conduct two micro-econometric evaluation studies using two different methodological approaches.

In the first step of our evaluation, we focus on the impact of the notification letter announcing the monitoring interviews. To our knowledge, the threat of monitoring of job-search (namely, the interview with a caseworker) has not yet been studied. In this first step, we use a reduced form quasi-experimental approach. We exploit the discontinuity in the treatment assignment at the age of 30 in the first year of the reform to evaluate the effect of the written notification sent to benefit claimants at least 8 months before job-search is verified. We therefore focus on the "threat effect" of monitoring which may induce the benefit claimants to change their (job-search) behaviour before the monitoring takes place. This evaluation is the subject of Part 5 of our research project.

The duration between the notification and the third monitoring interview is at least sixteen months. The discontinuity approach cannot be used to evaluate stages of the job-search monitoring scheme others than the notification, because the control group (unemployed workers somewhat older than 30) starts undergoing the treatment as of July 1, 2005.

In the second step of our evaluation, we therefore develop a structural model that describes the job-search behaviour of unemployed workers after the 2004 reform in Belgium and integrates all aforementioned phases of the monitoring scheme. This structural evaluation approach is the subject of Part 6 of our research project. As we cannot make use of any comparison group, we have opted for building a model of job-search that takes the main features of the Belgian monitoring scheme into account. The advantage of a structural approach is not only to allow an evaluation of all the stages of the monitoring scheme but also to inform us on the reasons why the reform works or does not work: Is it the job-search intensity, the reservation wage or both

that are affected?

The first and second evaluation approaches are based on rich individual-level administrative data that are described in Part 2 of our research project. They are made of insured unemployed aged between 25 and 29 years on July 1, 2004, the treated sample, and of insured unemployed aged between 30 and 35 years on July 1, 2004, the control sample. These data do not only allow to focus on the impact of the new monitoring scheme on the job finding rate, but also on the quality of employment in terms of its starting wage and duration, and on exits to training and out of the labour force, including sickness benefits.

The 2004 reform did not only concern monitoring of job-search. The supply of the services provided by the regional PES was significantly enhanced in all three regions of the country. In Part 3 of our research project, we provide a descriptive analysis of the regional actions undertaken by our treated and control samples. This description is a useful step before implementing the first and second evaluation approaches. In the quasi-experimental approach we need to know, for the sake of interpretation, whether there is any other sources of discontinuity at the age of 30 apart the one induced by the new monitoring scheme. In Wallonia and Brussels, the unemployed who were notified of the monitoring procedure in 2004 (i.e. those aged less than 30 years old) participated to counselling interviews within two months after dispatch of the notification. This means that we identify in this region the combined effect of (threat of) monitoring and counselling. By contrast, in Flanders, the notified group is not systematically counselled, so that we identify in this region the pure threat effect induced by monitoring. This regional difference has also an implication on the structural approach. We estimate the structural job-search model on the sample of UI recipients living in Flanders only since in the other regions, the monitoring scheme was introduced in combination with regional actions targeted on those notified. So, to evaluate the pure effect of the monitoring interviews, one has to focus on the Flemish region only.

In the structural evaluation approach, we need to model the way the outcome of the monitoring interview depends on past job-search effort. In order to get some insights on this dependence, we analyse in Part 4 the determinants of a positive evaluation at the first monitoring interview for the benefit claimants aged between 25 and 29 years old.

The estimates of the reduced-form and structural model indicate that the new monitoring scheme has an important positive effect on the job finding rate on the young benefit claimants targeted by the scheme in 2004. Even if we cannot extrapolate this result to the other age groups concerned by the monitoring procedure in the following years, there is an interest to investigate whether this positive microeconomic effect translates into a positive effect on the aggregate number of insured unemployed in Belgium. The question we therefore address in Part 1 of our research project is the following: Can we attribute any part of the decline in the aggregate number of insured unemployed since July 2004 to the monitoring scheme?

Our research project therefore consists of seven parts:

Part 1. Macro-econometric analysis of the new monitoring scheme
Part 2. Description of the individual data
Part 3. Descriptive analysis of the participation in the regional schemes
Part 4. Determinants of a positive evaluation at the first monitoring interview
Part 5. Micro-econometric evaluation: A reduced-form approach
Part 6. Micro-econometric evaluation: A structural approach
Part 7. Summary of the results and policy recommendations

Below, we describe each part of our research project in turn, focusing on the specific objectives, the methodology used, the results obtained, the innovative character of the research and the

contribution to the corpus of knowledge in the field. Lessons for decision-making and policy recommendations are the subject of Part 7 and are therefore not dealt with in the other parts of the research.

2. Description of the seven parts of the research project

Part 1. Macro-econometric analysis of the new monitoring scheme

This part of the our research project focuses on a macro-econometric analysis of the possible link between the evolution of the total number of unemployed receiving UB in Belgium and the introduction of the new monitoring scheme in 2004. We investigate if the observed decrease in that number since 2004 (- 23% for those aged less than 50) is mainly attributable to the general economic conditions, or if the introduction of the monitoring scheme has played any major role.

The objective of this analysis is to address an important limit of the evaluation approach of the monitoring scheme used by the Belgian National Employment Office ("ONEm-RVA", in charge of the monitoring procedure) and taken up by the Belgian Minister of Employment. Without using any empirical analysis, they relate the strong decrease in the number of registered unemployed observed between 2004 and 2008 to the introduction of the new monitoring scheme. They merely come to this conclusion by noting that the economic conditions were bad at the time of the launch of the monitoring procedure. However, this approach neglects the dynamic relationship between the overall economic and the labour market outcomes. The several months of favourable economic conditions preceding July 2004 and the strong economic revival in the period 2005-2008 could actually explain the observed downward movement in the number of unemployed workers since 2004.

To verify this, we take the following approach. We first estimate, by age group, the relationship between unemployment and the overall economic conditions before the introduction of the new monitoring scheme (up to July 2004 for those aged < 30, up to July 2005 for those aged 30-39 and up to July 2006 for those aged 40-49). We then use the estimated parameters and the indicator used to represent the overall economic conditions to make forecasts of the number of unemployed over the period after the new scheme. Any significant (at the 95% confidence level) difference between this forecast and the observed series may be due to the new monitoring scheme, unless other major schemes have been introduced simultaneously.

We exploit aggregate monthly data on the number of benefit claimants by age group (< 30, 30-39 and 40-49 years old) from January 1998 until December 2008. The indicator used to represent the overall economic conditions is the Overall Synthetic Curve published monthly by the National Bank of Belgium. We have also tried additional or alternative indicators to test the robustness of the results. These include temporary unemployment, GDP and the Economic Sentiment Indicator for Belgium's neighbouring countries.

To model the relationship between the aggregate number of unemployed workers and the business cycle, we begin on the premise that unemployment is expected to decrease when the economy is doing well and increase otherwise. This relation, when considered through time, must be dynamic, as it is known that employment adjustment costs impede the adjustment of the labour force. Therefore, (un)employment levels do not adjust immediately to changes in the economic conditions, but with delays. Since the data are monthly, our estimated model is therefore defined as a dynamic model with at least 12 lags in the business cycle indicator. We also allow the number of unemployed workers to depend on its past values up to 12 lags. Finally, we introduce in the model a set of monthly seasonal dummies and a trend. Before performing the forecasting exercise, we check and establish the existence of a long term relationship between the total number of

unemployed workers and the explanatory variables.

Our results show that no matter which age group we take or which set of business cycle indicators we retain, the observed downward movement in the number of unemployed workers over the period between July 2004 and December 2008 can be largely explained by the favourable overall economic conditions which prevailed in the year before the introduction of the new monitoring scheme and were reinforced from 2005. On the basis of these results, there is no statistical evidence that the new monitoring scheme has had any significant downward effect on the level of unemployment in Belgium.

It is important to note however that this macro-econometric analysis cannot be interpreted as an evaluation of the monitoring scheme. Firstly, in the period following 2004, other policy measures have been introduced which could have produced varying effects on the unemployment levels. Secondly, as it has been reported in the general introduction of our research report, at each point in time, only a small fraction of the total number of unemployed workers participate in a particular stage of the monitoring procedure. For example, in 2009, taking all age groups below 50, each month only 2.5% of the total number of unemployed workers received a notification announcing the monitoring interviews. Even though the monitoring policy may have a substantial effect on their job finding rate (cf. part 5 and 6 of our research project), given the small number of unemployed concerned and the spreading of the monitoring scheme over many months, it is not surprising that we cannot really depict any beneficial effects at the macro level.

Part 2. Description of the individual data

In the Part 3, 4, 5 and 6 of our research project, we exploit individual-level administrative data from several sources: (i) the federal UI agency for monthly information on UB claims, the new monitoring procedure and the return to regular education; (ii) the regional PES for participation in training and job-search assistance programmes provided to the unemployed; (iii) the Crossroads Bank for Social Security which matches the aforementioned information to records of all federal Social Security institutions. These matched data allowed us to construct monthly indicators of employment (including self-employment) and starting wage for salaried employment, training, sickness insurance claims and a residual state (i.e. neither being employed or UI claimant). These monthly indicators are available for all sampled individuals from January 2001 until the end of 2006. In this part of our research project, we describe in many details the way we construct them as well as the selection procedure and the explanatory variables retained in the different empirical analyses of our research project.

Part 3. Descriptive analysis of the participation in the regional schemes

In this part of our research project, we provide a descriptive analysis of the regional actions (counselling, job-search assistance, intermediation services and training) undertaken by our samples of treated (insured unemployed aged between 25 and 29 years on July 1, 2004) and controls (insured unemployed aged between 30 and 35 years on July 1, 2004). We distinguish two sub-periods: (i) the twelve months before the introduction of the new monitoring scheme in July 2004 and (ii) the following months up to December 2006.

Part 4. Determinants of a positive evaluation at the first monitoring interview

In this part of the research we aim at studying the determinants of the outcome at the first monitoring interview, in which the undertaken search actions of the past year are evaluated. If search effort at this first interview is deemed insufficient, i.e. the outcome/evaluation is negative, an action plan is drawn up and a new interview is planned four months later. If search effort is deemed sufficient, i.e. the outcome/evaluation is positive, a new sequence of interviews is scheduled 12 months later.

The notification letter sent to long-term unemployed benefit claimants and announcing monitoring interviews provides examples of search methods and it is clearly stated that the unemployed worker should collect written proofs of the undertaken search actions (copies of letters of application, registration in temporary help agencies, proofs of participation in selection procedures, etc.). Job-search effort is therefore mainly evaluated on the basis of these proofs. Regulations do not specify, however, a minimum number of employer contacts to submit. Consequently, caseworkers have quite some discretion in the evaluation process. In the evaluation of job-search effort caseworkers are however required to take into account that personal and local attributes such as having a low diploma or living in high unemployment districts, make it more difficult to find job offers. For a given number of proofs, having these attributes should induce a lower risk of a negative evaluation. But again regulations do not specify how the evaluation of job-search effort should account for particular personal or local attributes.

Unfortunately, we have no information on which formal proofs of search efforts are delivered by the unemployed worker at the first monitoring interview. Nevertheless, we know whether the monitored individual had, in the previous 12 months, an employment experience, whether she had any contact with the regional Public Employment Services (PES) and whether she participates in any job-search assistance or training scheme. These can be considered as implicit indicators of job-search efforts. As for formal proofs of search, we have to rely on indirect indicators which should approximate as most as possible the number and the quality of the formal proofs delivered by the unemployed worker at the first monitoring interview. The retained indicators are gender, education level, nationality, the presence of children and the local unemployment rate. For example, we can assume that being foreign makes things slightly worse to understand the monitoring procedure and to receive particular job offers due to cultural and language barriers. Hence, foreign job seekers are likely to deliver less formal proofs of search efforts than Belgians at the monitoring interview.

However, we face an identification problem: the implicit indicators that we use to approximate formal proofs are also the ones used by caseworkers in their evaluation to offset a possible lack of formal proofs. For instance, being foreign might be considered by caseworkers to be a reason for not being able to provide sufficient formal proofs of search efforts, due to discrimination or language barriers. In the empirical analysis, we can therefore expect a zero effect of the implicit indicators on the probability to have a positive evaluation at the first interview. For the lack of formal proofs implied by a personal or local attributes (being foreign or living in high unemployment districts) should be offset by less requirements from the caseworkers for the groups of workers having these attributes.

To study the determinants of the outcome of an interview at the first monitoring interview, we model the probability of obtaining a positive evaluation at this interview using a linear probability model. The explanatory variables are the following: gender, nationality, education level, presence of children, recent contact with the regional PES (collective/individual meeting, training, etc.), recent participation in job-search assistance, recent employment experience, number of days in employment (for those with a recent employment experience), recent experience of sickness and local unemployment rate registered at the month of the monitoring interview. The effect of each of these independent variables is allowed to depend on the region of living (Brussels, Flanders and Wallonia). For the unemployed workers living in Flanders and Wallonia, we also account for fixed effects by unemployment offices in which the monitoring interview takes place.

According to the estimation results, other (observed) characteristics being equal, there are no major differences in the probability of obtaining a positive evaluation at the first monitoring interview across the different unemployment offices inside a same region. A job seeker can therefore expect to be evaluated in the same way in her region of living, independently in which unemployment office she is enrolled. However, for a worker with the same (observed) characteristics, the

probability that search effort is deemed sufficient is somewhat higher in Wallonia than in Flanders and Brussels.

As expected most of the explanatory variables (nationality, presence of children, recent sickness and local unemployment rate) have an effect close to zero on the probability of obtaining a positive evaluation, except for the level of education. Other things being equal, the probability of having a positive evaluation is lower for workers with a lower diploma. This seems to reveal that the lack of formal proofs they are able to deliver is not (completely) offset by less requirements from the caseworkers for this group of workers.

Finally, most of the explanatory variables have the same effect in the three regions of Belgium. The most notable of the exceptions relates to the effect on past employment on the probability that search effort is deemed sufficient by the caseworker. A given employment experience has indeed more effect on the probability of having a positive evaluation in Brussels and Wallonia, where there is a structural lack of jobs, than in Flanders.

Part 5. Micro-econometric evaluation: A reduced-form approach

In this part of the research, we investigate whether the notification sent to long-term unemployed benefit claimants and announcing monitoring interviews had any impact on the job finding rate, on the quality of employment, and on the rate of training and labour force withdrawal. More precisely, we investigate whether the notification letter has any effect before the occurrence of the first meeting. The analysis was performed separately in the three regions of Belgium. In Wallonia and Brussels the regional PES systematically starts counselling the unemployed two months after notification. In Flanders counselling activities are not targeted at the notified benefit claimants and a pure threat effect of monitoring is therefore measured.

Focusing on this "threat effect" is relevant since a monitoring scheme already affects job-search behaviour before the occurrence of the first monitoring interview provided that the unemployed anticipate the consequences of this interview. Consequently, if one neglects this effect, the impact of such a scheme may be underestimated. Moreover, if threat effects are important, this also has consequences for the design of the monitoring scheme. For it suggests that one can save on caseworker personnel costs by not starting with monitoring interviews immediately after the intake in unemployment, but later on, so that there is time for the threat effect to realize.

A discontinuity design (DD), resulting from the gradual phasing in of the new monitoring scheme by age group, identifies the threat effects of monitoring under weak assumptions. Between July 2004 and June 2005 the job-search requirements were only imposed on benefit claimants younger than 30 years on July 1, 2004. In the following years the older age groups were gradually integrated. This study exploits the discontinuity in the treatment assignment at the age of 30. Since the discontinuity disappears after a year, we can only identify the threat effects of monitoring and not the ex post effects of the monitoring interviews.

The DD inference is slightly complicated by the measurement of age in monthly intervals. By this grouping of the forcing variable no data are available in a close neighbourhood around the discontinuity, which makes non-parametric estimation of the treatment effect infeasible. The chosen functional form for the relationship between the outcome of interest and age is thus subject to a specification error. Lee and Card ("Regression Discontinuity Inference with Specification Error", *Journal of Econometrics*, 142, 655-674) provide a solution to this problem for the case of a discrete forcing variable. In this research we adjust this solution for a grouped continuous forcing variable, such as age, and discuss the interest of such an adjustment. In addition, we propose a goodness-of-fit test for the chosen functional form that explicitly takes the aforementioned specification error into account.

Eight months after the notification the transition rate to employment was roughly 10 and 6 percentage points higher, respectively in Flanders and Wallonia. This corresponds to a proportional increase of 28% and 22%. The important effect of the pure notification in Flanders could be related to the fact that the scheme was unprecedented, so that the notified unemployed may have encountered difficulties in forming expectations about how strict the evaluation of job-search effort would be. Since the scheme is characterized by relatively tough sanctions in case of non-compliance, they may have overreacted as a consequence to this uncertainty. The magnitude of this effect did therefore not necessarily remain at this high level once the monitoring scheme was operating at cruising speed. In view of the much less favourable labour market conditions in Wallonia than in Flanders, it is less likely that the enhanced job-search induced by the threat of monitoring materialized in a higher job finding rate in Wallonia. The gradual increase in the job finding rate in Wallonia is rather in line with the gradual effectiveness of the specific counselling that was targeted on the notified group in this region.

Consistent with theoretical predictions, in Flanders the threat of monitoring predominantly enhances transitions to employment of lower quality, both in terms of the wage level and the duration of the employment relationship. We cannot determine, however, whether or not these jobs would have been of lower quality if they were generated by another mechanism than the threat of monitoring. In Wallonia the transition to high wage employment is as important as to low wage employment. This is consistent with the expectation that the specific counselling positively affects the quality of the job match. On the other hand, in Wallonia only the transition to relatively short employment experiences increases. A possible explanation is that workers are locked into training programs and transit to more long lasting employment afterwards, beyond the observation period. The transition in training was indeed found to increase dramatically in Wallonia and much more than in Flanders.

In both regions the reform stimulates more the re-employment of men than of women. In Flanders we did not detect any significant heterogeneity in other dimensions. In Wallonia the effect is higher for more employable workers (higher educated, living in a district with lower unemployment), while it is lower for those with a recent employment experience, most likely because these workers can more easily prove that they have searched and continue searching for jobs. Finally, the threat of monitoring did not affect the transition out of the labour force: the higher transition in Wallonia of women to sickness insurance can be explained by a regularization implemented at the occasion of the specific counselling organized in Wallonia for the group notified of the new monitoring procedure.

A discussion paper presenting this research has been written. It is entitled "The Threat of Monitoring Job-search. A Discontinuity Design" and is available as an IRES discussion paper (n° 2010041), an IZA discussion paper (n° 5337) and a CESifo discussion paper (n° 3267). It has since then been submitted to an academic journal.

Part 6. Microeconometric evaluation: A structural approach

This part of the research aims at evaluating all stages of the monitoring scheme with a particular interest for the monitoring interviews in which job-search effort is evaluated. We did not only look at transition rates to employment but also at the quality of the job found. For reasons explained in the research report, we had to focus on the Flemish region where during the period of observation the unemployment rate was stable and relatively low (around 6%), but the share of long-term unemployed in the stock was nevertheless substantial (close to 45%). We built a structural non-stationary job-search model that represents the optimal behaviour (levels of search effort and of the reservation wage) of forward-looking unemployed people. After each evaluation of job-search effort, the environment of the unemployed is revised according to the outcome of this evaluation. For instance, after a second negative evaluation, the unemployed is temporarily sanctioned, a new action plan is signed and she faces the prospect of a last evaluation at least fourth months later,

knowing that a new negative evaluation leads to an end of entitlement to UI.

To structurally estimate the model, we have access to monthly data about the trajectory on the labour market (right-censored in December 2006, the end of our observation period). We focus on the first exit to a job and, in case a job is found, we only pay attention to the first employment spell. Given the complexity of the model, we do not represent the choice of working hours. Therefore, only exits to a full-time job are taken into account as an exit to employment. When people find a job, we observe their entry net monthly earnings. No information is available in our administrative data about the content of an individual action plan, the identity of the caseworker, nor on the type of labour contract if any. However, we are informed of the time at which each evaluation of past job-search effort takes place and we observe the decision taken by the caseworker. The size of the sample notified during the first four months of the monitoring scheme in Flanders is about 900 individuals. This is not the complete sample in Flanders at that time. To ease the estimation of the model, it is standard in the literature to look at unemployed people who are indefinitely entitled to flat benefits when they leave the program. In our case, people can leave the program after a positive or a third negative evaluation. In the former case, they keep indefinitely the level of benefit to which they were entitled when they were notified. In the latter case, they can be eligible to a means-tested flat assistance benefit. By restricting our sample to the unemployed insured unemployed entitled to a flat benefit, we leave aside some groups of cohabitants.

The key structural parameters of the model are allowed to vary with education and gender. These parameters are estimated by maximum likelihood. We have checked that the model predicts well the distribution of exits to employment, the distribution of earnings and the probability of a negative evaluation within the sample.

The estimated model is then used to simulate what happens to the "treated population" once when the policy is in place and once in the counterfactual absence of the monitoring scheme. The difference in outcomes is computed for each individual and each month. Below in Table 1, we produce averaged values four months after a step of the monitoring scheme (either the notification or one negative evaluation).

Table 1. Average treatment effect on cumulative fractions of exits to employment 4 months later (p.p. = effect in levels expressed in percentage points)

	Level of effect	Relative effect
After notification	+0.7 p.p.	+6.5%
After 1st negative evaluation	+3.5 p.p.	+31%
After 2nd negative evaluation	+5.2 p.p.	+46%
After 3rd negative evaluation	+3.5 p.p.	+31%

The impact of the notification is sensibly lower than in Part 5 for the very reason that we now only have a sample of unemployed entitled to a flat benefit. When we apply the same procedure as in Part 5 to the sample considered here with an outcome restricted to full-time employment, we get the same order of magnitude as the one found in Table 1 for the notification letter. This is of course reassuring. A first negative evaluation (leading to a first action plan but no sanction) has a much bigger impact. This is because the unemployed is induced to search harder and to reduce her reservation wage by the action plan and the prospect of a second evaluation. The latter, if negative, has even a stronger effect on exits to full-time jobs. After the end of entitlement (a consequence of a third negative evaluation) the impact is still positive compared to what would have happen in absence of the monitoring scheme (conditional on the same characteristics and in particular the same unemployment duration). However, this impact is weaker than after a second evaluation. The reason is the following. After the latter, searching harder will imply that the unemployed gets

back her initial level of benefits and that the prospect of an end of entitlement is substantially postponed. An important message of this table is that an announced end of entitlement with the possibility to escape it induces more exits than the blind application of a finite entitlement after some duration threshold.

As far as average net earnings are concerned, Table 2 indicates that the reduction of the reservation wage induced by the monitoring scheme negatively affects wage prospects but the impact is not important. The same conclusion is drawn if we restrict the impact to the sub-sample made of the less educated unemployed people.

Table 2. Average treatment effect on the average net earnings if a job is found 4 months later

	Level of effect	Relative effect
After notification	-4 €	-0.3%
After 1st negative evaluation	-19 €	-1.4%
After 2nd negative evaluation	-30 €	-2.2%
After 3rd negative evaluation	- 29 €	-2.0%

These conclusions cannot be generalized without caution. Contrary to the two other regions of Belgium, the Flemish region is indeed characterized by a strong labour demand. Moreover, as in the other parts of the country, there are enforced sectorial minimum wages (typically well above the legal level of minimum earnings). For the young population, these minimum wages have presumably dampened the impact of a fall in reservation wages (compared to what would have been observed in a competitive labour market).

Part 7. Summary of the results and policy recommendations

In Belgium, involuntary unemployed individuals are in principle entitled to UI without any time limit. Even though the level of UI benefits are on average not high according to international standards, the lack of a clear time limit and the observed high share of long-term unemployment raise the question of job-search incentives. At the end of this research, we consider that the federal monitoring of search effort is a necessary counterpart of the abovementioned specificity of the Belgian UI system. Such a monitoring complements the control of the acceptance rate of job offers sent by the regional PES.

We have shown that the monitoring scheme enhances exits to employment (in particular where labour demand is sufficiently strong). It also causes a fall in reservation wages without inducing a very serious drop in average earnings. There is a tendency to exit to jobs of a shorter duration but we cannot claim that exits would have been to shorter jobs even if employment was induced by another mechanism than monitoring. Other indicators of the "quality" of a job are not available in our data set. These conclusions lead us to the recommend that the letter of notification announcing the monitoring interviews be sent earlier to make the unemployed earlier conscious of the collective costs of a prolonged stay in unemployment.

We are aware that evaluating search effort is a difficult task. Hence, a risk of errors is unavoidable. However, providing the caseworkers with tools that help them being as objective as possible could reduce this risk. Finally, we are convinced that for deprived subgroups a monitoring scheme can only make sense when the regional institutions have helped these people to tackle the causes of the lasting problems they face. We therefore recommend to identify these subgroups and to coordinate appropriate actions at the local level.