2017 Article IV Consultation for the United States of America
Main Messages

The U.S. economy is in its third-longest expansion since 1850. Real GDP is now 12 percent higher than its pre-recession peak, job growth has been persistently strong, and the economy appears to be back at full employment. Growth is projected at 2.1 percent in 2017–18 with an unemployment rate of around 4¼ percent.

Like many other advanced economies, the U.S. is being confronted with secular changes on multiple fronts: technological change that is reshaping the labor market, low productivity growth, rising skills premia, and an aging population. As was pointed out in the administration’s budget: household incomes are stagnating for a large share of the population (in inflation-adjusted terms, more than half of the U.S. population has lower incomes today than they did in 2000); job opportunities are deteriorating with many workers too discouraged to remain in the labor force; prospects for upward mobility are waning; and the poverty rate (at 13.5 percent) is one of the highest among advanced economies. The U.S. economic model is not working as well as it could in generating broadly shared income growth. The right policy package represents an upside risk to growth and would serve to ensure a broad-based improvement in living standards. The following changes could help:

Fiscal policy We support the intention to reduce the debt-to-GDP ratio over time through a sustained but gradual reduction in the general government deficit, starting in the fiscal year 2018. This adjustment ought to be achieved through both higher revenues and lower spending.

Monetary policy The Fed should continue to gradually raise policy rates in a data dependent way and be ready to accept some modest, temporary overshooting of its inflation goal. Plans for reducing the Fed’s balance sheet should be well-telegraphed and the recent addendum to the policy normalization principles and plans provides market participants with a clear path that will help avoid undue volatility in fixed income markets.

Tax reform We agree that the U.S. needs a fundamental tax reform to make the tax system simpler, with lower tax rates and fewer exemptions. The redesign of the tax system should aim to incentivize labor force participation, mitigate income polarization and support low- and middle-income households. Tax reform should focus on increasing revenues-GDP over the medium term including through a broad-based federal level consumption tax, a carbon tax, and a higher federal gas tax.

Trade We welcome the U.S. commitment to free, fair and mutually beneficial trade and to improving the rules-based international trading system. There is scope to modernize trade agreements, including NAFTA, in a way that is mutually beneficial for all signatories. The U.S. would benefit by remaining open as it pursues new or amended trade agreements.

Infrastructure	We agree that there is a case for a significant increase in public spending on maintenance, repair and new infrastructure projects.
Immigration	Skills-based immigration reform would enhance labor force participation and productivity, job creation and growth, and would help ease the medium-term fiscal challenges.
Supporting low- and middle-income households	Improving educational opportunities and outcomes, offering childcare support for low- and middle-income families, and introducing paid family leave would encourage labor supply, raise human capital, and help mitigate income polarization. Similarly, expanding the Earned Income Tax Credit, increasing the federal minimum wage and improving the design of social assistance programs would help increase work incentives and support the most vulnerable.
Financial regulation	Important gains have been made in strengthening the financial oversight structure since the global financial crisis. There is scope to fine-tune some aspects of the system, notably to reduce the compliance burden for smaller banks. However, the current approach to regulation, supervision, and resolution should be preserved.
Deregulation	A simplification and streamlining of federal regulations, as well as an effort to harmonize rules across states, could stimulate job creation and growth. Care should be taken to avoid negative consequences from such changes for the environment, workplace safety, or protections for lower income workers.