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# Jobs Growth Wales II: Evidence Review

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## Jobs Growth Wales II: Evidence Review

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Views expressed in this report are those of the researcher and not necessarily those of the Welsh Government

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## Introduction

- 1.1 The evidence review updates a similar review associated with the 2012-15 JGW programme, with both the review and the original programme completed in 2015. A number of new research studies have emerged that explore the efficacy and effectiveness of wage subsidies. This includes primary studies as well as systematic reviews and meta-analyses. In order to reflect this new research and its potential implications for the overall evaluation and development of JGWII, this review seeks to incorporate this new research into the analysis.
- 1.2 This review outlines the evidence base for Active Labour Market Programmes (ALMPs) aimed at supporting young people. The review explores national and international research evaluating the effectiveness of ALMPs, including through wage subsidies. It builds on a previous review of ALMPs published in 2015 as part of the Jobs Growth Wales 2012-2015 evaluation (Staneva et al, 2015).<sup>1</sup>

### *Key findings from the 2015 literature review:*

- The review found evidence exploring the effectiveness of youth ALMPs to be mixed, with some studies finding positive impacts and others no effect. The impact of ALMP programmes varied greatly depending on broader economic conditions, including the underlying youth unemployment rate.
- Across studies, the review found considerable heterogeneity in the economic context, labour market characteristics, and types of scheme under investigation. There was also considerable diversity in the research designs used to study the impact of ALMPs, including in the length of follow up.
- Overall, the review concluded that wage subsidy programmes are more effective than training or Public Works Programmes (PEPs).<sup>2</sup> It also found evidence to suggest wage subsidy programmes with strong links with the private sector were effective - supporting the focus and design of JGW I.

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<sup>1</sup> See: [WISERD \(2016\) \*The effect of Active Labour Market policies on Youth Unemployment – Literature Review\*, Cardiff, Welsh Government.](#)

<sup>2</sup> PEPs are commonly used to increase aggregate demand for labour in contexts where markets do not create productive employment on the required scale or where sufficient formal sector jobs are just not available. As part of a wider employment and social policy, commonly public employment programmes can complement private sector employment creation by offering people work on capital infrastructure projects.

### *Updated findings:*

- Since the review was completed in 2015, there have been a number of important additions to the evidence base associated with the ALMPs generally, and wage subsidies in particular. This includes systemic reviews of the evidence (Lui et al, 2014, Filges et al 2015, and Kluve et al, 2017).
- The emerging research offers new insights into the effectiveness of ALMP provision. Kluve et al (2017), for example, found generous hiring subsidies with long durations can promote improvements to the long-term employment outcomes of young people. For ALMPs more broadly, a consistent finding across reviews of the evidence suggests that overall, participation can lead to small improvements in the probability of obtaining employment.
- Whilst the evidence base appears to be growing and improving, there are still significant gaps and limitations. The high degree of inconsistency in findings across studies, for example, suggests that heterogeneity<sup>3</sup> remains an issue, including in the precise design of ALMPs and in the broader contextual factors influencing studies. The distribution of findings also suggests there may be publication bias in certain areas within the research base (see Kluve et al, 2017).

1.3 Before highlighting these developments within the evidence base, the chapter first outlines the rationale supporting ALMPs in general, and JGW in particular.

### **Supporting Young People into Employment**

1.4 The persistence of youth unemployment and its harmful effects presents an enduring policy challenge. The continued concern with youth unemployment stems, in part, from the understanding that it is associated with a range of adverse outcomes that can have long-lasting effects. Unemployment and low educational attainment can lead to sharp increases in material deprivation, poor mental and physical well-being, poor integrative social support and broader social exclusion throughout a young person's life (Bell and Blanchflower, 2011).

1.5 The Great Recession of 2008 saw considerable increases in youth unemployment, both nationally and internationally. In the UK, youth unemployment rose steadily before the recession, but this increase rose sharply from 2008, peaking in 2011 at

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<sup>3</sup> Heterogeneity refers to diversity in the focus, conduct and analysis of research. Significant diversity across studies can undermine efforts to synthesise research findings and draw out meaningful conclusions.

21 per cent (StatsWales, 2019). Whilst it has reduced substantially since then, unemployment is still focused disproportionately on the young. Recent Labour Force Survey estimates (March 2018) suggest that in Wales, 13.3 per cent of young people aged 16 to 24 are unemployed, compared to 5.3 per cent of 25 to 34-year olds (ONS, 2019).

- 1.6 Trends in youth unemployment are influenced by a range of factors. Whilst youth unemployment is strongly dependent on broader economic factors, including aggregate demand for labour, young people also face specific barriers to securing and sustaining work. Young people can find it difficult to secure opportunities based on their lack of applied skills and experience. Those with poor educational attainment and are Not in Employment, Education or Training (NEET) are especially disadvantaged in a competitive labour market (Lee et al, 2012).
- 1.7 Reducing the number of young unemployed people is a key priority for successive Welsh and UK Governments. In response, they have developed and implemented a range of measures, including ALMPs aimed specifically at supporting young people. Welsh Government programmes include Jobs Growth Wales (JGW), Graduate Opportunities Wales, and the Pathways to Apprenticeship scheme. Each seeks to deliver tailored support and incentives to specific groups of young people and employers.

### **Jobs Growth Wales**

- 1.8 Central to the Welsh Government's response to youth unemployment has been the implementation of JGW. In its design, the key lever underpinning the programme was offering wage subsidies to employers in return for taking on young people as employees. In seeking to stimulate the demand for labour, it also reflected a broader consensus amongst many labour market economists at the time of the importance of ALMPs to go beyond simply expanding and improving the supply of labour (ILO and World Bank, 2012).
- 1.9 The original programme (JGW I) was launched in 2012 with a budget of £53m. It set out to support 9,000 young people aged 16 to 24 by giving them work experience for 6 months. Young people would be paid at or above the National Minimum Wage (NMW) for 25-40 hours per week. Since 2015, the programme has been reshaped in both its design and delivery (JGW II). The wage subsidy was reduced from 100

per cent to 50 per cent of the NMW, and the programme has solely worked with the private sector.

### **Wage Subsidies and ALMPs**

- 1.10 Wage subsidies, which have also been described as hiring or employment subsidies, are cash transfers to employers or employees that cover at least part of the eligible individual's wage or non-wage employment costs. The main goal is to provide incentives for employers to hire members of the target group, integrating them into the labour market. Wage subsidy programmes can include a range of measures, such as:
- **Direct cash transfers** to firms (hiring subsidies) or young people (wage supplements), conditional on the employee to whom the subsidy relates being in formal employment;
  - **General cuts in payroll taxes or social security contributions**, targeted at young people;
  - Cash transfers as **part of a broader package of support**, including on-the-job training or mentoring where the subsidised employment component is the primary component.
- 1.11 Wage subsidy policies are often considered distinct from job creation schemes, such as Public Works Programmes (PEPs), and supported employment.<sup>4</sup>
- 1.12 In practice, there is considerable variation in how wage subsidies have been applied to supporting young people into employment. There is significant divergence in the precise objectives, scale, duration and coverage of payments reflected across different programmes. There is also variation in the way that wage subsidies have been designed and delivered across different organisations and countries, including in how employers and participants are engaged and the conditions that surround payments. Even within programmes that have similar approaches, they can also operate in very different settings, including broader social security systems and various economic conditions.

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<sup>4</sup> PEPs employ people directly to undertake specific work, often on infrastructure projects. Supported employment programmes on the other hand provide intensive support to people with specific needs secure and retain employment, including disadvantaged groups such as those with disabilities or ex-offenders.

## **The Potential Benefits**

- 1.13 The basic rationale supporting wage subsidies is that it will lead to an increase in employment rates. Classical economic theory suggests that the subsidy itself reduces the cost of labour for employers, and as a result increases demand for employees. Targeted wage subsidy schemes, therefore, can correct labour market failures and distortions. In the case of young people, this includes mitigating some of the risks associated with employing labour market entrants with little or no experience. From this perspective, wage subsidies can compensate employers for lower than expected marginal productivity by reducing wage costs.
- 1.14 Demand for labour may only be sustained as long as the subsidy is paid. For young people, however, the period in employment can have long-term positive effects. It can lead to improvements in skills and confidence, as well as gaining the experience necessary to secure future employment. This can help them improve their employment prospects and in their subsequent job search activities (Kluve, 2014).
- 1.15 Positive employment experiences can also help young people improve their self-efficacy. A person's sense of their own capability can influence their perception, motivation and performance towards employment related activity. Self-efficacy influences the goals and career objectives people set for themselves, the effort they exert in finding work and their ability to overcome adversity or setbacks. The more confident a person, the more likely they are to take steps towards finding employment and to be persistent in their actions (Power et al, 2015). An effective wage subsidy may, therefore, have long-term positive effects on both employment probability and job quality.

## **The Potential Drawbacks**

- 1.16 Whilst there are range of potential benefits to wage subsidies, there are also potential drawbacks. The subsidy may support young people who would have otherwise been employed by a firm, regardless of whether the subsidy was offered. The **deadweight** costs associated with wage subsidies can reduce the overall effectiveness of the policy. A second potential pitfall relates to **substitution**, namely

the hiring of an eligible young person over another, ineligible person.<sup>5</sup> In the presence of substantial levels of substitution, wage subsidy policies do not increase employment, but simply reshuffle the pool of unemployed people.

- 1.17 There are further potential distortions that wage subsidies can create. Increases in subsidised employment amongst certain firms may give them cost advantages over those that are unable or unwilling to access the programme. This can lead to **displacement**, where a firm with subsidised employees increases outputs, but reduces output amongst firms that do not have subsidised employees.
- 1.18 There are also **opportunity costs** for a young person entering a wage subsidy programme. Incentives provided by wage subsidies may encourage young people away from other opportunities, including education and training. They may choose to prioritise earning a wage, however the short term benefits may be at the cost of potential long-term improvements to productivity and earnings through education and training (O’Leary et al, 2011).

### **Evaluating the Effectiveness of Wage Subsidies**

- 1.19 There is a significant body of published and unpublished research that explores the impact of wage subsidies on outcomes. Assessing effectiveness is a causal question, that is, to what extent did a given policy cause observed changes to outcomes? There are a range of practical and methodological challenges to accurately assessing impact. Most importantly, the ability of an evaluation to accurately determine impact is dependent on its ability to control for potential confounding variables.
- 1.20 Confounding variables are observed and unobserved factors that can influence outcomes independently of a policy. For wage subsidy policies they can include individual differences between participants receiving subsidies and the target population as a whole. With many ALMPs, participants often display higher levels of confidence and attainment prior to engagement than the broader target population. Evaluations that are not sensitive to the possibility of confounds run the risk of making inaccurate estimates, often over-estimating the impact of a policy.

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<sup>5</sup> Across the literature, there is apparent diversity in the precise terminology surrounding aspects of substitution. Here, we present definitions that reflect the DWP Social-Cost Benefit Analysis Framework (Fujiwara, 2010). Other research appears to have defined displacement to reflect the principle of substitution as it appears in the DWP framework (e.g. Crépon et al, 2012).



- 1.21 In order to control for confounding variables, researchers can implement **experimental research designs**. Participants are randomly assigned to either a group receiving the subsidy, or to a control group that do not. This enables researchers to compare the outcomes between the two groups with a high degree of confidence that any confounding variables are evenly distributed between the two groups. Such designs offer high levels of internal validity and are likely to produce the most accurate impact estimates. Such designs are not without limitation however. They cannot easily estimate the indirect effects of the policy with the same degree of confidence for example. There are also a range of practical challenges to implementing such designs.
- 1.22 A second approach seeks to control for confounds by implementing a statistical control. **Quasi-experimental designs**, instead of randomly allocating participants, use administrative data to develop control groups from members of the target population. There are different statistical approaches to developing a statistical control, each with their own strengths and weaknesses. Different approaches will produce different effect estimates within the same data. Also, quasi-experimental approaches cannot rule out the possibility of confounding variables, factors that can influence outcomes independently of the intervention. This can lead to inaccurate estimates of programme impact. . Quasi-experimental designs, therefore, are not considered as robust as fully experimental designs.
- 1.23 A more common approach to evaluating the impact of ALMPs are **observational studies**. These simply measure the characteristics and outcomes of participants, and do not seek to control for potential confounds. Whilst offering an indicative account of the impact of a scheme, they are likely to produce biased estimates that can likely over-estimate effectiveness.
- 1.24 Beyond research designs, there is also considerable diversity in what studies choose to measure and how data is collected. In terms of outcomes, the existing research base predominantly focuses on the individual benefits of participation, including probability of employment, length of employment, and earnings differentials. Beyond individual outcomes, firm level or marco-economic outcomes are less prevalent. There are important examples, such as Rotger and Ardent (2010) looking at wage subsidies and firm hiring patterns, however they appear to be few and far between. This is due, in part, to measurement problems including accurately identifying and measuring the full range of indirect effects of wage

subsidies, such as their potential deadweight and substitution effects. There is also limited apparent empirical evidence on whether wage subsidies during a downturn can reduce apparent structural unemployment and whether they promote broader economic recovery.

### **Messages from Research**

- 1.25 Since the development of the initial literature review in 2015, a number of new studies have emerged. These include primary studies as well as systematic reviews and meta-analyses.
- 1.26 A key study advancing and clarifying our understanding of the evidence base includes the systematic review developed by Kluve et al (2017). The review looked specifically at ALMP services and support aimed at young people. It found 113 individual studies, with nearly half published since 2010 suggesting the evidence base is expanding considerably. Many of the most recent studies originate from low and middle-income countries. Evaluation designs varied, and included experimental, quasi-experimental designs and natural experiments. The review was also able to analyse 3,629 treatment effect estimates, enabling comparisons between and within different ALMP approaches. Through multivariate meta-regression models the authors were able to explore intervention-level, study-level and country-level characteristics in order to assess factors associated with the magnitude of reported effect size estimates.
- 1.27 Overall, the review found ALMPs in general increase employment and earnings outcomes of participants, however the overall effect is small with considerable variation across studies and programmes.<sup>6</sup> The high degree of inconsistency across interventions suggested programme impacts concealed major contextual differences. The meta-analysis showed important differences in the magnitudes of impact across outcomes and interventions. However, no single type of intervention provided clear evidence of a significant effect on the employment or earnings of youth in high-income countries.
- 1.28 The review was also able to meta-analyse results from 17 wage subsidy programme evaluations. Most of the studies originate from high income countries. Overall, wage subsidy programmes performed better in middle-income countries

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<sup>6</sup> Overall SMD 0.04, 95% CI= 0.03, 0.06

than in high-income countries.<sup>7</sup> Further, the review found some studies in high-income countries that reported no impact against employment outcomes, or worse outcomes around earnings than the control group. Employment outcomes were, however, found to be highly responsive to young people's exposure to wage subsidies, especially in comparison to earnings outcomes. This means that, overall, the length of support had a significant impact on the likelihood of securing long-term employment outcomes.

- 1.29 To explain these effects, the review highlighted the importance of design features, including targeting, the size of the subsidy, and its duration. Kluve et al. (2016) for example, were able to control for different design features in exploring the impact of wage subsidies that provided broader support. They found evidence to suggest that integrating multiple interventions and support are more likely to be effective as they are better able to respond to the different needs of beneficiaries. The review concluded that there was no clear evidence on the relative effectiveness across design options due to a lack of reliable evidence supporting each approach.
- 1.30 Within individual studies, however, the review suggested some of the design features that could support more effective practice:
- 1.31 Fine-tuning **conditionalities**<sup>8</sup> have been found to be important in securing take up by firms and participants. Conditionalities seek to curb unintended behaviours, including potential substitution effects. Stringent conditionalities, however, have the potential to deter employers' participation. This was reflected in the French national programme, Contrat Jeune en Entreprise, aimed at promoting long-term contracts among disadvantaged youth. The programme offered a wage subsidy, paid directly to the employer, and targeted young people under 22 who had dropped out of school. The subsidy was offered in full for two years and then reduced to half during the third year. In return, employers had to commit to not dismissing a participant, except for professional misconduct, during the three-year term of the contract. The programme led to a very low take-up by employers, who argued that conditions were too strict in comparison to the perceived benefits (Roger & Zamora, 2011).

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<sup>7</sup> World Bank defines middle income countries as those with as those with per capita Gross National Income (GNI) per annum between \$1,025 and \$12,475 and high income countries of greater than \$12,475.

<sup>8</sup> Conditionality refers to the use of conditions attached to the provision of benefits, including subsidised employment opportunities.

- 1.32 In contrast, conditionalities that were linked with relatively high subsidies seem to enhance participation and impact. The national German programme JUMP offered direct payments to employers of 40 per cent of the wage value. The relatively generous subsidy was paired with strict conditions for no early dismissal and a guaranteed period of post-subsidy employment, equivalent in duration to half the subsidised period. An impact evaluation of the programme showed positive impacts on the probability of employment in the short and long terms, with higher effects among the more skilled youth and in regions with relatively low labour demand (Caliendo et al, 2011). This study was also highlighted by the original literature review supporting JGW I.
- 1.33 Caliendo et al (2011) compared outcomes across two wage subsidy schemes over six years, using a control group created statistically. They found very large post-programme impacts on employment rates for both schemes. Moreover, the employment probability of participants was not only substantially higher immediately after the subsidy period, but the effect of the programme, although it decreased over time, persisted for up to five years after entry into the programme. Young people that had participated in the programme were 10 to 15 per cent more likely to be in employment compared to non-participants. The study also found variation within the data, with higher impacts in regions where the demand for labour was low and there was higher youth unemployment. Those with higher educational attainment were more likely to benefit from the subsidies.
- 1.34 A similar study exploring a scheme in Austria found more muted results (Eppel and Mahringer, 2013). The scheme offered up to 60 per cent of gross wages and lasted up to two years. The scheme did not however, have strict non-dismissal clauses. The results suggested that young people accumulated approximately nine to nine-and-a-half months more employment and about four months more unsubsidised employment than similar non-participants in the period of five years after the start of the programme. However, the authors estimated that the deadweight of the programme was approximately 60 per cent, which means that about 60 per cent of the time the employers would have taken on the participant without the subsidy.
- 1.35 **The capacity of firms** to take advantage of subsidies and **levels of communication** can also impact on take-up of wage subsidies. A controlled experiment that provided employment vouchers to unemployed young South

Africans yielded positive outcomes.<sup>9</sup> The evaluation study reported a positive probability of wage employment that reduced slightly over the longer term.

However, the experiment suffered from a low take-up of the employment vouchers by eligible employers, which seemed to be partially correlated with the administrative burden of claiming the subsidy and the perception by employers that the vouchers were not legitimate (Levinsohn et al., 2014).

- 1.36 **Profiling firms and individuals** can be key to avoiding deadweight and substitution effects. A programme in Tunisia provided an employment subsidy for university graduates by reducing the employer's hiring costs and exempting it from social security contributions, resulting in positive employment outcomes compared to those in the control group<sup>10</sup>. The programme decreased joblessness, increased the probability of employment in the private sector and reduced the chances of permanent contracts among young programme participants. (Broecke, 2013).
- 1.37 Ensuring that job placements offer opportunities to **enhance skills formation** could be an effective means of improving the outcomes of programme participants. A programme that only offers a job has the potential to lead to positive outcomes if the exposure to employment is sufficiently relevant to facilitate learning-by-doing, which will lead to higher probability of employment in the long run (Heckman et al., 2002). Relevant work experience with longer periods of subsidised employment, as in the case of the JUMP wage subsidies in Germany (Caliendo et al 2011), could improve outcomes. .
- 1.38 Comprehensive designs that combined wage subsidies with skills training measures shed some light on mechanisms to boost skills gains and employability among young people, such as New Deal for Young People in the UK. Analyses of the wage subsidy measures showed positive transitions to employment (Blundell et al., 2004) and lower probability of unemployment among programme participants (Dorsett, 2006).
- 1.39 Studies drawing on experimental designs appear to have become more prevalent in the literature, however these have tended to explore programmes in low income settings. An RCT of a scheme in South Africa, for example, found that young people participating in the programme were seven per cent more likely to be in employment

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<sup>9</sup> Standardised Mean Difference for employment outcomes of 0.13 (CI = 0.01, 0.26)

<sup>10</sup> Standardised Mean Difference for employment outcomes of 0.16 (CI = -0.03, 0.34).

two years later (Levinsohn et al, 2014). An RCT of a scheme aimed at female community college graduates in Jordan found a 38 per cent increase in employment in the short run. However, once the scheme had finished these impacts faded to a point where there were no differences between groups (Groh et al, 2016). Similar studies have been conducted in Mexico, Yemen, and Sri Lanka (Bruhn, 2016; McKenzie et al 2016; and De Mel et al, 2016 respectively). Whilst these studies present interesting analyses of the potential of wage subsidies, the fact that they explore very different settings limits the utility of the findings to inform practice in high-income settings.

### **Accurately Determining Attribution**

- 1.40 A key challenge for evaluations of and research into these types of programmes is making accurate measurements around the deadweight, displacement and substitution effects of wage subsidies. To effectively measure these phenomena, studies would need to be sensitive to a diverse range of firm and individual level behaviours. They would also need to include those not directly benefiting from the programme or participating in the study.
- 1.41 Even experimental designs that focus on individual level outcomes may not be sensitive enough to accurately determine potential deadweight, substitution and displacement effects. Substitution could, in theory, introduce bias into experimental designs, especially where participants from both arms of the trial are drawn from the same community or labour market. In the presence of high rates of substitution introducing bias into the study, experimental designs could overestimate treatment effect to the extent that substitution effects distort local employment opportunities in favour of the intervention group. A possible approach that addresses this particular limitation would be to adopt a clustered randomised design. Rather than assigning individuals to an intervention and control group, clustered designs assign communities or job centres to an intervention and control groups. This could ensure that participants from both groups are not competing for jobs in the local labour market.
- 1.42 There are examples of studies that have sought to determine the attribution of wage subsidy programmes. Drawing on propensity score matching<sup>11</sup>, Kangasharju (2007)

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<sup>11</sup> Propensity score matching (PSM) is a statistical matching technique that attempts to estimate the effect of a treatment, policy, or other intervention by accounting for the covariates that predict receiving the treatment.

explored the impact of a wage subsidy scheme in Finland. The scheme invited firms with vacancies to apply for funding, and then matched unemployed people to the opportunity. In order to receive the subsidy, firms must demonstrate that the job is new, and that they have not laid off workers from similar jobs in order to create the vacancy. Comparing firms that received subsidies against those that did not, Kangasharju found that the scheme stimulated employment in subsidised firms and reduced the costs of supporting unemployed participants by more than the size of the subsidy. The results also suggest that the subsidy did not have adverse effect on firms that did not access subsidies.

1.43 Another example explored the impact of a Swedish wage subsidy scheme on firm performance (Lombardi et al, 2018). Drawing on administrative datasets, the research was able to explore the introduction of targeted wage subsidy schemes by drawing on a range of firm level panel data<sup>12</sup>. Analysis suggested that targeted wage subsidies can have a positive and sustained effect on a range of production and productivity measures, and that subsidies did not improve the outcomes of poorer performing firms. A key aspect in this was the design of the scheme, with caseworkers matching participants with firms. Caseworkers were given considerable discretion in ensuring that the opportunities offered by firms provided suitable opportunities for development for the candidate.

1.44 Despite these findings, the evidence around deadweight, substitution and displacement is, however, an emerging field (Lombardi et al, 2018). There are a number of potential limitations within these studies, including considerable apparent variation around the statistical techniques and models used to analyse data. There is also an apparent tendency within the research to use proxy measures to model behaviour, which may not be an accurate indication of actual firm and individual level performance or behaviours.

### **Evidence from Wales and the UK**

1.45 It would appear that the research exploring wage subsidies in Wales and more broadly in the UK has not expanded significantly since the publication of the literature review in 2015. This perhaps reflects the policy environment which has not generated substantial shifts in programming around wage subsidies. This also limits

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<sup>12</sup> Panel data are multi-dimensional data involving measurements over time. Panel data contain observations of multiple phenomena obtained over multiple time periods for the same firms or individuals.

the lessons that can be drawn from newer research, which more often explores contexts and programmes that are very different from the conditions that can be found in Wales.

- 1.46 One study that has emerged since then is the initial evaluation of JGW published in 2016 (Welsh Government). The research found positive short-term impacts on the employability of participants. Six months following initial application for a JGW vacancy, it is estimated that 35 per cent of participants would not have been in work without the programme. Additionally, it is estimated that JGW participants spent an additional 4.6 months in work and 2.1 fewer months claiming benefits over the 27 months following their initial application as a consequence of the programme. Finally, there was no evidence of adverse effects on the employability of older workers as a consequence of the programme.
- 1.47 The 2015 literature review did uncover a range of research exploring wage subsidy policy, including the 'New Deal for Young People' (NDYP). Broadly, the review concluded that existing studies found that the social benefits of the NDYP outweighed the costs.<sup>13</sup>

#### **Broader Evidence on Active Labour Market Programmes (ALMPs)**

- 1.48 Another consideration in thinking about the potential of wage subsidies is their relative effectiveness against other approaches and ALMPs. Liu et al (2014) rigorously examined 47 experimental and quasi-experimental research studies exploring employment programmes. The meta-analysis found that the odds of obtaining employment were 2.67 times higher for individuals participating in employment programmes, compared to individuals that do not have access to such provision.
- 1.49 Moderator analysis also suggested that employment programmes which contained certain components, including teaching job search skills, improving self-presentation, boosting self-efficacy, encouraging proactivity, promoting goal setting and enlisting social support, were more effective than interventions that did not include such components. The analysis also found that programmes effectively promoted employment only when both skill development and motivation enhancement were included in provision. It was also found that programmes were

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<sup>13</sup> For a detailed analysis, see pages 42 onwards.



more effective in helping younger and older people, and short-term unemployed compared to middle-aged, long-term unemployed.

- 1.50 Supporting participants to improve their job search activity helps them to gain employment. The analysis from this review suggests that specific improvements in job search skills, job search efficacy, and job search intensity, are particularly important for participants' subsequent employment status. The analysis also highlights the importance of improving self-efficacy in finding employment.
- 1.51 A second systematic review and meta-analysis completed by Filges et al included a total of 73 studies within their analysis (2015). A total of 39 studies were included in data synthesis. This review concludes that there is an effect of participating in an employment programme, although the impact is small<sup>14</sup>. Overall, the findings suggest that participation in an employment programme will have a small, but positive impact on a person's chances of gaining employment.

### **Interpreting the Results**

- 1.52 Drawing insights from evaluative research can be valuable in thinking about the design and delivery of ALMPs. It can help reduce uncertainty concerning the potential of a particular approach. All research, however, is partial and conditional. Even the most rigorous studies are representative of the institutions and broader economic and social contexts from which the programme emerged. Research of this nature is therefore limited in its predictive power; that a particular programme that has worked in the past will work in all cases.
- 1.53 Overall, the findings of new research broadly mirror those of the original literature review published in 2015. The review found that research exploring the effectiveness of wage subsidies to be mixed, with some studies finding positive impacts and others no effect. This finding is supported by Kluve et al's (2017) more recent systematic review. The emerging research also offers new insights into the effectiveness of ALMP provision. Kluve et al (2017), for example, found small and not statistically significant effects for wage subsidies aimed at young people on employment outcomes.<sup>15</sup>

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<sup>14</sup> The pooled effect estimate measured as a hazard ratio was 1.09, which translates into an increase of approximately 9 per cent in the exit rate from unemployment and into employment. The pooled effect estimate measured as risk difference is an increase of 7 percentage points in the probability of being employed approximately one year post participation.

<sup>15</sup> SMD=0.02; 95% CI= -0.01, 0.06 I-sq=50%

- 1.54 Overall, the impact of wage subsidies on employment depends on broader economic and social factors. The demand for labour, which is linked to the overall economic health of a community or area, has a significant impact on whether specific programmes including wage subsidies are effective. Other factors, including deadweight losses, substitution and job displacement effects, can also influence the impact of a programme. They can also be influenced by the overall level of unemployment and employer attitudes towards the target group (e.g. Junankar, 2011).
- 1.55 The success of wage subsidy programmes for young people may also depend on how broader support is configured. When combined with individual skills and employer involvement there is evidence to suggest that they can be effective in supporting young people into employment. A trial programme in Sweden, for example, which combined counselling, wage subsidy elements and a follow-up was found to have positive employment effects (Åslund & Johansson 2006, cited in Liebig, 2009). These studies suggest that a combination of on-the-job training and subsidised work is particularly effective for re-integrating low-skilled, disadvantaged young people and can lead to long-lasting benefits.
- 1.56 Whilst the evidence base is not consistent enough to isolate effective practice, there are promising results from individual studies, including:
- generous hiring subsidies with long durations can promote improvements to the long-term employment outcomes of young people (Kluve et al, 2017).
  - it is likely that imposing non-dismissal obligations on employers is beneficial in improving outcomes. Strict conditions appear to be most effective alongside generous subsidies that do not dissuade firms from participating (Caliendo et al, 2011; Kluve et al, 2017).
  - fine-tuning the targeting of subsidies is important since they can have substantial deadweight effects (Eppel and Mahringer, 2013). Targeted wage subsidies can have a positive and sustained effect for firms across a range of production and productivity measures (Lombardi et al, 2018).
  - There is some evidence to suggest that wage subsidies are more effective in areas with depressed labour markets than in high wage, high demand labour markets (Caliendo et al, 2011).

- 1.57 For ALMP programmes more broadly, there is a consistent finding across a number of reviews and meta-analyses that suggests that participation in ALMPs can lead to small improvements in the probability of obtaining employment (Lui et al, 2014, Filges et al 2015, and Kluve et al, 2017). The impact of ALMP programmes varies greatly however, and may depend on a range of factors, including programme design and broader economic conditions, including the underlying youth unemployment rate.
- 1.58 Whilst the evidence base appears to be growing and improving, there are still significant gaps and limitations. The high degree of inconsistency in findings across studies, for example, suggests that heterogeneity remains an issue, including in the precise design of ALMPs and in the broader contextual factors influencing studies. The distribution of findings also suggests there may be publication bias in certain areas within the research base (see Kluve et al, 2017).

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