United States

1. Economic situation

The United States is slowly recovering from a recession that saw the economy contract by 2.4% in 2009 (Figure 1A). Led by weakness in the property and financial sectors, the recession also contributed to a sharp rise in the unemployment rate, to 9.8%. In light of the economic slowdown and weak job creation, the United States is one of the few OECD countries that is favouring further fiscal stimulus for 2011. Despite the economy growing by 2.9% in the four quarters through September 2010, the OECD is projecting growth to remain moderate through 2011 and 2012 as households rebuild net worth and the unemployment rate declines at only a gradual pace.

Persistent budget deficits were recorded over the past five years, with the balance swiftly deteriorating as the economy entered recession in 2008 (Figure 1B). In 2010, the general government budget deficit was projected to reach 10.6% of GDP, significantly more than the OECD average. Gross debt also grew higher, reaching 80% of GDP in 2009, but remaining slightly below the OECD average (Figure 1C).

Figure 1. **Key economic indicators**

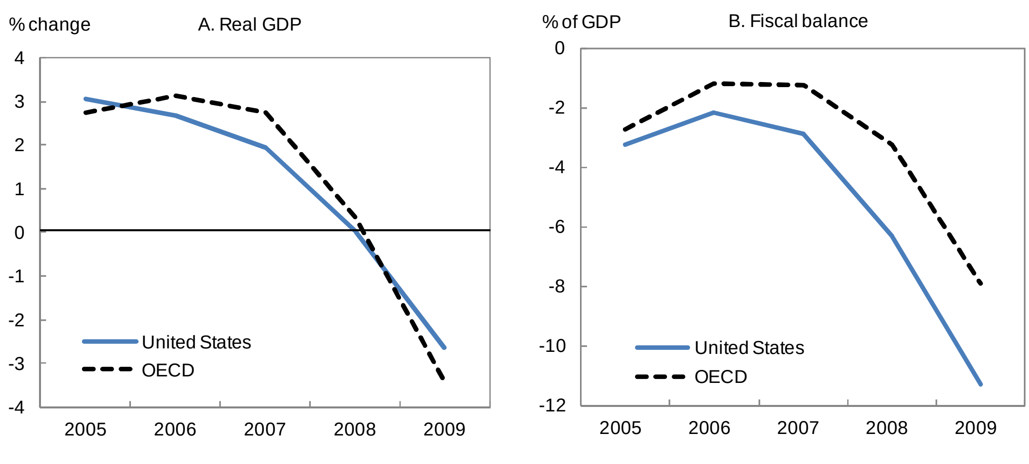
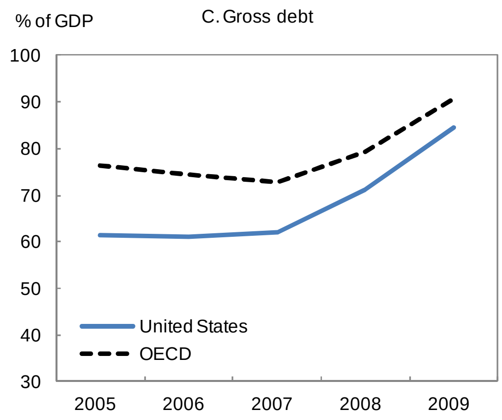


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), doi: 10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

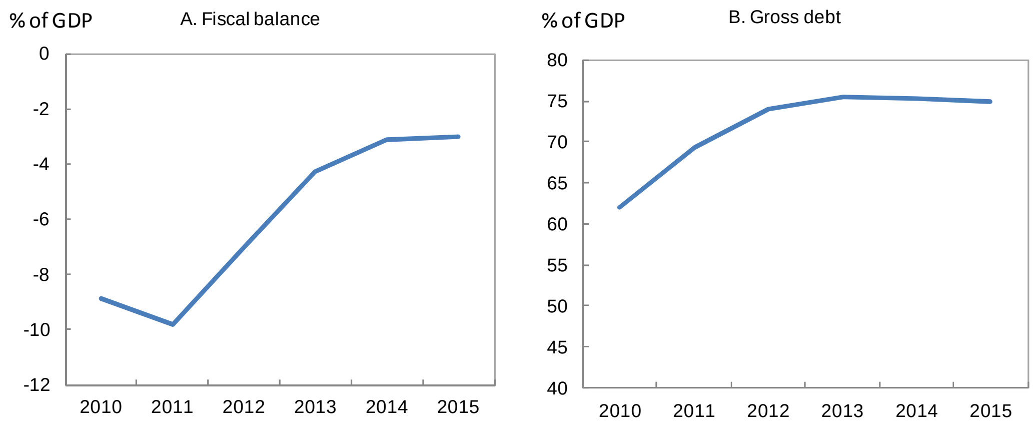
The United States economy benefited from earlier net fiscal stimulus in 2010, and further stimulus is expected in 2011. While it has yet to announce a definitive and detailed medium-term fiscal consolidation strategy, the United States administration has a goal of stabilising the federal debt-to-GDP ratio by 2015. The National Commission on Fiscal Responsibility and Reform released a set of policy choices December 2010 that would balance the United States budget, excluding interest payments on debt, by 2015 (see Section 4 for further details).

A number of consolidation initiatives were announced in 2010 including a three-year freeze in discretionary spending, a request to government agencies to trim budgets by at least 5%, and Congress legislated the "pay-as-you-go rule", which requires new spending to be budget neutral. Security and entitlement spending, which when combined with interest payments make up about 83% of government spending, have been shielded from the spending cuts.

Nevertheless, following the passage of the 2010 Tax Act, the federal budget deficit is now projected to rise to 9.8% of GDP in FY 2011, before narrowing and stabilising at 3.0% by FY 2014 under current law (the CBO baseline projection) (Figure 2A). The deficit contracts as economic growth returns, the 2010 Tax Act provisions terminate at the end of 2012, and fiscal stimulus and finance rescue measures are phased out. If many current policies were extended rather than allowed to expire as scheduled under current law (as is likely), the budget deficit would be more than double the level projected in 2014 under current law, and rising. Accordingly, additional consolidation measures will probably need to be implemented to meet the 2015 deficit target of 3% of GDP (including interest payments).

The independent Congressional Budget Office is projecting (under current law) public federal debt to rise from 62% of GDP in FY 2010 to 75% by FY 2013 and to remain at this level thereafter (Figure 2B). If various policies currently in place are extended instead of expiring, federal government debt would rise continuously, reaching almost 100% of GDP by 2021. Including state and local government liabilities, the OECD is projecting gross government debt to exceed 100% of GDP by 2012.

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance is federal government financial balance as a per cent of nominal GDP. The debt measure is "federal debt held by the public" as a per cent of nominal GDP as reported in the United States federal budget.

Sources: "OECD Fiscal Consolidation Survey 2010"; United States Congressional Budget Office (2011), *The Budget and Economic Outlook: Fiscal Years 2011 to 2012*.

3. Major consolidation measures

The United States has yet to announce any specific fiscal consolidation measures outside of programmed ending of stimulus measures, the freeze in non-defence discretionary spending, and the proposed wage freeze for federal civilian employees, though new measures may have been announced with the release of the administration's fiscal year 2012 budget proposal in February 2011.

Table 1. **Major consolidation measures**

		Budgetary impact 2010-15
Expenditures		
1. Operational measures		
– Federal wages	A two-year salary freeze has been proposed for federal civilian employees in 2011 and 2012.	USD 5 billion
2. Programme measures		
– Discretionary spending	Discretionary spending frozen for three years (excluding defence) at the Budget in February 2010.	n.a.
– Government agency spending	In June 2010, government agencies were asked for plans to trim at least 5% from their budgets by identifying programs that were seen as "least critical".	n.a.
Revenues		
– Bank fee	Proposal to introduce a financial responsibility fee of 0.15% on the value of liabilities of large financial firms.	n.a.
– Tax expenditures	Limiting to 28% the rate at which itemised deductions can be subtracted from taxable income.	n.a.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

The age for collecting full Social Security retirement benefits is scheduled to gradually increase to 67 by 2027 under current law (the 1983 Social Security amendments).

4. Institutional reforms

PAYGO rule: Congress restored the "pay-as-you-go" rule in February 2010, and enshrined it into law. The rule requires new proposals to be "budget neutral" or be offset with savings derived from existing funds. Hence new spending programmes (or tax cuts) cannot add to the federal deficit. However, the rule does not apply to discretionary spending which is limited by the allocations set out in the annual congressional budget plan.

National Commission on Fiscal Responsibility and Reform: The commission was created in February 2010 by Executive Order from the White House, and comprised an 18-member bipartisan committee. The commission's key mandate was to propose recommendations for balancing the budget, excluding interest payments on debt, by 2015. With the release of that plan in December 2010, the commission has ceased operation. Details of the overall plan would lead to deficit reduction of nearly USD 4 trillion by 2020, and see the deficit cut to 2.3% of GDP by 2015. Under the plan debt would stabilise by 2014, fall to 60% of GDP by 2023, and decline to 40% of GDP by 2035. Specific recommendations included:

- cuts to defence spending and wider discretionary spending;
- a 15% cut to White House and Congress budgets;

- tax deductions on mortgage interest and health insurance would be limited;
- agricultural and other corporate subsidies to face cuts;
- pay for federal workers and members of Congress would be frozen for three years (and 200 000 jobs eliminated);
- social security payments to the wealthy would be reduced;
- the retirement age would gradually increase from 67 in 2027 to 69 years of age by 2075;
- cost increases for Medicare, Medicaid and federal healthcare programmes would be limited;
- tax on gasoline would rise by 15 cents per gallon to fund transport investment.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014	2015
Consolidation measures (cumulative)						
Total deficit/surplus	-8.9%	-9.8%	-7.0%	-4.3%	-3.1%	-3.0%
Federal debt held by the public[1]	62.1%	69.4%	73.9%	75.5%	75.3%	74.9%

1. The debt measure is "federal debt held by the public" as a per cent of nominal GDP.

Sources: "OECD Fiscal Consolidation Survey 2010"; United States Congressional Budget Office (2011), *The Budget and Economic Outlook: Fiscal Years 2011 to 2012.*