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Executive summary

- Main findings
- Key recommendations
Main findings

*A welcome recovery, which could be boosted by tax and other key reforms*

The US economy is recovering from the Great Recession and near-term prospects are favourable. The sector of manufacturing durables is enjoying a particularly strong revival thanks to more competitive labour costs and low energy prices. The recovery is more sluggish than after past recessions because the damage of the financial crisis has not been fully repaired, government spending has exerted an unusual drag and, finally, the long-expected retirement of baby-boomers has depressed the labour supply. Hence, removing obstacles to growth comes with a certain degree of urgency. For this, tax reform has a key role to play: business investment is discouraged by high marginal tax rates while numerous tax expenditures distort resource allocation. Aggressive tax planning by multinational firms also imposes a higher tax burden on everybody else; and individual taxpayers face costly compliance obligations. Other key reforms could also improve long-term growth prospects, notably policies to raise labour-force participation, improve immigration laws, help parents with young children and ease access to quality education for lower-income groups.

*Well-being is distributed unequally*

Americans enjoy, on average, high levels of income and well-being, thanks to the country’s dynamic economy and thriving business sector. Nonetheless, there is evidence to suggest that the benefits from these gains have not been sufficiently broad based. Self-reported happiness increases with income, an issue particularly resonant in a country with among the highest levels of income inequality in the OECD and a pattern of income distribution that appears to be moving toward even more concentration at the very top. Low-income families face particularly tough conditions in terms of jobs, incomes, education and healthcare. These trends cannot be easily reversed but a number of options could help to improve job quality and work-life balances, especially for working families with young children. If successfully adopted, they would go a long way toward improving well-being.

*Making the best of new energy resources*

An “energy renaissance” is underway, thanks to abundant stocks of shale oil and gas being made accessible by new technologies, such as hydraulic fracturing. The United States is now the largest producer of natural gas in the world. The abundance of resources has caused welcome economic booms in some states, where governments should seize this opportunity to invest in skills and infrastructure to benefit future generations. Policies and investments are needed to mitigate the environmental risks, such as water pollution. The production of renewable energy has also expanded markedly, notably wind and solar power, which have both doubled in capacity since 2008 despite very low natural gas prices.
Key recommendations

Strengthening economic growth

Comprehensive tax reform
- Cut the marginal corporate income statutory tax rate and broaden its base, notably by phasing out tax allowances.
- Act towards rapid international agreement and take measures to prevent base erosion and profit shifting (BEPS).
- Make the personal tax system more redistributive by restricting regressive income tax expenditures.

Macroeconomic policy and financial stability
- Fiscal policy needs to remain cautious and prepared to take actions to ensure longer-term sustainability.
- Gradually reduce and ultimately remove monetary accommodation as the economy approaches full employment and inflation returns to the Fed's 2% target.
- Continue to roll out macro-prudential policy tools, including those associated with the Dodd-Frank Act and those addressing vulnerabilities in wholesale funding, repo market and money-market mutual funds.
- Reform the housing finance system to ensure access to mortgage credit of creditworthy homebuyers while providing better guarantees of financial stability and avoiding again exposing taxpayers to costly bailouts.

Improving well-being

Job quality
- Raise labour earnings at the low end by expanding the EITC, which would be more effective if supported by a higher minimum wage.
- Strengthen the portability and recognition of training by involving employers in programme design.
- Provide comprehensive work support to get disability recipients back to work.

Work-life balance
- Provide support to parents with young children by expanding access to paid family leave nationally.
- Help states develop right-to-ask policies to support flexible working arrangements.
- Increase access of low and moderate-income families to quality preschool and childcare.
- Work with employers in preventing the negative effects of job strain on mental health, prolonged sick leaves, job loss and disability-benefit claims.
Making the best of new energy resources

**Hydraulic fracturing**

- Study the environmental impacts of hydraulic fracturing and develop regulations to address any negative impacts including, if necessary, legislative action to harmonise regulation across states and strengthen ex ante environmental impact assessments for drilling projects.
- Invest in skills and infrastructure using receipts from profit taxes levied on oil and gas production.

**Climate change**

- Further lower emissions with efficient policy tools, as part of the climate-change strategy, notably by putting a price on greenhouse gas emissions, though well-designed regulation and investment in renewables also have a role to play.
- Promote innovation in energy saving and low carbon technology.
Assessment and recommendations

- The economy is recovering.
- Structural reforms, including comprehensive tax reform, can boost long-term growth.
- Financial reform should be rolled out fully.
- Labour market reform can boost employment.
- Americans are generally happy, although working families face rising pressures.
- Making the best of new energy resources.
Six years after the onset of the financial crisis, the US economic recovery is regaining momentum. Real GDP is about 6% above its pre-crisis level, the housing sector is beginning to recover, banks have returned to health, corporate profitability is high and equity prices have reached new peaks. The energy boom led by hydraulic fracturing brings a welcome impulse to growth. Many Americans have benefited from the recovery: job growth has been steady, unemployment has fallen and house prices are again rising – all helping to restore higher levels of consumer confidence. Yet, this is not a “business-as-usual” recovery. The economic rebound has been weaker than after past recessions (Figure 1), not only because of the lingering effects of the financial turmoil but also due to unusually large cut-backs in public spending, including government employment, and the long-expected retirement of baby boomers.

While the recovery is welcome, many families are being put under financial pressure by stagnant real incomes, underwater mortgages and high costs of education and healthcare. Many workers feel that their jobs interfere excessively with their family lives, making it challenging to achieve a satisfactory work-family balance. Environmental challenges also remain acute, although investments in renewable energy supplies have improved markedly.

Progress has been made in addressing some of these challenges. Congress and the Administration have extended expiring tax reliefs for the middle class and sought to avoid draconian cuts in discretionary spending. The Affordable Care Act has allowed millions of previously uninsured persons to obtain health coverage.

This report first addresses remaining macroeconomic and financial challenges, then reviews the pressures on working families, and finally discusses the consequences of the boom in hydraulic fracturing.

The economy is recovering

Economic growth is expected to gain speed through 2014 and 2015. Steady labour-market gains will provide support to private consumption. Combined with low mortgage rates and demand from household formation, this should boost house prices and construction. Corporate balance sheets look healthy (Figure 2) and cash assets are plentiful, which will facilitate a rebound in business investment once aggregate demand accelerates. The fiscal stance, which exerted a drag on the recovery, has become significantly less restrictive. All told, economic activity is projected to increase by about 2½ per cent (year-on-year) in 2014 and 3½ per cent in 2015 (Table 1).

Activity is picking up in several sectors. Technological breakthroughs in hydraulic fracturing have boosted the extraction of energy resources, driving down natural gas prices and enhancing prosperity in energy-producing states. The production of manufacturing durable goods is enjoying a strong revival, thanks to lower unit labour costs, real effective exchange-rate depreciation and cheap energy (Celasun et al, 2014). The service sector is also growing, particularly the information, communication and technology sectors. Overall, the rebound has been broadly balanced, making it more resilient than if it was concentrated in only a few industries.
Figure 1. The economic recovery in historical perspective

1. Consists of utilities; wholesale trade; retail trade; transportation and warehousing; information; finance, insurance, real estate, rental, and leasing; professional and business services; educational services, health care, and social assistance; arts, entertainment, recreation, accommodation, and food services; and other services, except government.

Source: OECD Economic Outlook database, Bureau of Economic Analysis and Datastream.
### Table 1. Macroeconomic indicators and projections

Annual percentage change, constant prices

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tr>
<td><strong>GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private consumption</td>
<td>2.5</td>
<td>2.2</td>
<td>2.0</td>
<td>2.9</td>
<td>3.2</td>
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<tr>
<td>Government consumption</td>
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<td>-0.2</td>
<td>-2.0</td>
<td>-0.5</td>
<td>0.0</td>
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<td>Gross fixed capital formation</td>
<td>3.4</td>
<td>5.5</td>
<td>2.9</td>
<td>3.5</td>
<td>9.2</td>
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<tr>
<td>Housing</td>
<td>0.5</td>
<td>12.9</td>
<td>12.2</td>
<td>4.9</td>
<td>15.8</td>
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<td>Business</td>
<td>7.6</td>
<td>7.3</td>
<td>2.7</td>
<td>5.3</td>
<td>10.1</td>
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<tr>
<td>Government</td>
<td>-5.3</td>
<td>-4.0</td>
<td>-3.2</td>
<td>-3.4</td>
<td>-0.2</td>
</tr>
<tr>
<td>Final domestic demand</td>
<td>1.8</td>
<td>2.4</td>
<td>1.6</td>
<td>2.6</td>
<td>3.9</td>
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<tr>
<td>Stockbuilding</td>
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<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.0</td>
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<tr>
<td>Total domestic demand</td>
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<td>2.6</td>
<td>1.7</td>
<td>2.8</td>
<td>3.9</td>
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<tr>
<td>Exports of goods and services</td>
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<td>3.5</td>
<td>2.7</td>
<td>2.7</td>
<td>5.3</td>
</tr>
<tr>
<td>Imports of goods and services</td>
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<td>1.4</td>
<td>3.1</td>
<td>7.2</td>
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<td>Net exports</td>
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<td>0.1</td>
<td>-0.2</td>
<td>-0.5</td>
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<td><strong>Other indicators (growth rates, unless specified)</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Potential GDP</td>
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<td>1.9</td>
<td>2.0</td>
<td>2.1</td>
<td>2.3</td>
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<td>Output gap</td>
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<td>-3.4</td>
<td>-3.5</td>
<td>-3.1</td>
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<td>Employment</td>
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<td>1.8</td>
<td>1.0</td>
<td>1.6</td>
<td>1.6</td>
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<td>Unemployment rate (% of labour force)</td>
<td>8.9</td>
<td>8.1</td>
<td>7.4</td>
<td>6.5</td>
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<td>Consumer price index</td>
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<td>2.1</td>
<td>1.5</td>
<td>1.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Core consumer prices</td>
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<td>1.8</td>
<td>1.2</td>
<td>1.3</td>
<td>1.6</td>
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<td>Household saving ratio, net³</td>
<td>5.7</td>
<td>5.6</td>
<td>4.5</td>
<td>4.5</td>
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<td>Current account balance⁴</td>
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<td>-2.7</td>
<td>-2.3</td>
<td>-2.5</td>
<td>-2.9</td>
</tr>
<tr>
<td>General government financial balance⁴</td>
<td>-10.7</td>
<td>-9.3</td>
<td>-6.4</td>
<td>-5.7</td>
<td>-4.5</td>
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<tr>
<td>Underlying government primary balance⁵</td>
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<td>-4.8</td>
<td>-3.0</td>
<td>-2.4</td>
<td>-1.7</td>
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<tr>
<td>General government gross debt⁴,⁵</td>
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<td>102.1</td>
<td>104.3</td>
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<td>106.5</td>
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<td>General government net debt⁴,⁵</td>
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<td>80.0</td>
<td>81.2</td>
<td>83.8</td>
<td>84.1</td>
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<td>Three-month money market rate, average, in %</td>
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<td>0.3</td>
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<td>0.9</td>
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<td>Ten-year government bond yield, average, in %</td>
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<td>1.8</td>
<td>2.4</td>
<td>3.0</td>
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**Memorandum items**

<table>
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<th>Indicator</th>
<th></th>
<th></th>
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</tr>
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<tbody>
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<td>Federal budget surplus/deficit⁴</td>
<td>-8.0</td>
<td>-6.5</td>
<td>-3.3</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Federal debt held by the public⁴</td>
<td>65.8</td>
<td>70.1</td>
<td>72.1</td>
<td>...</td>
<td>...</td>
</tr>
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</table>

1. Contribution to changes in real GDP.
2. As a percentage of potential GDP.
3. As a percentage of household disposable income.
4. As a percentage of GDP.
5. General government shows the consolidated (i.e., with intra-government amounts netted out) accounts for all levels of government (central plus state/local). This measure is not the same as federal debt held by the public, which is typically reported in US budget analysis.

Source: OECD, Economic Outlook 95 database and the Congressional Budget Office.
The fiscal situation has improved markedly (Figure 3, Panel A), as the federal budget deficit has fallen to just over 4% of GDP for fiscal year 2013. The 2011 Budget Control Act forced a fast pace of consolidation and the expiration of tax reliefs contributed to significant budgetary savings. The 2013 Bipartisan Budget Act provided greater stability for fiscal policy than in the recent past and, with the falling deficit, the pace of fiscal consolidation is now appropriately set to slow. The Congressional Budget Office (CBO) estimates that the federal deficit will fall by another 1.3 percentage points of GDP over fiscal year 2014 to 2.8% of GDP (CBO, 2014a).

Medium and long-term fiscal projections have improved considerably, reflecting the fast pace of deficit reduction in 2012-13 as well as the significant slowdown of healthcare costs since 2010, which if sustained, could sharply attenuate long-term increases in Medicare spending. Persistently low long-term interest rates have also played a role. As a result, federal debt projections have been revised down and CBO (2014a) now expects the debt-GDP ratio to remain flat for the next ten years or decline moderately if the Administration’s budget were adopted (Figure 3, Panel B). However, total public debt remains high by OECD standards (Figure 3, Panel C) and entitlement spending over the longer term is difficult to predict, notably given the effects of rising longevity and retirement decisions. Mainly because of the ageing population, rising health costs, expansion of federal subsidies for health insurance and growing interest payments on federal debt, CBO (2014b) projects that, if current law does not change, deficits will rise from 2.6% of GDP in 2015 to about 4% of GDP in 2024. To lock in recent improvements in the underlying budgetary position, fiscal policy needs to remain cautious and prepared to take actions as necessary to ensure longer-term sustainability. Other policies discussed in this report, such as tax reform and
immigration reform, as well as entitlement reform, would also help improve the medium and long-term outlook.

Figure 3. The budget deficit has fallen and fiscal projections have improved

1. The CBO baseline projections are based on current law. The 2012 CBO alternative projection assumes that the middle class tax cuts would be extended and the automatic spending cuts required by the Budget Control Act of 2011 do not take effect; Congress approved these measures in 2013. The Bureau of Economic Analysis introduced a comprehensive revision of GDP in 2013, which revised up the level of GDP and thereby reduced the debt-to-GDP ratio (by between 2-3 percentage points in 2012). Information on the impact of the revision on budget aggregates is available at http://www.cbo.gov/publication/44508.

2. General government shows the consolidated (i.e., with intra-government amounts netted out) accounts for all levels of government (central plus state/local) based on OECD national accounts. This measure differs from the federal debt held by the public, which was 72% of GDP for the 2013 calendar year.

3. OECD average excluding Turkey, Chile and Mexico.

Source: OECD, Economic Outlook database and the Congressional Budget Office.

To counter the crisis, the Federal Reserve has maintained a very accommodative policy stance by holding its policy rates essentially at zero, engaging in extensive “quantitative easing” (that is, by purchasing large amounts of Treasury bonds and mortgage-related securities), and providing forward guidance about the future path of the policy rate, thus supporting aggregate demand. Owing to the depth of the downturn following the 2008 crisis, both headline and core inflation remain below the Federal Reserve’s objective of 2% over the medium term (Figure 4, Panel A) and wage growth remains weaker than before the crisis (Figure 4, Panel B). With the economic recovery gaining momentum, the Federal Reserve decided to cut back
gradually the amounts of its asset purchases. The gradual reduction in purchases will, at the present pace, be completed by the end of 2014. A gradual exit from unconventional monetary policy and increases in interest rates should begin as the economy approaches full employment and inflation returns to the Fed 2% target. While there is considerable uncertainty as to when this will be achieved, the first increase in interest rates is assumed by the OECD to take place in mid-2015.

Figure 4. **Inflation is running below the FOMC objective**

With asset prices being one of the transmission channels of unconventional monetary policy, the Federal Reserve’s liquidity injections have affected financial markets. Together with robust corporate earnings, this has boosted equity returns, with stock market indexes reaching new highs (Figure 5, Panel A). Price-earnings ratios are now well above the averages in cyclically-adjusted terms since 1880, though they are still in the average range observed since the early 1990s (Figure 5, Panel B). In debt markets, high-yield bond issuance has increased rapidly and yields have come down, while house prices have risen substantially, though in real terms they are still below their pre-crisis peaks and mortgage debt has not risen. These developments were partially expected, but continued monitoring is necessary to spot the possible emergence of another bubble-bust cycle. These financial stability concerns argue for exiting monetary policy accommodation gradually, together with introducing macro-prudential tools, as discussed below.
Renewed financial turbulence in emerging market economies (EME) is a downside risk. During 2013, policymaker communications regarding possible reductions in the pace of asset purchases spilled over internationally at times, with financial investors redirecting funds away from some EMEs, thus putting downward pressure on their currencies (Rawdanowicz et al, 2014). In the past, large reversals of capital flows triggered by increases in US interest rates contributed to financial crises in EMEs, especially in economies with large current account deficits, high levels of foreign debt and over-valued exchange rates (Calvo et al., 1996; Kaminsky et al., 1999). Abrupt and unanticipated increases in US interest rates could trigger turmoil in EMEs, which could then spill back to the United States (Olaberria, forthcoming). Estimates suggest that a decline by 2 percentage points in EME growth would reduce growth in the United States by 0.4 percentage points (Ollivaud et al., 2014). However, most EMEs are in a better position to absorb such a shock than in past episodes of US monetary policy tightening.

In addition to the risks in the financial markets mentioned above, the economic recovery is subject to other risks. On the negative side, the projected rebound of business investment might not materialise if firms’ expectations of growth fall. As well, the recovery of residential investment may not be as strong as projected if mortgage interest rates increase rapidly, if supply bottlenecks become serious impediments and if household formation does not return to normal. On the positive side, improvements in household finances could result in lower saving and more
consumption than projected. Economic growth could also be stimulated more robustly than expected by factors such as improved competitiveness and low energy prices. A rapid conclusion of the negotiations on Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) would also boost economic growth.

**Structural reforms, including comprehensive tax reform, can boost long-term growth**

Long-term growth is projected to remain lower than before the crisis. Although the recovery has been more robust in the United States than in most OECD countries, it appears likely that the severity of the financial crisis may have caused a durable loss in the level of output (Figure 6). In addition, growth may be held back by the ageing of population and the possible weakening of productivity growth (Gordon, 2014; Hall, 2014; OECD, 2014c). An environment of slower growth would make it more difficult to address financial, fiscal and social challenges. Hence, growth-friendly reforms come with a certain degree of urgency. In addition to tax reform, this includes progress to raise labour-force participation, change immigration laws, help parents with young children and ease access to quality education for lower-income groups.

![Figure 6. Output after the crisis](source: OECD Analytical Database.)

Tax reform, which has been on the agenda for some time, also has a key role to play (Auerbach, 2006; Altig et al, 2001). The Chairman of the Ways and Means Committee, one of the main Congressional committees responsible for tax legislation, issued a comprehensive proposal in early 2014, which provides a basis on which to move discussions forward. At 39.1%, the statutory corporate income tax rate (when combined with the average of state taxes) is the highest in the OECD and well above the OECD average of 25.5%. However, the corporate income tax base is narrow and effective rates vary widely across business sectors, limiting revenue and imposing large investment distortions. Cutting the statutory marginal corporate income tax
rate and broadening its base would also lower the incentive to shift business activity to non-corporate forms and support long-term growth (Arnold et al., 2011).

Another consequence of the current international tax rules is that multinational firms avoid paying taxes by using a host of legal provisions to narrow their tax base and shift their profits to low-tax foreign jurisdictions. The magnitude of these operations is so large that some multinational firms pay very low taxes, despite being highly profitable. In the current context of fiscal constraints and severe loss of trust in institutions, it is important that these firms pay their fair share of taxes. Taxes unpaid by multinational firms transfer the tax burden to everybody else, hence imposing distortions on other sectors. Reforms to combat base erosion and profit shifting (BEPS) would go a long way towards achieving this goal (Box 1) and towards supporting overall tax reform efforts by levelling the playing field. In this regard continued US leadership on the BEPS project is crucial for ensuring that such reforms are consistent and coordinated across countries.

Box 1. Base erosion and profit shifting (BEPS)

Base erosion in business income taxation through the exploitation of tax relief has also been accompanied by extensive profit shifting to no-tax or low-tax jurisdictions by US multinational enterprises (MNEs). As in other countries, significant numbers of these firms exploit domestic and international tax rules to reduce the effective tax rates on their worldwide profits to low levels, especially where they can keep profits offshore. This is evident in the rise in repatriated profits with the temporary reduction in the tax on repatriated profits in the 2004 America Jobs Creation Act. The current US business tax system for multinationals provides an incentive to keep profits abroad (estimates of the amount held offshore are as high as USD 1.9 trillion) and makes investment abroad more attractive. The G20 has voiced concerns about base erosion and profit shifting by MNEs and has recognised that no single country acting alone can effectively address these issues. Options for corporate tax income reform currently being debated in the US include: significantly lowering the statutory corporate income tax rate and taxing foreign affiliates’ profits as they are earned, changing to a territorial tax system and exempting dividends and other payments made by foreign affiliates, or introducing an intermediate solution, such as a territorial system combined with a minimum tax on foreign income.

Similarly, simplifying the personal income tax to eliminate exemptions and other complicated features would raise the efficiency of taxation and lower the cost of tax compliance. Many taxpayers need to hire a tax preparer just to file their tax returns. For example, a proposal to simplify tax returns for up to 40% of Americans was estimated to save 225 million hours and USD 2 billion in tax preparation fees (Goolsbee, 2006). Income tax statements pre-filled by the tax administration based on information available to them, as in France, Sweden and other OECD countries, would go a long way towards easing the burden of taxpayers. Although many income tax relief provisions seek to protect the poor, others end up benefiting mostly households in the highest quintile (CBO, 2013a). The recovery in the housing market provides an opportunity to reduce or remove mortgage interest relief for owner-occupiers, which is one of the costliest tax expenditures and is not matched by the taxation of owner-occupied imputed rental income (OECD, 2011). The US tax system was already
reformed in the past to curb interest deduction on consumer loans, credit cards, second homes and to cap the deduction on principal residences. Experience in other countries such as the United Kingdom and France demonstrates that phasing in caps (or phasing out the deduction altogether) can be successful.

The exclusion of employer-provided health insurance from individuals’ taxable income encourages costly insurance premiums and causes an excessive consumption of healthcare services (OECD, 2008; Carey et al., 2009). Even though provisions in the Affordable Care Act (ACA) seek to discourage high-cost insurance plans, eliminating the exclusion altogether remains important to realign incentives. Nonetheless, without the tax exclusion, companies may cease to provide health insurance as part of their compensation package. It is therefore important to have a well-functioning individual insurance market available to workers losing their employer-paid health insurance, which is one of the goals of the ACA.

Financial reform should be rolled out fully

Work is underway to strengthen the resilience of the financial sector. The Federal Reserve conducts every year a Comprehensive Capital Analysis and Review (CCAR) of bank holding companies, which evaluates their capital adequacy and their plans to make dividend payments or stock repurchases. As financial intermediaries increasingly use innovative financial products that can improve their apparent resilience, the Federal Reserve considers the ability of banks to conduct their own stress tests (data, models, scenarios) and the quality of capital planning processes when assessing banks’ capital adequacy plans. Also, systemically important financial firms are required to meet additional capital and leverage surcharges and to hold higher quality liquid assets than smaller financial institutions. This seeks to address the “too-big-to-fail” market failure, which can induce excessive risk-taking if the banks believe that they will be bailed out rather than allowed to go bankrupt. Work is also ongoing to strengthen resilience through creating a framework that will allow large banks to fail, including with changes to resolution regimes.

The Volcker Rule prohibits banking entities from engaging in short-term proprietary trading, in order to protect deposit-taking and retail activities. Although the overall framework has been defined, questions remain in distinguishing between proprietary trading, hedging and market-making activities. In this light, implementation of the rule by the five supervisory bodies responsible will be central to its success in the framework of the Financial Stability Oversight Council led by the US Treasury. An additional complication may arise if limits on propriety trading rules have the effect of diminishing liquidity of US and international markets. This is another area requiring careful monitoring of implementation.

Apart from the risks posed by large banks, macroprudential policy also focuses on the “shadow banking system”, i.e. institutions that engage in credit intermediation and maturity transformation outside the insured depository system. Vulnerabilities prevail in the volatile short-term wholesale funding market, in money-market mutual funds that could “break the buck” and in the tri-party repo market where collateral cannot as easily be liquidated because of the risk of instigating a “fire sale” of securities. The migration of transactions outside the perimeter of entities able to
provide deposit insurance and access to lender of last resort facilities increases the risk of unchecked panic runs, with the possibility of system-wide contagion. Progress is being made to contain these vulnerabilities with prudent tools and regulation, though more work is needed.

Two government-supported enterprises (GSE) specialised in the securitisation of conventional mortgage loans, Freddie Mac and Fannie Mae, incurred very large losses and were put in conservatorship when the crisis struck. Although they are now on a firmer financial footing, recent stress tests mandated by the Dodd-Frank Act have suggested that they would require between USD 84 billion and USD 190 billion from the Treasury Department under adverse scenarios. Reform is thus needed to lower risk and to reduce the government’s role in the mortgage market. The Senate Banking Committee adopted in May 2014 proposals with this intent (Box 2). Johnson-Crapo GSE reform seeks to reduce the risk to public finances by ensuring that private capital takes a bigger role in the mortgage market but leaves in place a government backstop, which is rarely found in other OECD countries, and represent a contingent liability for the federal budget.

**Box 2. GSE Reform**

The Senate Banking Committee passed in May 2014 a bipartisan proposal ("Johnson-Crapo GSE reform") seeking to reform the housing finance system, create greater competition and reduce taxpayer risk, while ensuring affordable, fair access to all creditworthy homebuyers. If enacted, the legislation would wind down and eliminate Fannie Mae and Freddie Mac and allow for a diverse set of private entities to step in and replace most of their functions. The new system would be regulated by the newly-created Federal Mortgage Insurance Corporation (FMIC), modelled in part after the Federal Deposit Insurance Corporation (FDIC). It would also create a catastrophic insurance fund, known as the Mortgage Insurance Fund (MIF), to protect taxpayers. The legislation foresees that the government would provide financial support only in a tail loss position after the private sector has taken the first loss; it also requires that the MIF keep a minimum 2.5% capital against its guarantee of mortgage-backed securities.

An important lesson from the financial crisis is that household debt, when it reaches unsustainably-high levels, can have severe consequences for the financial system and, more broadly, for the economy. Five years after the crisis a significant percentage of homeowners with a mortgage continue to be “underwater” (they owe more than their homes are worth) and, for many, the depth of negative equity is still substantial (Federal Reserve, 2014). Safeguards against excessive mortgage debts or inadequate mortgage loan terms are therefore important, which are now provided by the Consumer Finance Protection Bureau's mortgage regulations.

With these various actions, the United States has gone a long way towards implementing a macroprudential approach to supervision and regulation – an approach that focuses on the financial system as a whole as opposed to the health of individual firms. Monitoring financial stability involves tracking vulnerabilities, such as leverage, maturity transformation, asset valuations, and interconnectedness, in systemically-important financial institutions, shadow banking, asset markets, and the non-financial sector. It also involves evaluating the interaction between
macroeconomic imbalances, monetary policy settings and financial stability. Reflecting the close interactions between these three dimensions, the Federal Reserve Board has usefully extended its semi-annual Monetary Policy Report to discuss financial stability issues, including aspects that have been challenging in the past such as household debt and vulnerabilities in the overall financial sector (Federal Reserve, 2014). This is a welcome development as it informs the public about the Fed’s views regarding risks of financial imbalances. The Fed is encouraged to continue in this direction, especially in the discussion of macro-prudential policy responses, as is done by central banks in other OECD countries (Wilkinson et al., 2010).

Labour market reform can boost employment

The unemployment rate has fallen from a peak of 10% in late 2009 to about 6.3% in early 2014 (Figure 7, Panel A). Other labour-market indicators are, however, less positive:

- The participation rate (those in employment or who are looking for work between the ages of 15 and 64) fell from 75% in 2007 to 73% in 2013 (Figure 7, Panel B). A large share of the decline in participation since 2007 reflects population ageing and exits into retirement; estimates range from one third to two thirds of the decline being due to population ageing.

- Exiting unemployment remains challenging: only 15% of those who have been short-term unemployed occupy a steady full-time job one year after getting a job (Krueger et al, 2014) and less than 10% of those who have been long-term unemployed do so.

- Long-term unemployment remains high compared with pre-crisis averages (Figure 7, Panel C).

- About 5% of employed workers have a part-time status due to economic reasons (defined as individuals working less than 35 hours per week, but report they would like to work more hours), about twice the pre-crisis level (Figure 7, Panel D).

Altogether, significant slack continues to prevail in the labour market (Reifschneider et al, 2013) with no significant wage pressures.

The decline in the labour force is particularly worrying, and calls for policies to encourage the participation of those outside the workforce (about one-third of those aged 16 years and over). In addition to policies such as immigration reform, schemes under the Trade Adjustment Assistance Program for displaced workers reduce the mismatch between the supply and demand of skills. However, the federal government has devoted relatively few resources to active labour market policies in comparison with other OECD countries. State governments are playing an increasing role in adult training, in part to attract out-of-state investment in new production facilities (Center for Regional Economic Competitiveness, 2014; National Governors Association, 2014). The economic benefits of such funding is constrained by the
limited transferability of training credentials, because out-of-state employers are unable to verify if training genuinely translates into actual skills. The federal and state governments should engage in a dialogue with employers and educators to strengthen the credentials of training programmes, possibly through standardised curriculums and external evaluations.

The OECD study on adult skills (PIAAC) identified a large proportion of American adults with weak literacy and numeracy skills, most of them in low-paid jobs and many of them young. Participation in adult learning is relatively high, and many young adults return to college to complete their education (OECD, 2012, OECD, 2013a). However, many of them drop out, often because of basic skill weaknesses or because of financial challenges. As noted in the 2012 Economic Survey and Dunn (2013), better wraparound services, such as childcare, tuition assistance, and other types of income support could improve completion rates, in particular for workers who support their families and cannot participate in long periods of training while working and attending to their caring responsibilities. The quality of training would be improved by strengthening quality assurance, establishing better links to industry and including workplace training as a key element of post-secondary education (OECD, 2013a; OECD, 2014a).

Employers also have a role to play in up-skilling the workforce. Empirical evidence shows that providing jobs with low wages, minimal benefits, little training, short hours and erratic schedules, while helping to keep costs down, is often not a good business strategy. Firms that offer full-time contracts and invest in good jobs are often rewarded by higher profits and stock-market valuations (Ton, 2013). Workers and employers both stand to gain from the better quality of jobs, which in turn can improve worker productivity, recruitment and retention (Cauthen, 2013). Stronger involvement of employers in the design of training programmes would be one way to encourage this transformation and ensure greater portability and recognition of training. Developing partnerships between education institutions and the private sector, as is done in some states, with a particular emphasis on those between local employers and community colleges, would be particularly helpful.
The number and rate of disability income awards have increased over the past 20 years, due largely to the aging of the workforce and the past rise in the female labour force. In line with past recessions, awards increased and then decreased with the crisis since 2008 (Figure 8). A risk is that it can be difficult to get people back into the labour force once they have qualified for disability insurance (OECD, 2010). International experience shows that early intervention programmes that help individuals who are capable to return to work quickly, as in the case of Switzerland, can be effective in avoiding disability recipients permanently exiting the labour force (OECD, 2014b). Re-examining eligibility rules, notably for disability related to mental illness (Autor, 2011), is also warranted to prevent possible misuse. In addition, some individuals effectively drop out of the labour market, in part because they believe that working is penalised during the application process. Applicants should be informed that working during the application process will not be penalised. Furthermore, the process should be shortened to reduce scarring effects, which make re-entering the labour market more difficult. In the United States, disability recipients are normally reassessed every 3-7 years depending on the nature and severity of the condition.
Providing sufficient funding to ensure such reviews occur more frequently would reduce the budgetary burden of the programme and increase employment.

Figure 8. Disability benefit applications and awards have increased

Recommendations for macroeconomic management

Comprehensive tax reform

- Cut the marginal corporate income statutory tax rate and broaden its base, notably by phasing out allowances.
- Act towards rapid international agreement and take measures to prevent base erosion and profit shifting (BEPS).
- Make the personal tax system more redistributive by restricting regressive income tax expenditures.

Macroeconomic policy and financial stability

- Fiscal policy needs to remain cautious and prepared to take actions to ensure longer-term sustainability.
- Gradually reduce and ultimately remove monetary accommodation as the economy approaches full employment and inflation returns to the Fed’s 2% target.
- Continue to roll out macro-prudential policy tools, including those associated with the Dodd-Frank Act and those that address vulnerabilities in wholesale funding, repo market and money-market mutual funds.
- Reform the housing finance system to ensure access to mortgage credit of creditworthy homebuyers while providing better guarantees of financial stability and avoiding again exposing taxpayers to costly bailouts.
Further recommendations

- Simplify personal income taxes to reduce compliance costs and improve transparency.
- Strengthen policies to reintegrate the long-term unemployed into employment.
- Provide comprehensive work supports to encourage disability recipients to work, in particular with pilot programmes aimed at evaluating the effectiveness of measures facilitating the return to work.
- Make it clear to disability applicants that they are allowed to work while waiting for their application to be considered.

Americans are generally happy, although working families face rising pressures

Because GDP growth is not always associated with high levels of life satisfaction, attention has been increasingly paid to well-being. Compared to other countries, the United States enjoys high levels of well-being across many dimensions (Figure 9, Panel A). Nonetheless, happiness appears to have remained flat over the past 30 years (Figure 9, Panel B), although substantial measurement uncertainty affects these estimates. In addition, as in all countries, happiness varies considerably across socioeconomic groups (Figure 9, Panel C). High-income households have benefitted from fast increases in their market incomes (Figure 10) and report high levels of happiness. Middle-income households report lower levels of happiness: they have neither benefited from social transfers targeted at the poor, nor experienced the gains in market income enjoyed by higher-income groups - a development often characterised as the “hollowing-out” of the middle-class ( Förster and Pearson, 2002). Households in the bottom 20% have benefitted from rising transfers, primarily benefiting poorer households (CBO, 2013b), but still report low levels of happiness.

Boosting earnings of the working poor

Low-income families face tough conditions, especially when they do not have good jobs that neither ensure adequate standards of living nor provide stability. This reflects different forms of precarious employment, such as involuntary part-time jobs and frequent moves between low-paid work and joblessness. In the pre-crisis years (2000-2008), labour incomes for the poorest 10% actually fell by 10% in real terms (Figure 11). Thus, poverty remains a problem: in 2010, 12% of households with at least one worker experienced in-work relative poverty, while 8% of those living in households with all adult members employed were in poverty, both shares being above the OECD average (OECD, 2013b). Many of these households have children at home and are headed by single mothers. These families account for a significant share of those who are income poor and contribute to one of the highest child poverty rates in the OECD. Public support for families, including childcare support, plays a limited role by OECD standards. The rising participation of women in the labour force (Figure 12) has helped families maintain financial security, and affordable technology has reduced the time devoted to homecare, but nonetheless most families have less free time for leisure and sleep (Pew Research Center, 2013).
Figure 9. Well-being is high, but not for all


2. Happiness data are aggregated into a happiness index by running an ordered probit regression of life satisfaction on year fixed effects. Source: Stevenson and Wolfers (2008), based on data from U.S. General Social Survey.

Figure 10. **Income growth has varied considerably across groups**

Percentage change of real disposable income during 1979-2010 per income quintile

1. Market income consists of labour income (including employer-paid health premiums), business income, capital gains, other capital income and retirement income. Transfers include cash payments and in-kind benefits from social insurance and other government assistance programmes. Taxes include all federal taxes owed on the basis of income, payroll taxes paid through employers, excise taxes, and corporate income taxes allocated according to households’ share of capital and labour income. Income groups are created by ranking households by before-tax income.


Figure 11. **Cash incomes of bottom 10% have stagnated**

Average real disposable income of bottom 10%, (excludes in-kind transfers)

1. Constant prices in 2010 dollars converted to international dollars using purchasing power parities related to private consumption. OECD average: un-weighted and based on 12 countries for which data are available at all points (Canada, Denmark, France, Germany, Israel, Italy, Netherlands, New Zealand, Spain, Sweden, United Kingdom and United States). Data for 2011 and 2012 are provisional.

The federal Earned Income Tax Credit (EITC) has been effective in fighting poverty and encouraging work. It could become even more effective in helping to bring non-participating and irregularly participating people to the labour market, for instance by extending it to childless workers (who receive very little EITC, or none), non-custodial parents and lowering the age eligibility threshold from 25 to 21. Empirical evidence however suggests that about 40% of the EITC is captured by employers through reduced compensation (Rothstein, 2010).

The minimum wage helps workers benefit more fully from the EITC, though its current low level reduces its relevance. The value of the minimum wage has declined significantly in real terms over time, notwithstanding a phased increase between 2007 and 2010 from USD 5.15 to USD 7.25 (Figure 13). Relative to the median wage, the current federal minimum wage is well below the average statutory minimum wage in OECD countries. The effects on low-skilled jobs of raising the minimum wage are uncertain. Some research concludes that a limited and gradual increase would have no or only a small effect (Doucouliagos et al, 2009; Dube et al. 2010; Wolfson et al, 2013). Estimates from the CBO suggest that gradually increasing the minimum wage to USD 10.10 by 2016, as currently proposed, would reduce total employment by about 500 000 workers or 0.3% (CBO, 2014c), although such an estimate comes with a high degree of uncertainty. The effects on employment would be limited because some states already have their own minimum wage, which is higher than the federal level; in addition, the proposed increase would just restore the minimum wage to its past value in real terms, rather than increase it. Nonetheless, such an increase would benefit a large majority of low-wage workers and raise earnings for an estimated 12 million people now in poverty (CEA, 2014).
Figure 13. The US minimum wage has fallen behind

A. Ratio minimum wage to median wage (2012)

Source: OECD, Labour Statistics Database; US Department of Labor and OECD calculations.

Balancing work and family goals

The work-life balance of American families is made challenging by the duration of working time, which is long (1 790 hours annually) compared to the OECD average (1 765 hours) in 2012 (OECD Employment Outlook). While about 18% of workers are

1. The national average minimum wage is calculated as the average of minimum wages prevailing in each US state, weighted by the percentage share of each state in the US population.

Source: OECD, Labour Statistics Database; US Department of Labor and OECD calculations.

Balancing work and family goals

The work-life balance of American families is made challenging by the duration of working time, which is long (1 790 hours annually) compared to the OECD average (1 765 hours) in 2012 (OECD Employment Outlook). While about 18% of workers are
part-timers (BLS), full-timers work long hours, including overtime hours. Using the American Time Use Survey, Holtz-Eakin (2013) finds that more than 45% of men and more than 20% of women regularly work more than 40 hours per week. The Fair Labor Standards Act (FLSA) requires that, with some exceptions, employees must receive overtime pay for over 40 hours a week at a rate not less than 1.5 times their regular rates of pay. The legislation excluded senior executives and top-level managers from overtime compensation, but, at present, many workers earning a salary of more than USD 455 per week, which is a relatively low income, can be classified as managers and therefore exempt from overtime. It is thus encouraging that the Administration has proposed to raise this threshold, which has been changed only once since 1975 and thus needs to be adjusted.

Public education spending mostly supports compulsory public education, which typically begins around age 5 or 6 (Figure 14). To relieve pressure on working families, especially underprivileged households, more should be done to improve access to quality early childhood education and care. Spending in high quality preschool and child care is typically the most cost-effective education investment in life (Heckman, 2009; Heckman, 2013). Such spending will not only provide better early education opportunities to more children, but it will also leverage their ability to gain from traditional public education and help parents in employment or wanting to work to balance their breadwinning and caring responsibilities.

![Figure 14. The US lags behind in early education spending](image)

The Administration plans to increase access to pre-school education for 4-years-olds, but there is insufficient access among younger children as well. Some states have low-quality standards and licensing requirements, focusing mostly on very basic health and security. Educators often lack the required skills and competencies to provide quality instruction. Under the Administration’s Preschool for All initiative, states would need to meet quality standards to receive federal funds, including requiring preschool teachers to have a bachelor’s degree and participate in
professional development. Expanding effective targeted interventions – such as Head Start, Early Head Start and evidence-based home visiting programmes - to more children would also help to offset the negative effects of poor socioeconomic backgrounds on children, including weak parental involvement.

Working families regularly face conflicts between demanding jobs and family responsibilities. Unlike in other OECD countries, employers rarely allow paid family leave to care for a new-born or a seriously ill family member, and there is no federal law mandating it. Some states require employers to provide paid family leave or other types of support, while some companies do so voluntarily, but overall only 12% of employees have access to paid family leave. When faced with family problems, many workers take sick leave, paid leave, unpaid leave or they leave their jobs altogether (Shriver, 2014). The Family and Medical Leave Act (FMLA) provides some support by allowing workers in large companies to take up to 12 weeks of unpaid leave, but many do not take it or take shorter leave because they cannot afford it. Lack of effective support is possibly most worrying in the case of leave takers following birth (Figure 15). Many employed mothers, even those who get some paid leave from their employers, take less than the 12 weeks recommended by the International Labour Organization to safeguard the health of mother and child.

Figure 15. Job protected maternity and parental leave in OECD countries, 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Total duration of employment-protected leave for mothers</th>
<th>Total duration of paid leave available for mothers</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>12 weeks</td>
<td>12 weeks</td>
</tr>
<tr>
<td>DNK</td>
<td>50 weeks</td>
<td>12 weeks</td>
</tr>
<tr>
<td>AUS</td>
<td>52 weeks</td>
<td>12 weeks</td>
</tr>
<tr>
<td>CAN</td>
<td>52 weeks</td>
<td>12 weeks</td>
</tr>
<tr>
<td>GBR</td>
<td>65 weeks</td>
<td>12 weeks</td>
</tr>
<tr>
<td>OECD</td>
<td>86 weeks</td>
<td>12 weeks</td>
</tr>
<tr>
<td>FRA</td>
<td>162 weeks</td>
<td>12 weeks</td>
</tr>
</tbody>
</table>

1. Paid leave consists of maternity, parental and homecare leave. For federal countries, the figures refer to the federal level. The OECD average excludes Chile and Israel.
2. For the US, length of leave refers to 12 weeks of job-protected unpaid leave under the federal Family and Medical Leave Act to care for a new-born, a seriously ill family member or a worker’s own serious illness.

Source: OECD, Family Database.

Beyond health and equity reasons, there are economic arguments for expanding access to paid family leave. Evidence shows that paying income support to mothers strengthens their labour force attachment, reduces turnover costs and public assistance, and raises their wages in the long run (Thévenon et al, 2013; Houser et al, 2012). The federal government could build on the successful experiences of California and New Jersey to develop a social insurance programme for paid leave for all
workers funded by a small increase in the payroll tax, as proposed by the Family and Medical Insurance Act recently introduced in Congress. Business may be concerned about such policy changes, but evidence from California shows that the introduction of paid leave had little impact on business operations, and some firms even reported positive effects on their productivity and profitability, as well as on employee morale (Appelbaum et al, 2011).

Health policies to mitigate the negative health effects of work-life conflicts

Having a job improves well-being, thanks not only to the positive income effect, but also to the psychological benefits of belonging to a work community (Caldera Sánchez and Tassot, 2014; Barnay, 2014). Yet, for some, the combination of work pressures and family responsibilities can increase stress levels and harm health (Barnay, 2014; Darden, 2014; Dembe et al. 2008). This is particularly the case for low-wage workers with difficult working conditions, including often erratic work schedules, and less access to benefits—such as private health insurance, pensions, and leave entitlements—than high-wage workers (Figure 16). Stress and associated poor health of employees can affect companies' performance by reducing the productivity of workers, increasing absenteeism and raising the attrition rates of valuable workers (Gilboa et al., 2008; Darden, 2014).

Figure 16. Low-wage workers have fewer benefits in the private sector (2013)

Note: Data refer to all private industry workers and include part time workers.

The Administration has taken important steps to support the health of those with mental health problems. The 2008 legislation prescribes that health insurance plans offering mental health coverage cannot provide less generous coverage for those services than for physical health services. The Affordable Care Act requires that health insurance plans in the individual and small-employer insurance markets offer coverage for mental health services, that certain preventive mental health services be covered without beneficiary cost-sharing, and contains a variety of measures that increase the affordability of health insurance, particularly for those with pre-existing mental health conditions. Such measures will not only help those with mental health
problems, but can also contribute to stem the productivity losses due to mental health disorders afflicting those at work (OECD, 2010). However, adequate prevention and early intervention are also critical, especially for identifying the negative side effects from stressful working conditions on health. Prevention efforts could be stepped up by monitoring prolonged sick leaves, job losses and disability-benefit claims. Engaging employers could improve awareness about the possible negative side effects of job stress on mental and physical health and improve health outcomes and productivity.

Many American companies have policies in place to help their workers manage their work-life conflicts, such as allowing flexibility in starting and quitting times, or allowing time off when important needs arise. However, more could be done to ensure that these practices benefit more workers, in particular those who work too few hours and for too low pay to financially support their families, and who are more likely to face unpredictable and shifting schedules. Professionals in well-paid jobs could also benefit, as there is evidence that women in some high paying professions are trading flexibility for wages (Goldin, 2014), leading to losses in human capital and undermining efforts to close the gender pay gap. Business would benefit as well, as there is evidence that the costs of job stress on their profitability are substantial, through increased health expenditure, absenteeism and diminished productivity (Goetzel et al, 2004; Darden, 2014). Information campaigns to increase awareness of the benefits of policies to improve work-life balance and supporting states in the development of right-to-ask policies, which allow employees to ask for flexible working times to accommodate caregiving responsibilities, could help in this respect.

<table>
<thead>
<tr>
<th>Recommendations to help working families address rising pressures</th>
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<tbody>
<tr>
<td><strong>Job quality</strong></td>
</tr>
<tr>
<td>- Raise labour earnings at the low end by expanding the EITC, which would be more effective supported by a higher minimum wage.</td>
</tr>
<tr>
<td>- Strengthen the portability and recognition of training by involving employers in programme design.</td>
</tr>
<tr>
<td>- Provide comprehensive work support to get disability recipients back to work.</td>
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<tr>
<td><strong>Work-life balance</strong></td>
</tr>
<tr>
<td>- Provide support to parents with young children by expanding access to paid family leave nationally.</td>
</tr>
<tr>
<td>- Help states develop right-to-ask policies to support flexible working arrangements.</td>
</tr>
<tr>
<td>- Increase access of low and moderate-income families to quality preschool and childcare.</td>
</tr>
<tr>
<td>- Work with employers in preventing the negative effects of job strain on mental health, prolonged sick leaves, job loss and disability-benefit claims.</td>
</tr>
<tr>
<td><strong>Further recommendations</strong></td>
</tr>
<tr>
<td>- Define and enforce minimum quality benchmarks for preschool and childcare.</td>
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Making the best of new energy resources

The sustainable use of natural resources can support economic growth and secure future well-being. The United States is well endowed with natural resources, which still play an important role in fuelling economic growth. Most recently, the boom in shale oil and gas production is having important implications for energy use and the environment. Although hydrocarbons account for the majority of energy consumption in the United States, the recent growth in the consumption of natural gas and declines in coal and oil consumption are contributing to reducing CO₂ emission (Figure 17). However, the rapid development of shale resources has outpaced the provision of needed transportation infrastructure, raising concerns about safety. Carbon intensity is further reduced by the growth of renewable energies. Although they represent only a small share of energy supply, solar and wind power capacity have both more than doubled since 2008. In this context, harnessing natural capital effectively raises issues about how to maximise the economic benefits and ensure longer-term sustainability while taking into account the impact on the environment and the risk of accidents.

Figure 17. Natural gas has increased its importance in energy consumption, 1910-2012

Natural capital represents a relatively small share of overall wealth in the United States, which is dominated by intangibles or human (and health) capital (Arrow et al., 2012). Nevertheless, on a per capita basis, calculations for the early 2000s ranked the United States 11th in the world according to the abundance of natural capital and 15th with respect to sub-soil mineral resources (World Bank, 2006). Subsequently, technological developments involving horizontal drilling and hydraulic fracturing have almost doubled recoverable natural gas reserves. Proven shale oil and shale gas
reserves now account for 10% and 40% of total oil and gas proven reserves in the United States, respectively. Strong growth in oil and gas extraction - with oil production increasing almost 50% between 2008 and 2013 and gas production rising over 20% during the same period - has increased the sector’s share in GDP. Forecasts suggest that production of shale gas will continue to grow strongly until at least 2040 when it will account for one half of natural gas produced in the United States (EIA, 2013). The picture for production of shale oil is similar, but with the share of total oil production peaking before 2030 and then declining.

*Substantial economic benefits will arise from hydraulic fracturing*

The resurgence in US oil and gas production has raised employment in the sector (Figure 18). Exports of natural gas and (particularly) refined products have increased, while imports have sharply declined. According to BEA data on value-added of the oil and gas mining industry, real GDP growth has been directly boosted by only around 0.15 percentage points annually since 2007, but by 0.35 percentage points in 2012; in addition, there are indirect upstream and downstream effects on GDP that are not included in these estimates. Employment increases in energy-intensive sectors, such as chemicals, have also been limited due to their capital-intensive nature, but are likely to grow. As shale oil and gas production is set to continue to grow strongly, the boost to competitiveness, along with comparatively muted labour cost growth, will likely contribute to stronger export growth in energy-intensive sectors (Celasun et al., 2014).
US energy has become cheaper, with domestic energy prices falling below international levels. The relationships between oil prices (WTI) and natural gas prices (Henry Hub) have weakened since mid-2008 (Figure 19), coinciding with the largely unanticipated rapid pick up in shale oil and gas production. The decoupling of US natural gas prices from international prices (such as the British National Balancing Point (NBP) price) was particularly pronounced as natural gas supply surged; they fell to around one quarter of the natural gas prices in Europe and Asia before recovering somewhat as exploration activity and production switched towards shale oil. Given liquefaction, transportation and regasification costs, the wedge between domestic and international natural gas prices is likely to be persistent. Export of natural gas to countries without free-trade agreements with the United States requires prior approval from the Department of Energy, for which there is an established
authorisation process. The Administration should ensure that energy exports are promptly approved.

Limited export-oriented infrastructure also currently constrains natural gas exports. Although more than 9 billion cubic feet of export facilities have been granted conditional permits from the Department of Energy and roughly 2 billion cubic feet per day have received final permits, LNG export facilities are massive and require years to construct. Investment in pipelines and other transportation infrastructure, which are undertaken by the private sector, will be important to ensure the economy can reap the full benefits of the shale boom. Given significant fixed costs and irreversibility associated with these investments, measures that reduce uncertainty support the development of transportation and associated infrastructure. In this context, a stable policy regime, including for climate change (see below), acquires some importance.

In the oil sector, legal restrictions on crude oil exports in place since the 1970s do not prevent the exports of refined petroleum products. However, foreign sales may be limited to the extent that refining capacity and transportation infrastructure are insufficient to handle the available supply. The Administration is considering options under current law to allow exports of crude oil. Another approach would be to abolish the prohibition of crude oil exports altogether.

Figure 19. **US natural gas prices have diverged from oil prices and international gas prices**

![Graph showing US natural gas prices, WTI, Henry Hub, and UK NBP prices from 2000 to 2014.](image)

- **Note:** BTU (British Thermal Units); WTI is the price for West Texas Intermediate crude oil; Henry Hub is a benchmark natural gas price in the United States; UK NBP (National Balancing Point) is a benchmark natural gas price in the United Kingdom.

- **Source:** Bloomberg and International Energy Agency.

**Hydraulic fracturing affects the environment**

Hydraulic fracturing poses potential risks to water resources, although the environmental consequences are not completely understood. Up to 5 million gallons of water are needed for each shale gas hydraulic fracturing well. This demand in a relatively short period puts stress on local water resources. Pricing water resources effectively and allowing trading may go some way to ensuring limited water
resources are used efficiently. Shallow freshwater aquifer contamination and surface water contamination are also potential risks. Preliminary findings suggest that people living near hydraulic fracturing sites face groundwater contamination risk, which reduces the values of their homes (Muehlenbachs et al., 2012). Some of the water introduced in hydraulic fracturing wells will become “flowback”, which needs to be disposed of and treated due to the chemicals added to the hydraulic fracturing fluids. Some states have not required the disclosure of what chemicals are being used in fracturing fluids (McFeeley, 2012). However, other states have begun to require industry participants to report which chemicals are being used. Voluntary reporting of chemicals has also emerged and the EPA is seeking public comments on disclosure. While exemptions to public disclosure due to trade secrets can be part of the disclosure regime, companies should still be required to report the chemicals being used to a regulatory authority.

Regulation on water use and the protection of groundwater and surface waters has originated at different levels of governments, which has resulted in a complex overall regulatory regime. For example, local authorities, groundwater management areas and regional planning bodies are involved in granting access to water resources, and state and federal bodies are responsible for environmental management and stewardship. Most regulation of hydraulic fracturing is issued at the state level, although the Department of Interior can regulate hydraulic fracturing on federal land, and EPA has some limited responsibility under the Clean Water Act and Safe Drinking Water Act. Further study is needed to formulate regulation to address environmental concerns and increase public confidence in hydraulic fracturing, notably to harmonise and strengthen the impact assessments of drilling projects.

**The climate change perspective**

In 2009, the United States announced a goal of reducing greenhouse gas emissions in the range of 17% from 2005 levels by 2020. There have been sizeable reductions in emissions as well as improvements in energy efficiency (Figure 20). The current approach to meet climate change objectives at the federal level relies less on using market-based instruments, such as a carbon tax, and more on regulation. In this context, the EPA is charged with regulating greenhouse gas emissions from electricity generation under the Clean Air Act. Initiatives to improve energy efficiency reduce emissions further. This approach to emission abatement, which also gives states flexibility in how to implement policy, likely can be more costly than a market mechanism (as was found for the successful sulphur emissions reduction programme, which used a cap-and-trade approach). Nevertheless, by inducing fuel switching, regulation may achieve some reductions at relatively low cost (Goulder et al. 2014). When adopting this approach, care is needed to prevent the marginal abatement costs from different emission sources from diverging too much (which would raise total costs). The States will have flexibility to meet the new greenhouse gas power plant rules, thereby allowing them to choose locally-appropriate compliance methods.

The rapid development of US shale gas resources has helped to reduce emissions by substituting natural gas for coal (Figure 20). More natural gas turbines would
reduce, but not eliminate, the intermittency problem associated with some renewable energy sources, facilitating the expansion of renewable generation. Low natural gas prices could also reduce emissions from the transport sector to the extent that natural gas-powered vehicles are used more.

Fugitive methane emissions from hydraulic fracturing create a global environmental concern. More work remains to quantify the scale of these emissions and at what points in production and transportation they occur. More is known about production than distribution (IEA, 2012; Allen et al., 2013). From a climate-change perspective, these emissions could significantly reduce the attractiveness of natural gas as an energy source, although they are unlikely to be large enough to offset the long-term benefits of replacing coal (Brandt, et al, 2014). EPA guidance was to flare these emissions, as this reduces the potency of the emissions, but following amendments to air regulations for the oil and gas industry in 2012 companies are encouraged to move towards “green completion” of wells, which separates gas and liquids flowing from the well and captures the gas. The second phase of the amendments starting in 2015 requires companies to capture the gas and make it available for use or sale. A number of states and local governments have already moved to address these issues. For example, Colorado, in collaboration with industry, has established regulations on reducing methane emissions. In other cases, states have considered using taxes to make fugitive methane emissions more costly.

The substitution of natural gas for coal has had repercussions on the market for coal. Despite declining domestic demand, US coal production has fallen only slightly as coal exports have more than doubled since the shale gas boom took hold in 2007. Pricing the carbon content of fuels, such as with an emission, both in the United States and other countries, would ensure that the environmental benefits of switching to natural gas in one country are not lost through increasing coal consumption in other countries.

An energy mix focusing on the combination of natural gas and renewables in electricity generation will go a long way towards providing reliable supply while lowering the US greenhouse gas emissions. This might happen because electricity production from natural gas would help meet demand when generation from wind and solar electricity drops due to changes in wind and sunlight. Additional investment will be needed to ensure that the grids can cope with large variations in renewable supply. The impressive gains in energy efficiency were partly driven by innovation in energy-saving technology induced by high energy prices (Popp, 2002). To achieve further emission reductions in the absence of an emission, some subsidisation of innovation in energy saving technology and support of renewables is warranted (Aghion et al. 2012). At the federal level, the Administration proposed to create an Energy Security Trust Fund, which would also work in this direction. At the state level, Renewable Portfolio Standards, which 30 states already use, act in this direction. However, altering programmes that supports renewable energy generation in inefficient locations and impose high costs on electricity system operators should be re-examined (Schmalensee, 2013).

The development of shale gas can support the transition towards a lower carbon economy. Relatively low natural gas prices have already encouraged fuel substitution...
towards less carbon-intensive energy production and provide a platform on which to build. However, in the absence of concerted action to manage the transition there is a danger that, as relative prices change or in the longer run as natural gas begins to be depleted, the energy market will respond by switching back to coal-fired power. In this context, while the shale gas boom could provide the “bridge fuel” towards a lower carbon economy, flanking measures (emission pricing, subsidising innovation, supporting renewables and developing smart electricity grids) will be required to ensure this outcome materialises.

Figure 20. Some progress in reducing greenhouse gas emissions

A. Total CO₂ emissions in OECD countries (2011)

B. Changes in aggregate energy intensity in OECD countries (1990-2010)

C. Emissions of CO₂ by fuel combustion in the United States

D. Electricity generation from fossil fuels in the United States

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1. 2010 for Mexico.

2. For the United States, data are mainly compiled and estimated by the IEA based on available sources including IEA energy balances, U.S. Energy Information Administration, U.S. Bureau of Transportation Statistics, Oak Ridge National Laboratory, OECD STAN database, U.S. Census Bureau and Pacific Northwest National Laboratory.

3. Anthracite, bituminous coal, subbituminous coal, lignite, waste coal, and coal synfuel.

4. Distillate fuel oil, residual fuel oil, petroleum coke, jet fuel, kerosene, other petroleum, and waste oil.

5. Natural gas, plus a small amount of supplemental gaseous fuels. Other gases: Blast furnace gas, propane gas, and other manufactured and waste gases derived from fossil fuels.

Capturing the benefits

The boom in oil and gas production is having significant effects in the states where the deposits are located. This raises two related questions: who captures the benefits of the boom and what happens after the oil and gas deposits are exhausted? The challenge is to ensure that current resource use also supports economic welfare in the future. On aggregate for the United States, estimates of adjusted net savings, which take into account whether total wealth, notably including natural resources, is increasing, suggest that investment in education outweighs the depletion of natural resources (World Bank, 2006; see also Brandt et al., 2013). By capturing some of the resource rent, governments can address the needed adjustment once the resource boom has run its course. This could take the form of investing in education to help workers become more adaptable, financing productive infrastructure, establishing endowment funds or putting government finances on a better footing by paying down debt. In some senses, due to the fungibility of money, ensuring that policymakers avoid squandering the revenues is key to securing longer-term welfare.

Federal and state governments may capture some of the resource rent through various taxes and use the revenues to support spending or funds that will raise future well-being. Taxing natural resource rents, if done properly, can be less distortionary than other forms of taxation (Box 3). However, most governments rely on royalties and the rate applied can be relatively low. Nonetheless, a few states have experienced a significant increase in revenues from resource related taxation (Table 2) and have also boosted spending (NASBO, 2013). For deposits on federal lands, the Government Accountability Office (GAO, 2013) has recommended increasing the share of revenue collected from the extraction of federal oil and gas resources. On both federal and some state land, oil and gas producers are required to pay restoration fees or post bonds to address the environmental consequences of drilling.

Box 3. Taxation of non-renewable natural resources

Taxing the extraction of non-renewable resources offers the potential to raise revenue in a relatively non-distortionary way. However, the form of taxation is important. In the United States, most governments rely on royalties (also known as severance taxes).

Royalty taxes are based on the amount of oil and gas extracted. While relatively easy to collect they introduce a number of distortions. The tax can induce the firm to shut down production prematurely, and can reduce incentives to invest in exploration, although this can be mitigated by offering investment subsidies. Profit taxation, which has been implemented in Alaska, is intended to capture a share of profits arising from the resource rent. This form of taxation can potentially capture a large share of the resource rent without distorting investment and production decisions. With this approach, a tax is levied on all real transactions on a cash flow basis. The government reimburses the firm for negative cash flows, which are typical in the early stage of a project, and retain a share of total revenue when the project is generating a positive cash flow. In practice, governments find it hard to compensate a private sector firm contemporaneously and prefer to allow the private company to carry forward losses with interest. Furthermore, the tax base can differ from the resource rent, which will introduce distortions to investment and production decisions, though they are less severe than under royalty tax regimes.
Table 2. Tax revenue from oil and gas
Selected states with significant shale gas production

<table>
<thead>
<tr>
<th>Taxes on production as % of state GDP</th>
<th>Taxes on production as % of value added</th>
<th>All royalty taxes as % of state GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Alaska</td>
<td>7.1</td>
<td>10.4</td>
</tr>
<tr>
<td>Arkansas</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>California</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Colorado</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Kentucky</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Louisiana</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Michigan</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Montana</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>New Mexico</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>North Dakota</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Ohio</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Texas</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>West Virginia</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Wyoming</td>
<td>3.2</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Note: Royalty taxes are all royalty revenues, not just those accruing from oil and gas mining.

Source: BEA, Census bureau

Recommendations for managing new energy resources

**Hydraulic fracturing**
- Study the environmental impacts of hydraulic fracturing and develop regulations to address any negative impacts including, if necessary, legislative action to harmonise regulation across states and strengthen *ex ante* environmental impact assessments for drilling projects.
- Invest in skills and infrastructure using receipts from profit taxes levied on oil and gas production.

**Climate change**
- Further lower emissions with efficient policy tools as part of the climate-change strategy, notably by putting a price on greenhouse gas emissions, though well-designed regulation and investment in renewables also have a role to play.
- Promote innovation in energy saving and low carbon technology.

**Further recommendations**
- Ensure that trade restrictions do not hamper energy exports.
- Study the problem of fugitive methane emissions, and develop regulations to address any negative impacts.
- Promote investment in infrastructure for energy transportation, taking into account safety concerns.

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ANNEX

Follow-up to previous OECD policy recommendations

This annex reviews action taken on recommendations from previous Surveys. They cover the following areas: macroeconomic policy priorities, structural policy priorities and health policy priorities. Each recommendation is followed by a note of actions taken since the June 2012 Survey. Recommendations that are new in this Survey are listed in the relevant chapter.
Labour Markets

- The Earned Income Tax Credit (EITC) should be increased.
  - Temporary expansions of the EITC were extended through December 2017 by the American Taxpayer Relief Act of 2012.

- Implement strategies to increase employment of the disabled.
  - The Disability Employment Initiative (DEI) seeks to improve education, training, and employment opportunities and outcomes of youth and adults who are unemployed, underemployed, and/or receiving Social Security disability benefits. The DEI is jointly funded and administered by the U.S. Department of Labor’s Employment and Training Administration and the Office of Disability Employment Policy. Since 2010, the Department of Labor has awarded over USD 81 million in grants to 26 states through the initiative.

- Provide additional support for job training and education for unemployed workers whose skills have deteriorated.
  - In April 2013 the Department of Labor announced the availability of USD 474.5 million to create and expand innovative partnerships between community colleges and businesses to educate and train workers with the skills employers need. This third round of funding since 2009 under the Trade Adjustment Assistance Community College and Career Training grants program brings total investments to nearly USD 1.5 billion.

- Monitor whether guidelines for labour market programmes are being followed.
  - No action.

- Return the duration of unemployment benefits to pre-recession levels as the labour market improves.
  - The weeks of available unemployment benefits gradually fell in 2012 and the program allowing states to provide extended benefits expired altogether at the end of 2013.
• Develop enhanced ‘activation’ programmes to facilitate the return to work for unemployed individuals.
  
  ❖ In 2014 USD 150 million was allocated to the “Ready to Work” Partnerships that support public-private efforts to put the long-term unemployed back to work.

**Education**

• Greatly raise limits on Stafford loans, especially for unsubsidised direct loans, so that they cover the full cost of study. The interest rate on these loans should vary with the long-term bond rate. The default repayment plan should be income-contingent.
  
  ❖ In August 2013 the Bipartisan Student Loan Certainty Act re-established interest rates for new Federal Direct Student Loans. Interest rates at origination are tied to the 10-year Treasury note, plus a margin, but are fixed for the life of the loan. For loans made between July 1, 2013 and June 30, 2014, the interest rate was 3.86% for undergraduates, 5.41% for graduate students, and 6.41% for PLUS loans. The bill also imposes a cap to ensure interest rates never exceed 8.25% for undergraduate students, 9.5% for graduate students, and 10.5% for PLUS borrowers.

• Simplify or abolish tax preferences for higher education expenses.
  
  ❖ No action.

**Health Care**

• Reform the individual and small-group market to facilitate greater risk pooling. To this end, require community-rated and guaranteed issue policies and make health insurance compulsory. Introduce means-tested subsidies to help low-income persons afford health insurance.
  
  ❖ These were key features of the Affordable Care Act of 2010.

• Replace the health tax exclusion (i.e., the exclusion from taxable personal income and payroll tax of compensation paid in the form of health insurance cover) with more efficient subsidies that are independent of the health plan (subject to minimum standards of coverage being satisfied).
  
  ❖ The Affordable Care Act includes an excise tax that will be levied on high cost health insurance plans starting in 2018.

• Roll out Medicare provider-payment reforms that prove to be successful in pilot tests across the programme, as planned.
Pilots are underway, but none have yet been expanded program-wide.

- Enhance the dissemination of information on the effectiveness and cost of treatments and procedures.
  
  ARRA and the Affordable Care Act included funding for comparative effectiveness research (which compares the efficacy of treatments). The Patient Centered Outcome Research Institute has been created to carry out such research.

- Gradually lower Medicare Advantage payments to the level of traditional fee-for-service Medicare plans.
  
  The Affordable Care Act lowers excess payments for Medicare Advantage plans.

- Decrease the generosity of supplemental Medicare insurance designs for beneficiaries without chronic conditions to reduce moral hazard risks.
  
  No action.

- Ensure that prescription drug benefits do not jeopardise Medicare’s long-run solvency.
  
  The comparative effectiveness pilot study provided for in the Affordable Care Act could reduce pharmaceutical costs if successful and rolled out nationally by helping to determine the prices to pay for new drugs.

- Do not delay further the use of competitive tenders for Medicare purchases of medical equipment and supplies.
  
  Competitive bidding for purchase of durable medical equipment is phasing in nationwide.

Ageing

- Speed up the phased increase in the official retirement age (at which full social security benefits are paid) from 65 to 67. Link the retirement age to active life expectancy thereafter such that the ratio of the expected duration of active retirement to working life remains constant.
  
  No action.

- Reduce the replacement rate for higher earners and raise the Social Security tax cap.
  
  No action.
Product Markets

- Improve energy infrastructure, in particular electricity transmission.
  - *The electricity network is being upgraded, in particular to facilitate the use of renewable electricity, with funds from ARRA.*

- Roll back extra support given to farmers in recent years.
  - *The Agricultural Act of 2014 ended direct cash payments to farmers and moved toward a more market-oriented approach focused on crop insurance.*

Financial Markets

- Subject systematically important financial institutions to strict and conservative prudential standards. These institutions should hold capital against off-balance sheet risks and be subject to counter-cyclical capital requirements.
  - *In April 2014 the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation adopted a final rule for supplementary leverage ratio standards applicable to the largest U.S. banking organizations (the Final Rule). The Final Rule adopts as largely unchanged the supplementary leverage ratio standards proposed by the Agencies in 2013 (3% of common equity Tier 1 capital, plus a greater-than 2% surcharge for affected bank holding companies and a greater-than 3% surcharge for their depository institution subsidiaries).*

- Leave the securitisation of mortgages to the private sector. This would entail privatising the Government Sponsored Enterprises, cutting off their access to preferential lending facilities with the federal government, subjecting them to the same regulation and supervision as other issuers of mortgage-backed securities, and dividing these entities into smaller companies that are not too big to fail.
  - *Fannie Mae and Freddie Mac remain under government stewardship.* The Senate Banking Committee passed in May 2014 a bipartisan proposal (“Johnson-Crappo GSE reform”) seeking to reform the housing finance system, create greater competition and reduce taxpayer risk, while ensuring affordable fair access to all creditworthy homebuyers.

- Reduce impediments to voluntary mortgage restructuring.
  - *The various programmes to encourage mortgage restructuring that were first initiated (HARP, HAMP) had disappointing take-
up rates, reflecting complicated procedures and restrictive eligibility requirements. Harp 2.0 was initiated in late 2011 and subsequent changes were made throughout 2012 and 2013. As a result of the modifications HARP refinance volume has increased.

Taxation

- Reduce deductions for mortgage interest and state and local income tax.
  - The Administration has proposed in the FY 2015 budget to reduce the rate at which high-income earners (married couples with incomes of over USD 250 000 per year and singles with incomes exceeding USD 200 000 per year) can claim tax deductions or exclusions to 28%.
- Increase reliance on consumption taxation.
  - No action.

Environment

- Implement comprehensive pricing of Greenhouse Gas (GHG) emissions.
  - No action has been taken.
- Support multilateral actions to strengthen emissions monitoring in developing countries and work with other countries to ensure that a large supply of genuine offsets is available. Work with other countries to harmonise cap-and-trade programmes so that they can eventually be linked.
  - The United States Agency for International Development (USAID) developed Enhancing Capacity for Low Emission Development Strategies (EC-LEDS), a program to collaborate with partner countries to estimate GHG emissions and identify and implement the best options for low emission growth. Partnerships with over 20 developing countries have been forged under EC-LEDS.
  - The United States Environmental Protection Agency (EPA) developed the Greenhouse Gas Inventory Capacity Building Program. EPA works in collaboration with the United Nations Framework Convention on Climate Change (UNFCCC) and USAID to help developing countries improve their capacity to estimate and track their GHG emissions through sustainable inventory management systems.
- In the event that it is not possible to pass legislation pricing GHG emissions, reduce emissions using the next most cost-effective instruments available, such as energy taxes and regulation.
The United States Environmental Protection Agency (EPA) has introduced regulations requiring new vehicles to meet higher fuel economy standards. The EPA has proposed rules to limit carbon dioxide emissions from new and existing power stations under carbon pollution standards (2013) and The Clean Power Plan (2014).

Mortgage Loans

- Simplify procedures and expand eligibility for mortgage loan programmes.
  
  FHFA implemented the new Streamlined Modification Initiative in July 2013. The initiative increased eligibility to severely delinquent borrowers and simplified required documentation. The program is due to expire in December 2015.

Innovation

- Reductions in the federal R&D budget should be as limited as possible.
  
  The Administration has proposed increases in Federal support of R&D, most recently in the 2015 Budget proposal of USD 135.4 billion, a nominal increase of 1.2 per cent over 2014. In addition, there is a supplementary 2015 proposal of USD 5.3 billion for R&D related to "Opportunity, Growth, and Security." Recently, the U.S. government approved USD 133.7 billion for Federal R&D in 2014, a 2.6 per cent increase over 2013.

- Improve quality secondary education to better prepare students for STEM tertiary studies.
  
  The US is taking policy actions to improve quality secondary education, based on the recommendations of the President’s Council of Advisors on Science and Technology (PCAST) 2010 report Prepare and Inspire, including: supporting state-led standards for secondary education; making investments toward the goal of preparing 100,000 more STEM-qualified teachers over the next decade; and initiating a STEM Master Teacher Corps.
Chapter summaries

Chapter 1. Improving well-being

Life is quite good in the United States compared to other OECD countries, thanks to strong economic growth and technological progress having lifted average income to high levels. Nonetheless, there is evidence to suggest that the benefits from these gains have not been sufficiently broad based. Self-reported happiness increases with income, an issue particularly resonant in a country with among the highest levels of income inequality in the OECD and a pattern of inequality that appears to be moving toward even more concentration at the very top at the expense of the middle class and the poor. Working hours that remain among the longest in the OECD are also creating challenges for work-life balances, child education, personal care and leisure. These pressures are contributing to higher job strain and work-related stress with unhealthy consequences, including for mental health, and a detrimental impact on employability and medical costs. While these trends cannot be easily reversed, a number of policy options are being usefully rolled out and other initiatives are being considered: federal-level policies improving access to health care and early-childhood education, state-level initiatives favouring workplace flexibility, firm-level investments in job quality and greater attention to the health consequences of job-stress. If successfully adopted, they would go a long way toward improving the well-being of American working families.

Chapter 2. Making the best of new energy resources

Since around 2007, the country has been enjoying an “energy renaissance” thanks to its abundant stocks of shale oil and gas. The resurgence in oil and gas production is beginning to create discernible economic impacts and has changed the landscape for natural gas prices in the United States, boosting competitiveness. In order to reap the benefits fully, significant investment is needed. Federal and state governments capture some of the resource rents, but there are potential opportunities to increase taxation and use the revenues to support future well-being. Taxing natural resource rents with profit taxes can be less distortionary than other forms of taxation, though only one state uses this form of tax. Production of shale resources, like other forms of resource extraction, poses a number of challenges for the environment. Respecting demands on water resources requires adequate water rights are in place while state and federal regulators need to monitor the environmental impact of hydraulic fracturing closely and strengthen regulations as needed. Natural gas is a potential “bridge fuel” towards a lower carbon economy, helping to reduce emissions by leading to a substitution away from coal. Flanking measures are desirable to counter natural gas hindering renewables and low prices stymieing innovation.
This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of United States were reviewed by the Committee on 19 May 2014. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 02 June 2014.

The Secretariat’s draft report was prepared for the Committee by Douglas Sutherland and Aida Caldera Sanchez, under the supervision of Patrick Lenain. Research and editorial assistance was provided by Valéry Dugain.

The previous Survey of the United States was issued in June 2012.

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