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REPORT

An ocean apart

The US-UK switch in employment and benefit receipt

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Executive summary

There was a time when some looked to the US model – in which out-of-work benefits are less readily available, time-limited and significantly less generous – for answers to the problem of extensive European levels of worklessness. This was particularly the case during the so-called 'tough love' era of the 1990s. The reforms of this period resulted in sharp falls in welfare reliance in the US and coincided with high employment among even marginal groups such as single parents. The central argument was that US institutions, including the welfare system, supported high employment and low welfare reliance, but at a cost of higher earnings inequality. This received wisdom held in the UK as much as anywhere else.

Since the mid-1990s however, the lead that the US used to hold over the UK in terms of employment has been more than reversed. Out-of-work welfare reliance appears to have been on an ***upward*** *trend in the US since the turn of the millennium, in direct contrast to the steady* ***reduction*** *recorded in the UK.*

The aim of this note – the first ahead of a major report on how we might target full employment in the UK – is to chart this major shift in patterns of employment and welfare reliance across the UK and US. It notes the importance of the specific direction taken by the UK's welfare reform programme in explaining this divergence, and considers what room there is for further improvement. In essence it asks, as people once did in relation to the US, whether the UK's welfare model represents an important contributing factor behind its recent employment success.

Welfare reliance has long been considered more prevalent in the UK than the US…

Although precise timings and magnitudes differed, most advanced economies experienced downturns in both the 1980s and 1990s, resulting in spikes in the numbers and proportions of adults reliant on major out-of-work welfare benefits. The 1980s contractions in particular sparked trends that were only partially reversed in the following years. Yet, while this rise in welfare reliance was marked across the globe, it was more pronounced in Europe (including the UK) than in the US.

The dominant narrative of the time suggested that the US had stronger employment but higher and more rapidly rising earnings inequality than Europe. This reasoning suggested that in the US people were 'pricing themselves into' jobs through low wages at the bottom end of the labour market. Many argued that this was, at least in part, a product of welfare that was less generous, not universally available and tougher, in particular via the greater use of time limits on (non-disability) welfare receipt.

But there has been a big switch in employment rates and participation in the last 20 years…

This paper suggests this received wisdom now needs to be re-considered and highlights some remarkable transformations in the UK and US over the past two decades.

» In the mid-1990s the US employment rate was three percentage points above the UK's. But by 2007 – just before the financial crisis – the UK rate was half a percentage point *higher* than the US's. Today, the UK's lead is around five percentage points.

» If the UK's rate was as low as the US's, there would be roughly 2 million fewer people in work. Conversely, if the US could match the UK's rate, it would have around 10 million more people in work.

» More importantly for underlying trends, labour market participation has risen steadily in the UK since the mid-1990s, especially among women and older workers. The US, by contrast, has experienced steadily *declining* labour market participation. Relatively rapid falls in US unemployment since 2010 comprise some rise in employment but also a further reduction in the participation rate. More and more of those not in work in the US are not even looking for work.

With out-of-work welfare reliance trends heading in opposite directions…

Unlike employment and participation rates, *levels* of out-of-work welfare reliance can't be directly compared across the two countries because of differences in the nature of the welfare regimes and differences in data availability. But, we can focus on internally consistent trends to consider the broad *direction of travel* of benefit receipt within the two countries.

» Out-of-work welfare reliance has been on a steady downward trend in the UK since the mid-1990s. The proportion of the working-age population in receipt of one of the major out-of-work benefits peaked at 17 per cent in 1993, but now stands at 10 per cent – its lowest level since 1980. Excluding disability benefits, out-of-work welfare receipt is at its lowest level since at least the 1970s.

» In contrast, out-of-work welfare reliance appears to have been on an upward trend in the US since the millennium. The proportion of the overall population in receipt of means-tested benefit more than doubled between 2000 (8 per cent) and 2011 (close to 17 per cent). This in part reflected temporary extensions to normal benefit time limits in the recession period; it is now falling as these are reversed.

Economic factors are likely to have played a limited role in this divergence in labour market performance…

The unusual and unexpected performance of the UK's labour market since 2007 – with severe real-wage falls that contrast markedly from modest, but positive, wage growth in the US – undoubtedly goes some way to explaining why employment and welfare reliance trends have diverged so sharply between the two countries since the financial crisis.

However, over the longer term, it is hard to identify significant differences in macroeconomic performance that can explain the steady improvement in the UK position in relation to employment and welfare reliance and the deterioration in the US one. The US experienced a slowdown at the start of the millennium following the bursting of the 'dot-com' bubble, but it continued to lag the UK in terms of employment and participation in the years of economic recovery that followed. Indeed, in the five years prior to the financial crisis, US out-of-work benefit receipt continued to edge upwards.

While the timings of expansions and contractions have varied, over the period from the mid-1990s as a whole, the records on economic – and indeed wage – growth have been broadly similar, meaning we must look for alternative drivers.

With the two countries' welfare reform programmes potentially explaining more...

Welfare reforms in the two countries over recent decades are likely candidates.

» Both have increased the availability of *in-work* support, but the UK has taken this further than the US. Eligibility is broader in the UK and entitlement is higher, increasing incentives to work compared to the 1990s.

» In addition, the UK has simultaneously expanded childcare support and amended maternity leave arrangements, corresponding with a particular boost in participation and employment among mothers.

» More generally the UK system has both been more generous and more 'activational'. That is, welfare recipients in the UK have been required to meet much more stringent behavioural conditions than exist in the US (where the focus has instead been on time-limiting receipt). These behavioural conditions have pushed UK recipients to seek out work and have been reinforced by the provision of extensive job search assistance (welfare-to-work programmes).

This divergence in labour market participation is likely to flow in part from the differing nature of welfare provision in the two countries. The UK system rests primarily on *needs-based* support – available to all who meet the qualifying criteria. In contrast, the US system largely comprises *contribution-based* support – with people able to get out what they put in and only a limited safety-net beyond this. This matters because it is potentially harder to justify erecting behavioural requirements for receipt where claimants feel they have an automatic right to assistance based on their previous contributions. It may also limit investment in job search support services. However, it's worth noting that the Scandinavian countries *do* use strong activational requirements for their SI benefits in order to reduce welfare reliance.

> Despite the strong recent performance of the UK in relation to employment levels and reductions in out-of-work welfare reliance, substantial challenges remain

The contrast between these 'social assistance' (needs-based) and 'social insurance' (contribution-based) models might also go some way to explaining why welfare reliance increased much more sharply in the US post-2007. In the absence of a significant permanent safety net of social assistance, the US faces strong pressure in the face of economic downturns to loosen eligibility criteria for those needs-based benefits it *does* have, thereby producing an expansion in coverage.

With the reversal of such loosening alongside economic recovery, we might expect some reduction in the level of welfare reliance in the US in the next few years. However, the US employment rate remains well below its pre-crisis level, despite relatively strong economic growth. And labour force participation remains at very low levels. As such, it is likely to be some time before US welfare reliance falls to pre-crash levels; a benchmark that the UK achieved in 2013.

Which provides some lessons for the future

Despite the strong recent performance of the UK in relation to employment levels and reductions in out-of-work welfare reliance, substantial challenges remain.

In particular, the proportion of the working-age population in receipt of disability benefits has altered little since the mid-1990s and has increased slightly in the most recent period. This has occurred despite recent tightening of test procedures and limiting of eligibility. Achieving further significant improvements in employment levels and welfare reliance will require a new focus on supporting the disabled and long-term ill into work.

The UK must also meet the growing challenge of in-work poverty, with a majority of poor children now living in families in which someone is in work. Policy focus must increasingly shift from the *availability* of work – except for those groups such as the disabled who still face barriers – toward the *quality* of work (in terms of pay, progression and stability) and the *distribution* of employment within the family.

And these challenges must of course be met against an especially tight fiscal backdrop. Pre-election plans suggest that the new government intends to cut £12 billion from the overall welfare budget in the next two years, with the expectation being that most of this will come from working-age benefits. In delivering such cuts, and in rolling-out Universal Credit, the government will need to ensure it builds on – rather than reverses – the successes of the UK's approach to welfare over the past few decades.

Navigating this note

This note is divided into three sections.

» Section 1 charts the remarkable switch of UK and US employment rates and labour market participation in the period since the mid-1990s.

» Section 2 considers the different welfare regimes in place in the UK and US and the reforms that have occurred since the mid-1990s. It sets out trends in welfare reliance across the two countries over the same period and provides some broader context by presenting OECD data as well.

» Having debunked some myths associated with the UK and US trends, we offer some concluding thoughts in Section 3. We make no attempt to offer a definitive assessment of why the UK appears to have outperformed the US, but instead suggest some lessons for both countries as well as areas for further investigation.

Section 1

The Big Switch Part One: employment

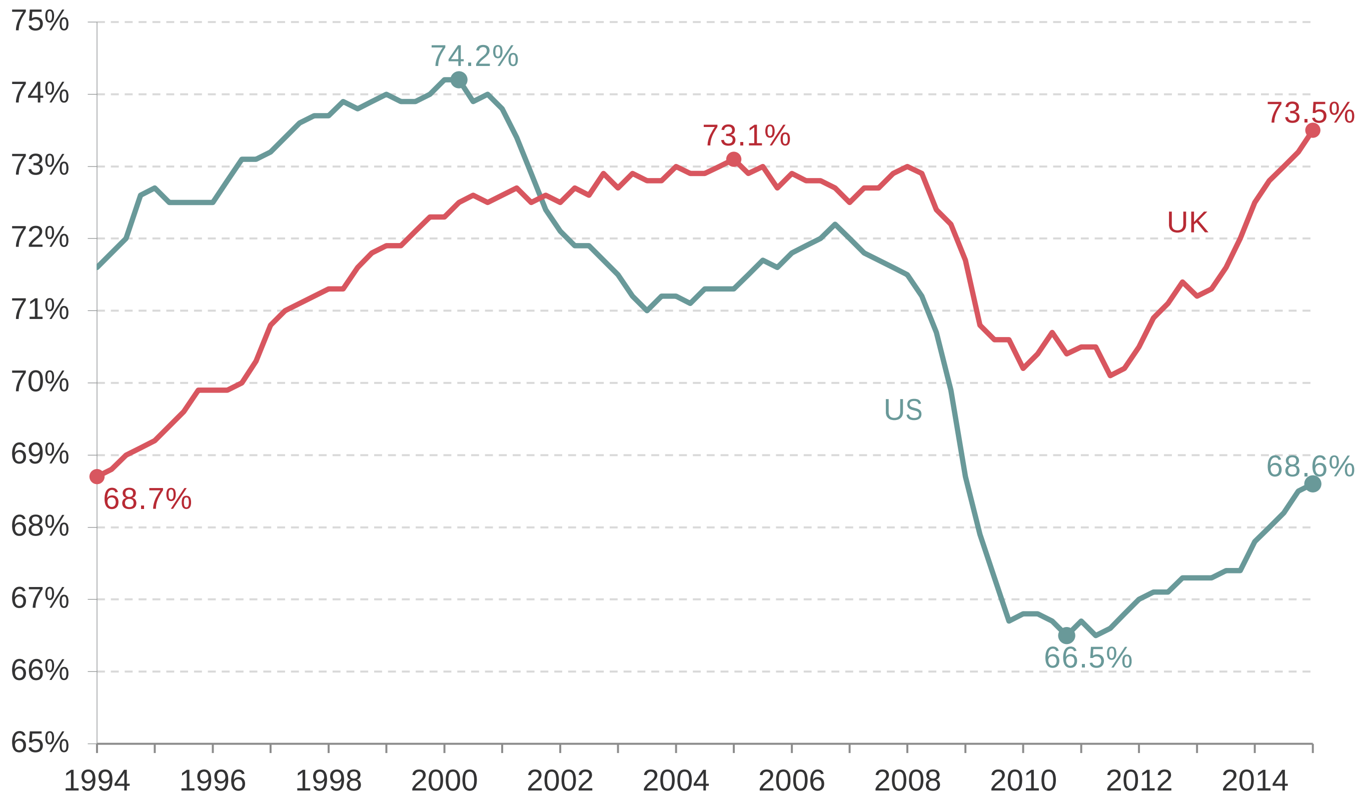
The UK's recent jobs-rich recovery has been one of the major economic successes of recent years and is in stark contrast to the experiences of many other countries, including the US. The gap between employment rates in the UK and US is now very substantial, representing a remarkable turnaround of the lead that the US held over the UK in the mid-1990s. Yet this switch is not simply a product of the downturn: the UK was outperforming the US even before the financial crisis struck.

In this section, we set out the trends in employment and in participation rates across the two countries over the past two decades, by way of emphasising the extent to which the traditional narrative of high-employment US and low-employment UK no longer fits.

UK employment has been on a steady upward trajectory…

Figure 1:
Employment rates: UK & US, 1994-2015

Proportion of 16-64 year olds in employment, seasonally adjusted



Source: ONS, *Labour Market Statistics*, LF24 & A48Q

As Figure 1 shows, employment in the UK rose rapidly over the course of the second half of the 1990s. The employment rate jumped from under 69 per cent in 1994 to over 72 per cent by 2000. It subsequently hovered around the 73 per cent mark before falling after the onset of the financial crisis in 2007-08.

Sharp though this drop was, it was significantly less marked than most people predicted given the size of the economic contraction, and the recovery since 2012 has been especially strong. At 73.5 per cent, the employment rate is now at its highest ever recorded level.[1]

While employment in the US has moved in the opposite direction…

While the US employment rate similarly grew strongly over the course of the 1990s, it has since performed quite differently. Having peaked at just over 74 per cent in early 2000, it subsequently fell to 71 per cent by 2003, being overtaken by the UK in the process. This was the result of the 2000 recession that followed the 'dot-com' boom and which had little impact in the UK. But, even as the economy recovered over the remainder of the decade, the employment rate failed to return to its previous heights.

The post-2007 fall in employment in the US was much larger than in the UK, even though the economy contracted by less. And, despite employment falling further in the US, the jobs recovery since 2012 has been more muted. The US employment rate of 68.6 per cent is some 6 percentage points below its turn of the millennium peak, a difference equating to over 11 million people based on today's population.

Producing a US-UK employment 'gap' of around 10 million…

These divergent trends means that heading into the financial crisis, the 3 percentage point lead that the US had enjoyed over the UK in the mid-1990s had been converted into a percentage point or so deficit.

Seven years after the start of the economic downturn, the distance between the UK and US employment rates now stands at 5 percentage points. If the UK rate were as low as the US's, it would have 2 million fewer people working. Conversely, if the US employment rate were as high as the UK's, it would have 10 million more people in work than at present.

It may be that this gap narrows as economic recoveries gain pace in both countries, but the fact that the US has fallen further behind since 2010 – even while recording stronger economic recovery – suggests that meaningful convergence is far from certain. An imminent return to the relative positions of the mid-1990s looks highly unlikely.

This employment switch around has been driven in part by divergent trends in levels of economic participation

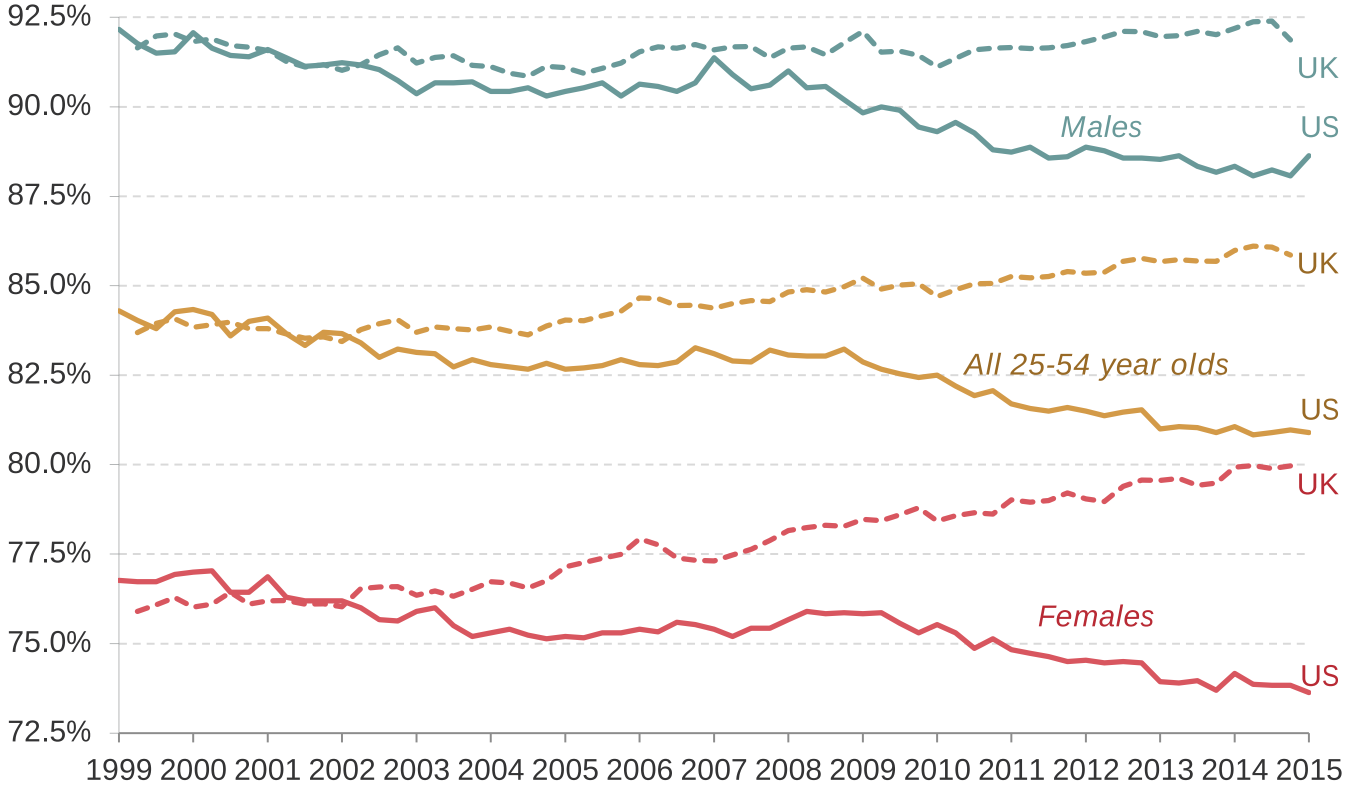
Figure 2 overleaf sets out labour market participation rates[2] in the two countries from 1999, for prime age adults (those aged 25-54) only, and split by sex. It suggests three further points via its differences (and similarities) with Figure 1.

[1] Using the 16 to 64 employment rate. Using the 16 to gender-specific state pension age employment rate, to account for changes in the female state pension age, it has previously been higher.

[2] That is, all those who are employed plus those unemployed (i.e. actively looking for work).

Figure 2:
Labour market participation rates: UK & US, 1999-2015

Proportion of 25-54 year-olds in work or actively seeking employment, seasonally adjusted



Source: OECD, retrieved from FRED, Federal Reserve Bank of St. Louis

First, these changes are not just – or not even primarily – about rises and falls in the unemployment rate. The focus on labour market participation in Figure 2 shows that the US recessions of 2000 and 2007 resulted in large numbers withdrawing from the labour market entirely, rather than actively seeking work and counting as unemployed. And on neither occasion did participation improve during subsequent economic recovery. In the UK, the post-crisis fall in employment seems to have had very little impact on participation. Unemployment may have risen, but individuals were more likely than their counterparts in the US to remain attached to the labour market.

Second, the overall trends observed in relation to the working-age population (16-64 in Figure 1) appear to hold when focusing on prime-age adults (25-54 in Figure 2) only. This matters because the employment statistics in Figure 1 are liable to being affected by demographic trends. In both the UK and US, populations are ageing and retirement/pension ages are rising. In theory, this would boost the 16-64 employment rate and could therefore be corrupting the cross-country comparison. Likewise, we might expect some impact from the rise in student numbers at the other end of the age spectrum. But it's clear from Figure 2 that divergent trends in participation are apparent *even for those of prime age*. Demographic shifts are not likely to be driving these divergences.

Third, the overall trends are also broadly true for men and women separately but are especially marked among women. The US participation rate for prime age men has fallen from 92.2 per cent at the start of 1999 to 88.6 per cent in the most recent data (continuing a trend going all the way back to 1955, where the rate was 97.4 per cent, and likely to in part reflect rapid increases in imprisonment rates in this period[3]). Perhaps more strikingly, the female US participation rate has also fallen over this

[3] J Schmitt, K Warner & S Gupta, The High Budgetary Cost of Incarceration, CEPR, June 2010

period – from 76.8 per cent (very near its 1997 peak) to 73.6 per cent (no higher than it was in 1989, though considerably higher than it was in the decades before that). In contrast, the female participation rate in the UK has risen by over four percentage points over the same period.

As a result of these trends, female participation in the UK is now almost as high as the combined male and female rate in the US. And, while the UK recorded a slightly larger gap than the US between male and female prime age participation rates in 1999 (16 percentage points, compared with 15 percentage points in the US), it now has a considerably smaller one (12 percentage points, compared with an unchanged 15 percentage points in the US).

The extremely sharp divergence in labour market participation among women aged 25-54 may, in part, reflect differing levels of maternity assistance across the two countries. In addition to more extensive financial support for maternity in the welfare system, mothers in the UK have the 'right to return' (to the pre-childbirth job) after up to a year and the right to request part-time working. These regulations, combined with more generous welfare support, appear to have helped many UK mothers to spend time at home with their babies without losing contact with the labour market. This is likely to have raised the employment rate and wages of mothers, and the productive potential of the economy as a whole.

Section 2

The Big Switch Part Two: welfare reliance

As set out in the previous section, the turnaround in the UK and US positions on employment and participation over the past two decades is stark. But how have these trends fed through to patterns of reliance on out-of-work benefits? Concerns over worklessness have tended to dominate the UK's welfare debate in recent years, yet its performance in this area is stronger than is sometimes recognised.

In this section, we outline the differences between the UK and US welfare regimes and consider the direction of reforms in both countries over recent years. We set out how welfare reliance has shifted in each country, focusing particularly on which types of benefits have driven the overall trends. By way of context, we also compare the UK and US positions with wider OECD levels of benefit receipt.

Welfare regimes comprise a mix of needs-based and contribution-based benefits…

Most developed nations operate some mix of two very different kinds of welfare benefit: 'social insurance' (SI) and 'social assistance' (SA).

- *Under an SI system, people make contributions when in work and receive cash benefits when out-of-work, primarily for reasons of unemployment and ill health/disability.* These benefits are generally more generous than SA benefits, with payment levels being linked in many countries to the prior earnings of recipients. Time limits are typically applied to these more generous SI unemployment benefits, but often not to disability-related equivalents.
- *Entitlements to SA benefits are based on assessed need rather than contributions made, and are thus not related to earnings.* Instead, benefit levels typically reflect family size and circumstance. The central difference is that SA benefits are means-tested, which means that claimants with access to other income sources – such as partners' earnings or substantial savings – are deemed ineligible or have reduced entitlement.

Broadly speaking, most European countries operate schemes that combine SI and SA approaches. In contrast, we can describe the US welfare system as being one in which SI dominates – meaning that there is little in the way of a safety net for vulnerable groups apart from the very low value SNAP system (see below) – while the UK system rests primarily on SA, with very little in the way of contributory benefit entitlement.

With the US system being primarily contribution-based…

The US operates two major working-age SI programmes for the out-of-work: Social Security Disability Insurance (SSDI) and Unemployment Insurance (UI). Both are based on contributions, with access to UI being additionally restricted by a time limit. Box 1 provides more details of these and the other US benefits discussed in this note.

In contrast, the US has never had a universal SA safety net. The most widespread assistance benefit is Supplemental Nutrition Assistance Program (SNAP), formerly called food stamps, which provide just enough cash for a basic diet. Even here, receipt is time-limited for those without children or a recognised disability/health issue. The Aid to Families with Dependent Children (AFDC) scheme provided further means-tested help for those with children, but it was replaced in the mid-1990s by the more restricted Temporary Assistance for Needy Families (TANF).

This was part of the so-called 'tough love' welfare reform of the Clinton era and introduced time limits (normally a cumulative 60 months), job search assistance, childcare support and required work activities (which might include active job seeking). The effect was to significantly reduce the number of families eligible for assistance. The country's SI benefits were broadly left unchanged by these reforms.

So the US relies more on a contributory welfare system. But for those who are ineligible because they have insufficient contributions – due to a poor recent work history or having exhausted their entitlement to Unemployment Insurance – the regime is extremely ungenerous by UK standards. For those without children it is meagre to the point of just providing enough to eat.

i Box 1: Key out-of-work welfare schemes in the US

This report refers to a number of US working-age welfare schemes. These include three programmes that might best be described as Social Assistance (SA):

- *The Supplemental Nutrition Assistance Program, (SNAP)*: Formerly known as food stamps, these are means-tested, non-contributory transfers that can only be used to purchase food and non-alcoholic beverages. For unemployed childless adults, receipt is generally limited to a period of three months – except at times of high unemployment. The maximum value for a single adult is currently a little over $6 a day ($194 per month), with this amount being reduced by 30 per cent of the value of the claimant's net income. For a family of three it is worth a maximum of $511 a month.[1]
- *Temporary Assistance for Needy Families (TANF)*: This is a means-tested, non-contributory cash benefit for those with children, with criteria differing between states.
- *Supplemental Security Income (SSI)*: This is a means-tested, non-contributory benefit for those on low incomes who are disabled or age 65 or over.

And two Social Insurance (SI) programs:

- *Unemployment Insurance (UI)*: This is a contributory programme or range of programmes that entitles the claimant to a proportion of their previous earnings, without means-testing. It is funded by employer unemployment taxes and receipt is time-limited, with the federal maximum prior to 2009 being 26 weeks.[2]
- *Social Security Disability Insurance (SSDI)*: This is a non-means-tested, contributory insurance benefit based on Federal Insurance Contributions Act payroll taxes.

[1] US Department of Agriculture, Food and Nutrition Service

[2] Time limits were temporarily increased following the late 2000s recession.

And the UK system being primarily needs-based…

The UK has taken a very different approach. Eligibility for SI benefits was never as extensive as in the US (or most other European countries) and has been progressively restricted over time. And, to the extent that contributory benefits remain, they have no link to prior levels of earnings. Instead, they are of the same value as those provided via means-tested SA benefits, meaning that the distinction between the two types of welfare has to a very significant degree disappeared.

Unlike the US however, the UK has maintained a universal safety net through the provision of a range of SA benefits for the unemployed, disabled and carers including single parents. Instead of time-limiting entitlement, it has instead – particularly since 1996 – attached behavioural conditions to both SI and SA benefits. This 'activational' approach, with a focus on 'job search', goes significantly further than the requirements of TANF in the US. It has been progressively rolled out; from unemployment benefits to those aimed at single parents and, most recently, to those with lesser impairments among the sick and disabled.

In addition to the application of such behavioural conditions, the UK has developed job search support (welfare-to-work) programmes designed to reduce the incidence of long-term receipt of welfare benefits. Over the period considered here, these were:

- the New Deal programmes for youth and adult unemployed, single parents and the disabled;
- the Flexible New Deal, which replaced them;
- Pathways to Work for people claiming incapacity-related benefits; and, most recently
- the Work Programme, which brings together services to all longer-term benefit recipients (except the most severely disabled) into one programme.

These programmes have (in the main) been delivered by third-party providers, with an increasing emphasis over time placed on outcome-based payments linked to sustained employment outcomes.[4]

And significantly more generous than the US system

Out-of-work benefits in the UK provide relatively low income replacement rates compared to those in many countries (although this is less marked once housing support is included). However, they are much more generous than the means-tested SA benefits available in the US (though not more generous than the contribution-based SI benefits).

The UK's system of *in-work* support is also much more extensive than that in the US. The UK's tax credit system was in part motivated by the US experience with the Earned Income Tax Credit (EITC), but its coverage and generosity now far surpasses the US version. Indeed, the UK now spends more on in-work support than it does on out-of-work benefits for the working-aged and children.

It might be (and often is) thought that the US's relatively low generosity of needs-based SA benefits, and its strict time restrictions, would help it deliver lower levels of welfare reliance and potentially higher employment than the UK. As we saw in the previous section, however, this is a myth. It is not the case in relation to employment. Nor is it true of welfare reliance – as we set out below.

The UK's overall level of out-of-work welfare reliance has been steadily declining…

Figure 3 charts the pattern of welfare receipt for three major out-of-work benefit groups in the UK since 1979: unemployment benefits (Job Seeker's Allowance), Income Support (mainly for single parents) and disability support (primarily Employment Support Allowance).[5]

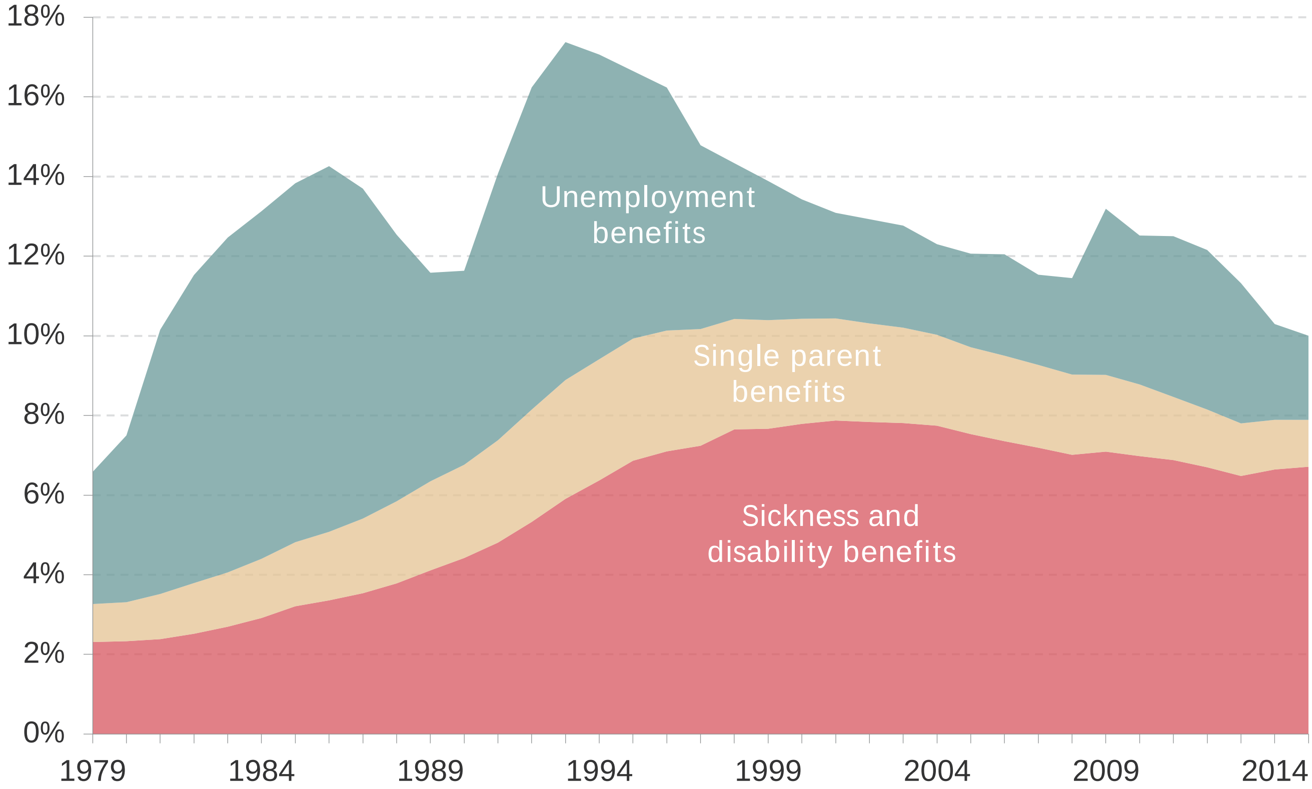
[4] Although less extensive, similar programmes have been in operation in the US over the period considered. These have generally been focused on TANF recipients only, with considerable variation in the offer and approach in different states.

[5] These are the main categories identified by the Department for Work and Pensions (DWP). 'Unemployment benefits' covers those in receipt of Jobseeker's Allowance and its predecessors; 'Sickness and disability benefits' includes Employment and Support Allowance, Incapacity Benefit and Severe Disablement Allowance; and 'Single parent benefits' covers single recipients of Income Support with a child under the qualifying age. In addition, the DWP records those in receipt of 'other income related' benefits, but these include Pension Credit cases (and account for only around 3 per cent of the total out-of-work caseload) and so are excluded here.

Figure 3:

Receipt of major out-of-work benefits among working-age adults: GB 1979-2015

Proportion of working-age population in receipt



Note: Figures relate to August in each year, other than 2015 which uses Nov 2014 data on unemployment benefits and preliminary estimates for Mar 2015 single parent and sickness and disability benefits. Population between 16 and (rising) gender-specific state pension age (ONS).

Sources: 1979-1998 data: P Gregg & J Wadsworth, *The UK Labour Market and the 2008 – 2009 Recession*, June 2010; 1999-2014 data: ONS, *Labour Market Statistics*; 2015 data: DWP, *Quarterly Benefits Summary*, May 2015; plus ONS, *Labour Market Statistics*

Overall it shows a clear upward trend over the course of the 1980s and a recession-related spike in the early-1990s. But the proportion subsequently fell steadily, outside of the brief blip associated with the financial crisis of 2007-08.

Not surprisingly, the chart shows that levels of unemployment benefit receipt have been strongly cyclical, with large increases in the 1980s and 1990s recessions and a far more modest rise in the recent financial crisis. The level has now dropped to its lowest across the entire period shown, despite being boosted in recent years by changes in the administration of single parent benefits.[6] Just 2.1 per cent of working-age adults are now in receipt of unemployment benefits, compared with an average of 2.8 per cent during the decade prior to the financial crisis.

Claims for single parent benefits rose through the 1980s as a result of higher separation rates among couples, but also due to falls in employment rates among single mothers (largely reflecting a change in the average age of single mothers towards those with younger children, who are therefore less likely to work). But the proportion of the working-age population claiming such

[6] Before 2008, a single parent with a child aged 16 or under could claim on this basis rather than as unemployed (or, less commonly, disabled). Between 2008 and 2012, this age criterion of the youngest child was lowered from age 16 to 5. So a person can now only claim as a single parent if they have a young child or one with a significant disability.

benefits has fallen in every year since 1995.[7]

These trends correspond with a remarkable increase in employment among single mothers over the period. Their employment rate has risen from under 40 per cent in the early-1990s to 62 per cent today – and it continued to rise throughout the recent downturn.

Combining these two benefit groups (unemployed and single parent) into one, in order to account for the recent administrative change which moved many single parents onto unemployment benefits, we find that 3.3 per cent of the working-age population is currently in receipt of a non-disability out-of-work benefit. This is the lowest level recorded across the 37 years of data we have.

Though disability benefit receipt has proved much more stubborn…

Despite this apparent strong performance, overall out-of-work claims for the big three benefits still stand at four million. This owes much to the fact that disability benefit receipt rose steadily through the 1980s and 1990s and has only fallen fractionally since. Indeed, over the last two years disability claims have started to rise again. In January 2015, claims were 400,000 higher than the Department for Work and Pensions had expected in 2011.[8]

In the 1980s, the rise in part reflected declining employment opportunities for men aged over 50 in the depressed coal mining areas and northern cities (an unwelcome shift to economic inactivity rather than unemployment that is perhaps now mirrored in the US). But this group has long since retired. Disability claims are less focused on the over 50s today, and the reason for claiming has shifted toward mental health related issues such as depression and anxiety.[9]

Attempts have been made to reduce disability claims in recent years by tightening the testing procedures and limiting access to Employment Support Allowance (ESA) when claimed on the basis of contributions rather than assessed need. However, these measures – along with those designed to support those with less severe problems back into work – appear to have had little impact on claimant numbers.

In addition, some people may now not bother claiming these out-of-work benefits but instead rely on tax credits through short spells out of work. The extent to which this is true is difficult to gauge from the administrative data available, but should be clearer once Universal Credit – with its monthly reporting system – is rolled-out.

Nevertheless, the general direction of travel in the UK is positive…

Notwithstanding these issues around disability, the central point stands: namely that reliance on the key out-of-work benefits appears to be in trend decline in the UK.

Given that this occurred even as the employment rate held relatively constant (between 2000 and 2007), the implication is that the UK not only has a good jobs record, but also a strong conversion of employment into a reduction in out-of-work welfare reliance.

[7] Of course, some of the most recent falls will be due to the same administrative change mentioned above, and will therefore have been offset by an increase in unemployment benefits.

[8] J Portes, *Welfare savings and incapacity benefits*, NIESR, April 2015

[9] See for example J Banks, R Blundell & C Emmerson, 'The changing characteristics of UK disability benefit recipients', *Journal of Economic Perspectives*, May 2015. A summary is provided on the IFS website.

These improvements have been especially marked for families with children. In 1996, just under one-in-five children lived in workless households; far more than would be expected if the country's total employment was equally spread across parents and non-parents. This disproportionate level of worklessness partly reflected very low employment rates among single parents. But even among couples with children, some one-in-eight had no one in work – far more than in other developed countries. It represented one of the UK's most acute social problems.

The story of out-of-work welfare reliance in the US looks rather different

Improvements since then mean that the proportion of children living in workless households now stands at 12.5 per cent. This reduction is all the more impressive given that there has been a steady increase in the proportion of children living with a single parent. Such is the progress that there are now almost no (fewer than 100,000) workless couples with children where no adult is disabled.[10]

This shift is particularly worth noting because many of the major welfare reforms of recent decades – tax credits, activational requirements and welfare-to-work support services – along with childcare policies, have been focused on families with children and especially single parents. The sharp drop in welfare reliance among families with children, for given levels of overall employment in the economy, hints at highly effective policy targeting over this period. We will return to this point in a follow-up briefing note.

The US picture is much less positive…

The story of out-of-work welfare reliance in the US looks rather different. We should start by recognising that differences in the design and coverage of benefits – as well as in the availability of data – mean that we can't draw a direct comparison between the *levels* of receipt in the US and UK. However, by comparing internally-consistent *trends* within each country we can see that welfare reliance has not been on the same downward path in the US as it has in the UK.

Figure 4 overleaf sets out the proportion of the US population in receipt of one of the three main means-tested (SA) benefits detailed in Box 1. The chart differs in several key ways from the data presented for the UK in Figure 3, which makes direct comparison inappropriate. Unlike the UK chart, there are various factors which under- or over-state the true level of out-of-work benefit receipt.

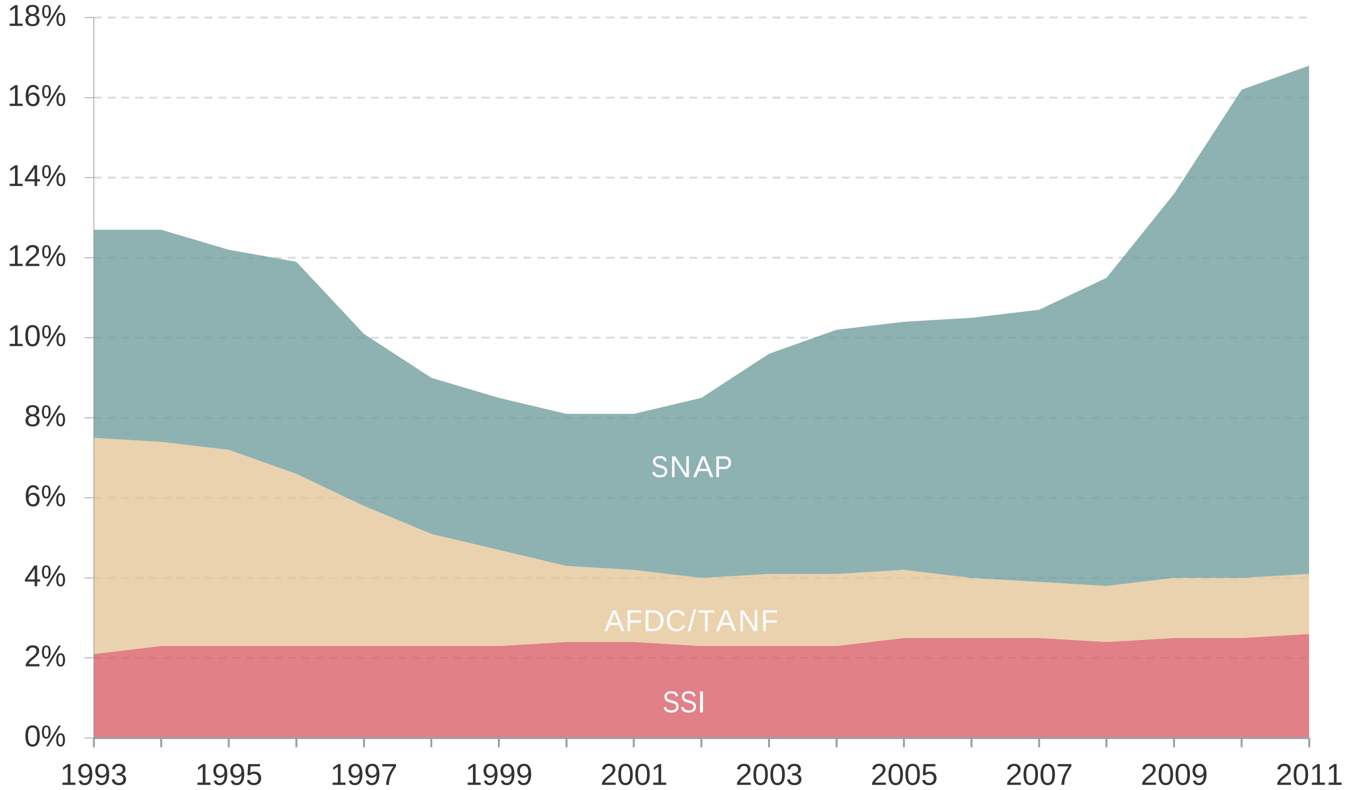
First it *excludes* the two contribution-based (SI) benefits and therefore doesn't capture the full out-of-work population.[11] Secondly, it relates to the total population rather than just working-age adults and hence includes elderly claimants (though they represent only a small proportion of the total). Thirdly, some of the benefits are provided at a *household*, rather than *individual* level (the data counts all those in the household as being in receipt). Finally, it is also the case that a significant proportion of SNAP recipients have some earnings, meaning that not all of the recipients captured by the data are out-of-work.

[10] D Finch, *Final report of the Resolution Foundation review of Universal Credit*, Resolution Foundation, forthcoming

[11] UI is currently being claimed by around 2.5 million adults, while the SSDI figure stands at roughly 9 million. These figures can't be directly added to those shown in Figure 4 because there are around 1.5 million people claiming both contributory and means-tested disability benefits (such as SSI – which is shown). There is a similar overlap between UI and SSDI claimants and the population in receipt of SNAP. Around one-third of SNAP recipients are thought to also be in receipt of UI or SSDI (US Department of Agriculture, Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2012, 2014).

Figure 4:
Receipt of major means-tested benefits: US 1993-2011

Proportion of US population in receipt, by primary benefit



Note: SSI and AFDC/TANF figures include those who are also in receipt of SNAP.

Source: US Department of Health and Human Services, *Welfare Indicators and Risk Factors; Thirteenth Report to Congress*, 2014, Table Ind5b

Notwithstanding these data issues, the overall picture is that the prevalence of means-tested benefit receipt reached a low point around the turn of the millennium, but subsequently broadly doubled (from 8 per cent in 2001 to approaching 17 per cent in 2011).

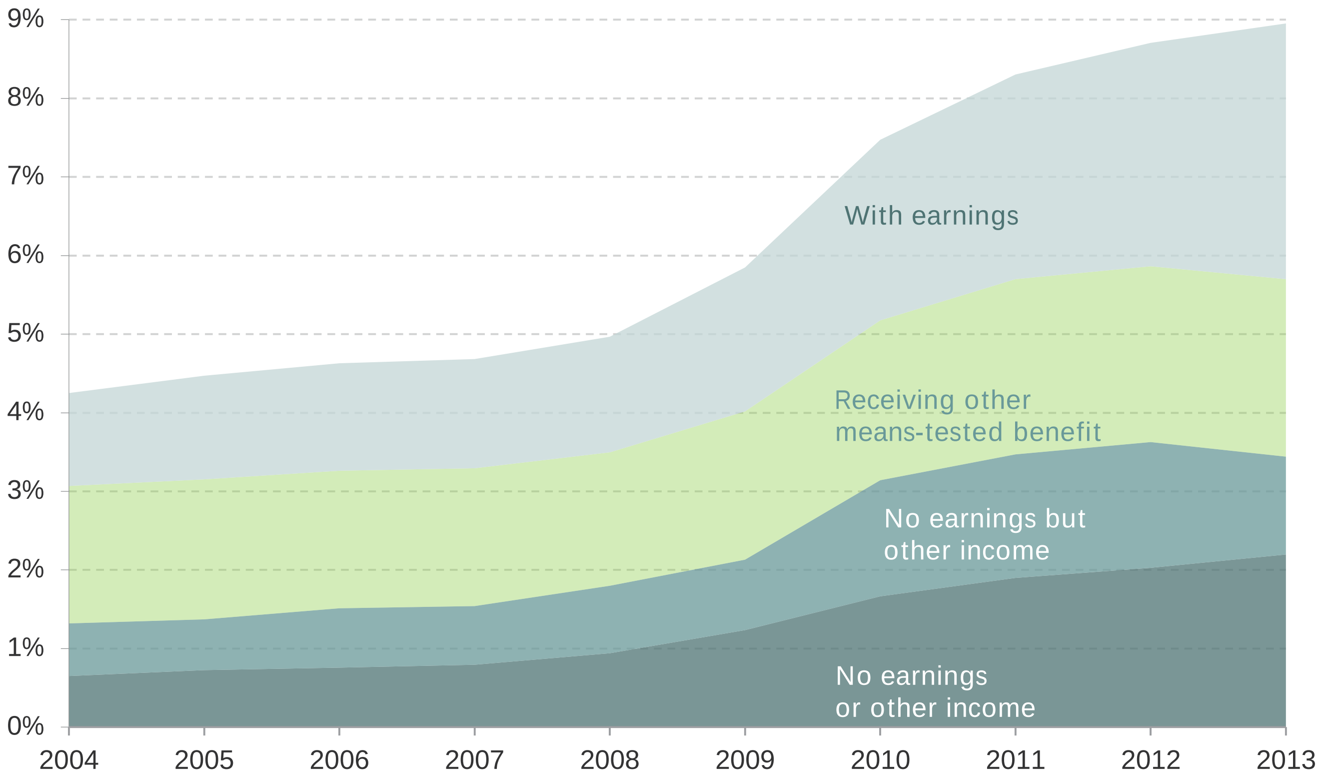
Digging beneath this overall trend we see that there was a sustained fall in reliance on AFDC in the boom years of the 1990s – particularly following its replacement by TANF. There were subsequent steady increases in the early-2000s, driven by both disability benefits and SNAP, before coverage increased dramatically in the post-crash period. This increase was dominated by SNAP. The importance of SNAP in the post-2007 story becomes even more evident when considering that recipients of the benefit who also receive SSI or TANF are excluded from the SNAP count, thereby understating the true level of SNAP receipt.

With this in mind, Figure 5 focuses on SNAP in the period from 2004. It reports the picture for the working-age population alone (removing any elderly recipients) and breaks down receipt into those with and without some earnings or other sources of income.[12] The overall trend is the same as in Figure 4: namely small increases in receipt pre-crisis, before a rough doubling between 2004 and 2011. The same is true whether we include those with earnings or not – though the continued growth in receipt after 2011 has been concentrated among those with earnings.

[12] The figure is for the number of household claims as a proportion of the working-age population and therefore uses only a single claimant per household. The proportion of the working-age population who live in a claiming household would be higher.

Figure 5:
Working-age receipt of SNAP: 2004-2013

Proportion of working-age population in receipt of SNAP (one claim per household)



Source: RF and IPPR calculations using FRS and LFS

Overall, Figures 4 and 5 imply falls and rises in welfare receipt that broadly match the (disappointing) trends in employment over the last decade or so.

As stated, the US proportions cannot be compared with the UK levels of welfare reliance shown in Figure 3, for a large number of reasons. Nor can Figure 4 and 5 be compared directly with each other. And it's worth remembering that trends in total benefit expenditure may be quite different across the two countries, particularly given the relatively low value of SNAP. Nonetheless, the steady upward trend in means-tested support detailed in these US charts is clearly in direct contrast with the UK picture.

Which is partly a product of the financial crisis…

The increase in means-tested benefit receipt is particularly pronounced post-2007. In part, this reflects the fact that the US extended the coverage of its safety net in response to the downturn. More specifically, the time limits applied to SNAP (and to UI benefits, not shown in Figure 4) were temporarily extended or waived. These extensions have now been, or are being, unwound (2013 for UI and 2015/2016 for SNAP) but clearly these changes are not yet reflected in the data presented here. As more recent data becomes available then, we are likely to see a reduction from the peak levels of benefit receipt recorded in 2011.

However, while benefit rules have played a part, the post-2007 surge in welfare reliance is of course primarily a function of the big fall in employment taking place over the period. As we saw in Figure 1, despite some improvement since 2010 the employment rate remains well below its pre-crisis level. Therefore, it appears very unlikely that means-tested benefit receipt has yet returned to 2007 levels, even after accounting for the reversal of the benefit eligibility loosening.

But which also reflects a longer-term upwards trend in welfare reliance

And it's worth noting that, dramatic though the post-2008 spike has been, receipt of SA benefits was rising even *before* the financial crisis hit. The fairly rapid increase immediately after 2000 is likely to reflect the 'dot-com' recession, but the total continued to edge upwards during the economic growth years of 2003-2007. As well as the rise in claims for SNAP there was also – in contrast to the UK – a slow but steady growth in the proportion in receipt of the disability benefits (SSI).[13]

The post-millennium upward drift is in contrast to the experience of 1990s, when benefit receipt fell – particularly from 1996. This was primarily driven by the replacement of the AFDC scheme with TANF and the associated significant tightening of eligibility criteria. But this was also a period of very strong growth and high employment in the US, which has not been repeated since.

Despite the fact that it does not have the same time-limited and restricted access to welfare as the US, the UK appears to have achieved a more consistent downwards trend in reliance

During this boom, for example, employment rates of single mothers without college level education soared from 51 per cent to 76 per cent. By 2011 however, this had fallen back to 54 per cent.[14] So, although TANF caseloads are still low and there has been a recovery in jobs since the latest presented data in Figure 4, single parents in the US have not recorded the same steady improvements in employment evident in the UK over this period.[15]

More generally then, while there are of course some cyclical elements to the US's performance, it has not experienced the sustained falls in out-of-work welfare receipt that the UK has. Despite the fact that it does not have the same time-limited and restricted access to welfare as the US, the UK appears to have achieved a more consistent downwards trend in reliance.

A broader perspective across the OECD countries…

A particular problem in assessing welfare reliance across time in the US comes from multiple benefit receipt in the SI and SA systems. This is one major reason the data above don't allow us to compare *levels* of out-of-work benefit receipt across the UK and US. However, some OECD studies have attempted to present more directly comparable international figures. By considering

[13] Centre on Budget and Policy Priorities, *Introduction to the Supplemental Security Income (SSI) Program*, 2014 & *Policy Basics: Social Security Disability Insurance*, 2014

[14] I Floyd & L Schott, *TANF Cash Benefits Continued To Lose Value in 2013*, Centre on Budget and Policy Priorities, October 2013

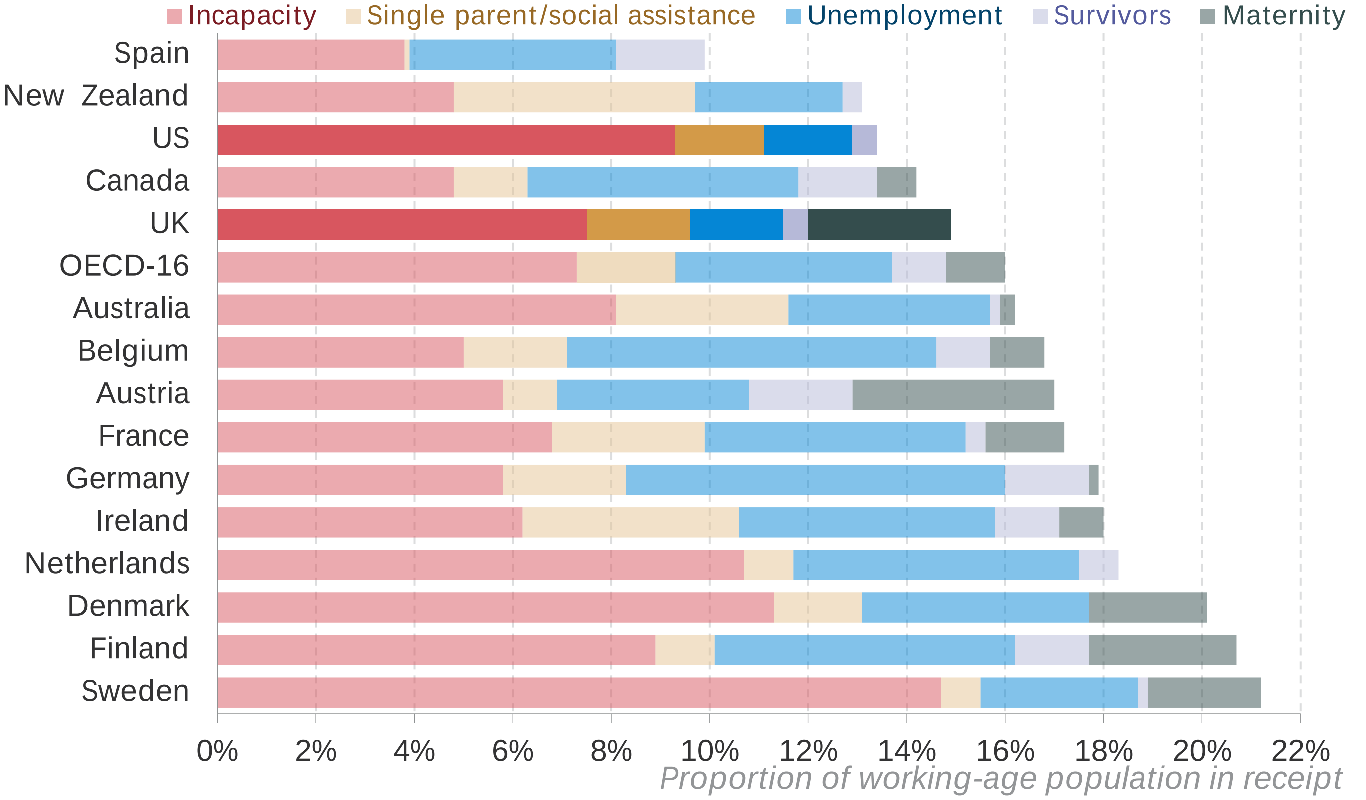
[15] This is likely to have a bearing on the SNAP figures too, because single parents – particularly single mothers – are the most likely to be in receipt of this benefit (J Carson & W Meub, Recent data show continued growth in Supplemental Nutrition Assistance Program use, The Carsey School of Public Policy at the Scholars' Repository, 2013).

one such study – carried out by Duell et al[16] – we can both compare the UK and US on a reasonably consistent basis and assess where the two countries sat internationally before the financial crisis.

As before, of course, we need to proceed with caution when setting out cross-country assessments in this way. With very different benefit systems operating across different countries, changes in those regimes over time, and varying economic circumstances, it is hard to draw definitive conclusions about variations in levels of welfare reliance. However, the approach taken by Duell et al. is to collate OECD data for five categories of out-of-work benefits: survivors (widow(er)hood); maternity (and paternity); and – the big three in most countries – disability; unemployment; and social assistance (which is dominated by single parents.[17]

Figure 6 presents data across these five groupings for 2004, and thus represents the international picture near the top of the long employment upswing prior to the financial crisis.[18] It gives the proportion of working-age adults in receipt of a major out-of-work benefit.

Figure 6:
Out-of-work benefit receipt among the working-age population: selected OECD countries, 2004



Source: OECD beneficiary database as reported in N Duell, D Grubb and S Singh, 'Activation Policies in Finland', *OECD Social, Employment and Migration Working Papers, No. 98*, OECD, 2009. Figures are estimates and should be considered approximate.

[16] N Duell, D Grubb & S Singh, 'Activation Policies in Finland', OECD Social, Employment and Migration Working Papers, No. 98, OECD, 2009

[17] It is these final three which we focused on in Figure 3.

[18] In some cases people may be doing a small amount of work but not enough to end eligibility for the key out-of-work benefit; and where the benefit is an SI benefit there will often be a working partner in the household (though this is rare in the UK) and so it does not necessarily mean that the household is welfare reliant.

Since the financial crisis, of course, the number of people out-of-work – and therefore welfare reliance – has tended to increase across all countries

The US recorded very similar levels of welfare reliance to the UK in 2004, with around 13 per cent of the working-age population in receipt of an out-of-work benefit in the US and 15 per cent in the UK (though this figure drops to 12 per cent if we exclude maternity/paternity support, which the US does not provide). And we have seen that while UK welfare reliance fell between 2004 and 2007, it rose slightly in the US.

Figure 6 shows that the countries with the lowest proportions of working-age adults in receipt of an out-of-work benefit in 2004 were the Anglophone countries (the US, UK, Canada, Australia and New Zealand) and Spain.

In Spain, this reflects the fact that there is – as in the US – very little access to means-tested SA benefits or maternity support. While contribution-based SI benefits *are* available, many of those on temporary contracts are ineligible. As such, those without recent steady employment records face very limited access to state support. This often places the family at the centre of social support, with the full-time male breadwinner supporting those out-of-work in extended families.

In contrast, the Australian and New Zealand models have more in common with the UK approach. That is, universal access to means-tested SA safety nets but heavy restriction on the generosity and eligibility of contributory SI benefits. This means that those with a working spouse can generally only claim out-of-work benefits for a limited period before the family means-test kicks in.

Welfare reliance was substantially higher in the other European countries, where extensive SI and SA benefits tend to sit alongside each other, and highest of all in Northern Europe. However, this was the situation pre-crash.

The UK and US trends since 2007 sit at opposite ends of international experience

Since the financial crisis, of course, the number of people out-of-work – and therefore welfare reliance – has tended to increase across all countries. Precise magnitudes have varied depending not just on the depth of the downturns experienced across countries, but also on the nature of their labour markets and welfare regimes.

Figure 7 uses new, and as yet unpublished, OECD data to present trends in working-age benefit receipt between 2007 and 2012. Unlike the other figures included in this note, this data covers caseloads rather than individuals or families. That is, there is no adjustment to account for the fact that individuals might be in receipt of more than one benefit at the same time. It also covers a broader range of benefits, though we have excluded those that are least obviously associated with out-of-work welfare (such as Child Tax Credit in the UK).

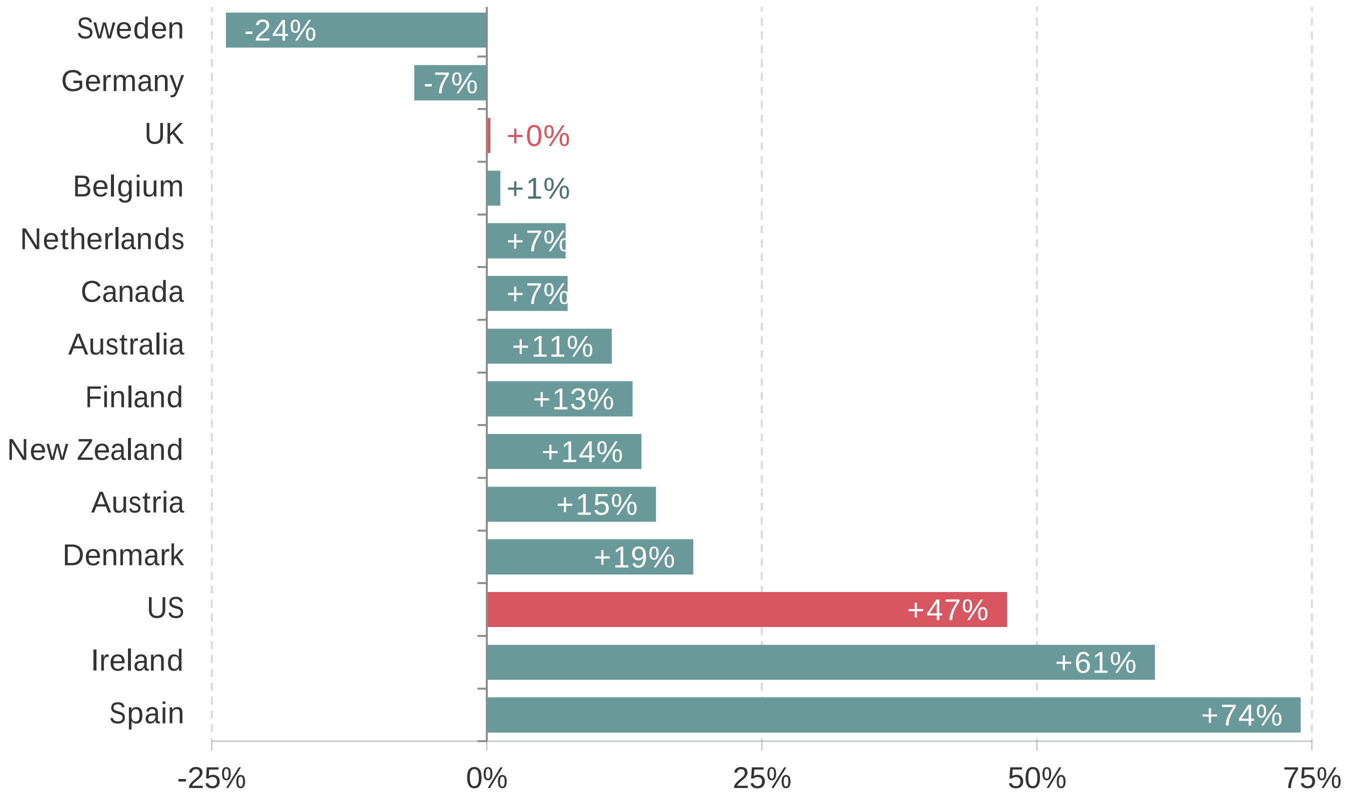
We cannot therefore compare *levels* across countries post-crash. However, trends *within* each country should be broadly internally consistent provided there has not been a major shift in the degree of multiple benefit holding.[19]

[19] We exclude France and Italy because the data has significant missing information or changes in the structure of benefits which make comparisons over time problematic.

Figure 7:

Cumulative change in working-age welfare caseloads across selected OECD countries: 2007-2012

Change in working-age benefit caseload rates, 2007 to 2012



Source: Unpublished OECD data

For most countries, welfare caseloads increased by between 10 per cent and 15 per cent after 2007. The increase in the UK was broadly in line with this typical change, but it recorded a far quicker reduction in caseloads after 2009 than other countries meaning that receipt had returned roughly to where it was in 2007 by 2012.

In sharp contrast, the US stands out as an outlier, with only Spain and Ireland having had greater increases. As discussed above, this in part reflects the fact that the US uses time limits on eligibility for welfare, which are temporarily extended during periods of downturn. It may also reflect some increase in SNAP receipt among working, but very low earning, households. However, the sharp rise in the US also reflects the large fall in employment shown in Figure 1.

The combined effect of the recession and extending the normal time limits on welfare receipt – making the system more akin to a universal safety net – meant that the US was no longer a country with low welfare reliance. Combining the stories of Figures 4 to 7 (while accepting the obvious issues in relation to data comparability, which mean this is not possible in a practical way) would suggest that the US would sit somewhere towards the upper end of OECD countries in 2012. This would of course be a temporary position though, with the reversal of time limit extensions serving to reduce benefit coverage more recently.

Illustrative rather than definitive though this exercise is, it shows how important time limits are to capping welfare reliance in the US. It's worth noting for instance that the ending of the extensions for UI that applied in the recession has been linked to a portion of the employment growth in 2014.[20]

Following the same logic, we can note that the UK appears to have performed better still on employment via other methods of financial incentives, activation and support systems; all while maintaining a universal safety net and securing much better outcomes on child poverty for instance. Combining Figures 6 and 7 would mean the UK having one of the lowest levels of welfare receipt anywhere in the OECD by 2012, reaching the levels roughly shared by Canada and New Zealand.

[20] M Hagedorn, I Manovskii & K Mitman, *The Impact of Unemployment Benefit Extensions on Employment: The 2014 Employment Miracle?*, NBER Working Paper No. 20884, 2015

Section 3

What policy lessons can we draw from recent UK and US experiences?

The findings set out in the first two sections of this note might come as a surprise to many. Aside from a brief period post-2007, the UK has enjoyed 20 years of high employment and falling levels of welfare reliance – even when employment was stable. Receipt of one of the three major out-of-work benefits, as a share of the working-age population, is now as low as it's been since 1980 and is among the lowest recorded across advanced economies. Worklessness among couples with children where neither adult is disabled has fallen to very low levels.

The UK has fared particularly well relative to the US, where employment and participation rates have been drifting downwards and out-of-work benefit receipt has been rising. Far from disincentivising work and increasing welfare reliance, the UK approach of maintaining a universal safety net of relatively generous means-tested benefits (compared to the US at least) appears to have produced superior outcomes. Indeed, the UK's experience may add weight to the case for supportive welfare, maternity and childcare programmes.

In this final section we explore some of the policy lessons that can be taken from the UK and US experiences of the past 20 years, alongside considering the areas in which the UK still has room for improvement.

Differences in recent economic fortunes have played a limited role in explaining the big switches between the UK and US…

As touched on in Section 1, there have been relatively few differences in overall economic performance in the UK and US in recent years. Both grew strongly during the 1990s and much of the 2000s, with the US experiencing a modest slowdown in the early-2000s following the bursting of the 'dot-com' bubble. Both economies contracted after the financial crisis of 2007-08, with the slowdown being much more pronounced and sustained in the UK than the US.

The fact that UK economic growth hasn't consistently outperformed the US would suggest that variations in overall macroeconomic outcomes can offer little explanation for differences in employment rates and welfare reliance over the past 20 years. However, it is worth noting that the post-2007 downturns have differed in an important way, with wages playing a key role. As discussed in Box 2, unprecedented real wage falls in the UK in this period go some way to explaining its recent employment success.

Box 2: Wages in the UK and US

Despite suffering a deeper and more prolonged economic downturn post-financial crisis, the UK's economic recovery has been substantially more jobs-rich than the one recorded in the US (and, indeed, in most other countries).

The flipside of this has been a far worse record on productivity and wages. Using OECD data for average real annual wages, Figure 8 shows the pre-crisis growth in real pay in the UK, as well as the six-year fall after 2007. Real pay had fallen by almost 6 per cent by 2013, taking it back to around its 2003 level. In contrast, average real pay in the US by 2013 was 2 per cent above its previous peak, and only ever fell by around 1 per cent. US pay performance post-crisis has not been strong, but it has certainly outperformed the UK by some margin, with the UK losing all of the ground it had gained against the US between 2000 and 2007.[1]

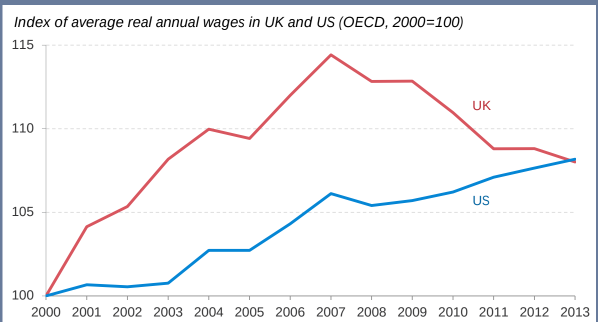


Figure 8:
The divergence of UK and US real pay trends

Source: OECD.Stat, 2013 prices using personal consumption expenditure deflator

[1] Note that this is average (mean) pay and that trends across the pay distribution may differ. It is well known that median pay in the US had been in long-term stagnation pre-crisis.

Research has suggested that the UK performance reflects an increased sensitivity of real wage growth to unemployment (and underemployment) through this downturn.[2] Rising unemployment has always dampened real wage growth, but this cycle (and the regions that were hardest hit) produced a far greater wage response than has previously been the case. This increased sensitivity may have arisen before the downturn.

In explaining why this relationship should have altered in the UK specifically, there are two likely factors. The first is the decline in trade union influence experienced between the recession of the early-1990s and 2007. The second is the sustained series of welfare reforms arising since the mid-1990s which both encouraged people to accept lower wages for jobs (with incomes supported by in-work tax credits) and pushed them to job-seek using welfare behaviour conditions (which did not exist in the 1990s recession and are far more limited in the US) as well as the extensive system of job search assistance under the New Deal and now the Work Programme. In effect, the unemployed became closer substitutes for those in work.

A further possibility is that the UK's fall in real wages post-2007, which in turn helped buoy employment, was aided by a period of relatively high price inflation. US inflation post-crisis was lower, making nominal wage stickiness more of a problem and potentially shifting more of the burden of lower demand onto job losses.[3]

[2] P Gregg, S Machin & M Fernández-Salgado, *Real Wages and the Big Squeeze*, Economic Journal, May 2014, 408-432

[3] M Daly & B Hobijn, Downward Nominal Wage Rigidities Bend the Phillips Curve, Journal of Money, Credit and Banking, 2014

But, while UK wage falls may have been an important part of the recent divergence in employment, it is worth noting that wage stagnation has been an issue in the US over a much longer period. And the overall growth in average wages over the last 15 years is very similar in the two countries. So the wage story can only contribute to explaining the most recent part of the UK's relative success, and even here lower wages are normally associated with lower – not higher – participation.

With differing approaches to welfare appearing to offer an additional explanation for the divergence…

As set out in Section 2, both the UK and US have been at the forefront of welfare reform since the mid-1990s. And, while the approaches taken have some similarities, there has been a major divergence at the heart of the two welfare systems.

The UK and US both sought to increase in-work financial support, through tax credits and other tax reductions, to 'make work pay'. However, they adopted very different approaches in relation to generosity and eligibility, with the UK creating a far more generous and extensive in-work financial support system, especially when rent support and childcare are considered. This makes entering working more attractive than it was, but withdrawal of tax credits produces high effective tax rates and therefore can dis-incentivise working more.

More generally, the UK focus on conditionality and associated job-search support has contrasted with a US emphasis on time limits on receipt. The UK has also invested significantly more in improving maternity rights and putting in place a nationwide childcare system that helps parents with costs as well as enabling flexible working.

The decline in welfare reliance in the UK has been focused on families with children and most notably single parents where – unlike in the US – employment gains have been large and sustained. This decline in children living in workless households for given levels of employment will be explored further in a follow up note, but is likely to be linked to changes in work incentives, greater availability of childcare and a progressive strengthening of required job search activities for single parents over this period.

A combination of low reliance with a universal and relatively generous safety net (compared to the US) seems superior on both efficiency (e.g. high employment and labour supply) and social welfare grounds (e.g. relative child poverty). Although there are of course significant costs to operating such a system, which in the next few years are likely to be subject to substantial cuts.

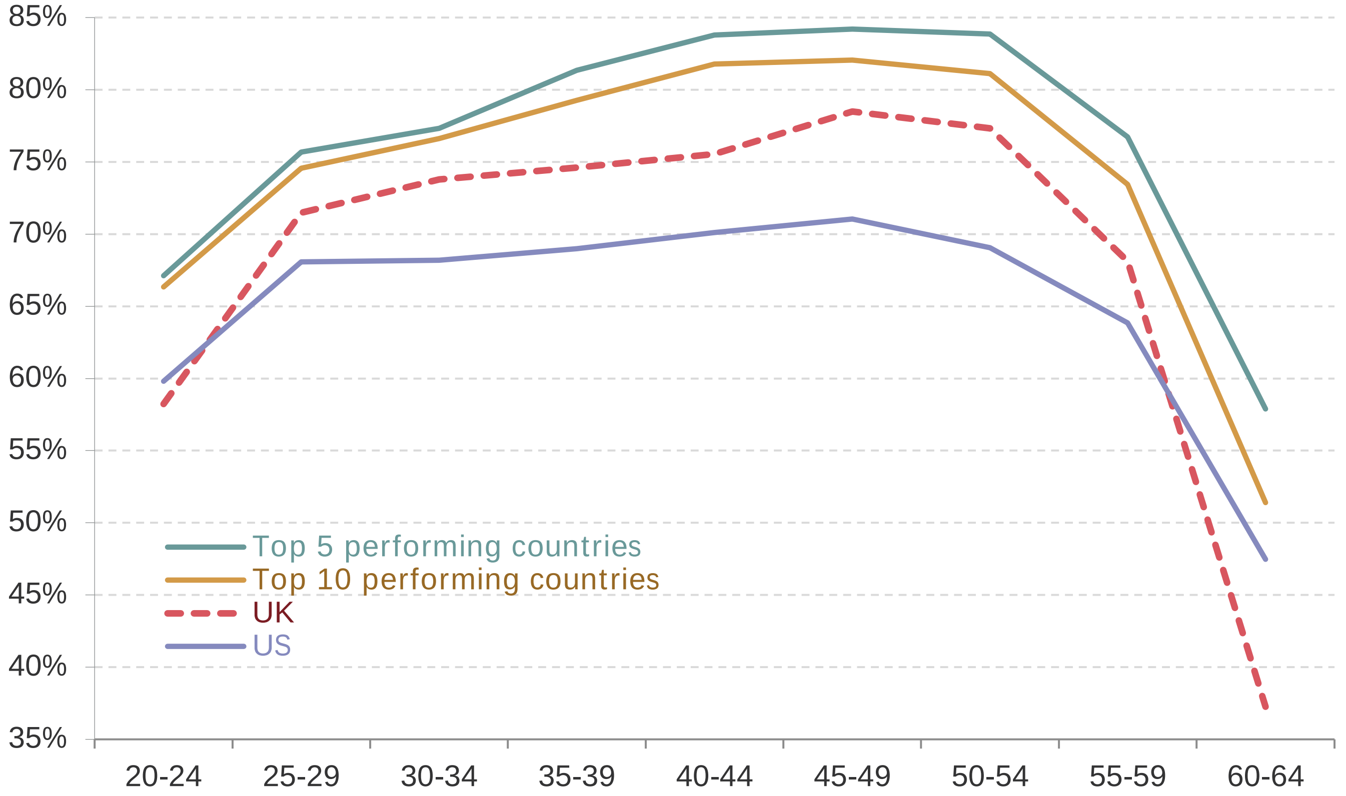
But there is still more for the UK to do on worklessness…

The UK's welfare success seems to reflect substantive policy reforms and financial investments. However, an increased sensitivity of pay growth to the unemployment rate may mean that the UK both can and – given the tough fiscal environment – must, go further. The level of employment that corresponds with 'full employment' may now be higher than previous norms – at least anything we've seen since the 1980s.

As opportunities for cyclical employment growth unwind, the policy focus will increasingly be on those groups who still struggle to gain a foothold in the labour market. This will include young people and the less educated. And we shouldn't lose sight of the fact that there is still potential for further increases in mothers' – and especially single mothers' – employment. As Figure 9 overleaf shows, despite improvements in recent years (and despite a large gap over the US at most ages), female employment rates in the UK remain someway off those of the best performing countries – especially in the prime childrearing ages.

Figure 9:
Female employment rates in the UK, US and top performing nations

Female employment to population ratio by age, 2013



Notes: 'Top 5' cover Iceland, Sweden, Norway, Switzerland and Finland. 'Top 10' additionally includes Denmark, Germany, Canada, New Zealand and the Netherlands.

Source: OECD Employment Database 2014

Important though these groups will prove, the greatest scope for further reducing joblessness levels in the UK is likely to come in relation to disability. Stubbornly high (and recently rising) levels of out-of-work disability benefit claims point to a clear need for new policy approaches.

We will return to these opportunities and challenges in our future paper on full employment.

Alongside a need for a new focus on job quality and pay progression…

The decline in joblessness has, however, another legacy. Working-age welfare spending is now dominated by the extensive and expensive in-work financial support system. Child poverty is also now increasingly dominated by the working poor. With real wages having fallen back to their 2003 level, securing a new period of strong and sustained pay growth is likely the most important social policy challenge of the next decade.

This therefore increasingly means that the focus of policy needs to shift from the *availability* of work toward the *quality* of this work in terms of pay, progression and stability.

Major cuts to in-work supports, particularly where these are focused on mothers, run the risk of pushing us toward the US model; lowering labour force participation and undoing some of the huge progress made in the UK over the last two decades. Tough though the fiscal backdrop is, the introduction of Universal Credit provides an important new opportunity to build on the UK's successes and implement welfare changes that strike the right balance between support for those with the lowest incomes, work incentives and taxpayer costs. With this in mind, the Resolution Foundation will shortly publish a major review which will set out a blueprint for reform.

Which may form an important part of the response to future downturns

The past few years have produced numerous unexpected outcomes and puzzles in the UK and US jobs markets. It remains to be seen how far US employment will recover. Likewise, it is unclear whether wages in the UK will recover any or all of the ground lost over the course of the six-year pay squeeze.

Also uncertain is the extent to which the UK's benign employment record through the downturn was exceptional. It clearly was exceptional internationally and compared with previous recessions in the UK, but might it be a one-off? This cannot be answered definitively until we have had the next recession, but a permanent shift towards a pattern of *relatively* small rises in unemployment alongside severe wage falls has important implications for policy responses during downturns. It would point, for instance, to an important ongoing role for in-work support.

Future reports in this project will explore these and other questions in more detail to help provide a roadmap to 'full' employment in the UK. What's clear is that the UK's recent experience may provide food for thought for welfare regimes and the nature of growth in the US and other countries, and vice versa.

Resolution Foundation

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- *developing practical and effective policy proposals; and*
- *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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