

UNITED STATES

Labour productivity has accelerated since the mid-1990s from an already high level and labour utilisation is strong. Nevertheless, further efficiency gains can be achieved in several areas.

Priorities supported by indicators

Improve educational achievements at the primary and secondary levels

The outcomes of compulsory education are poor despite much higher spending per pupil than in most other OECD countries, constraining productivity gains.

Actions taken: The 2002 “No Child Left Behind” Act provided for testing, greater accountability, increased choice, and additional federal funding for schools in lower-income areas.

Recommendations: Continue the “No Child Left Behind” reforms, in particular, greater accountability and facilitating choice when schools under-perform. Pressures on states to lower performance standards should be resisted.

Restrain health care costs

Health expenditures account for a much larger share of national income than in other OECD countries, but US health outcomes are not noticeably better and many Americans lack health insurance. High insurance premia may inflate labour costs, with an adverse impact on labour market performance.

Actions taken: Medicare prescription drug coverage was extended to all seniors in 2006 (with cost-saving measures being implemented only gradually). The Administration has proposed extending Health Savings Accounts to reduce distortions that encourage over-consumption of health services.

Recommendations: Limit the current open-ended tax-deductibility of health insurance premiums. Medicare reform should focus on reducing cost per enrollee to ensure long-term solvency.

Reduce producer support to agriculture

Support for agriculture has been stable over recent years and is below the OECD average. However, it remains highly distortionary and maintains excessive resources in low productivity activities.

Actions taken: Support for tobacco producers was made more market-oriented in 2005, but the distortionary dairy programme was extended.

Recommendations: Reduce support for agricultural producers and not tie it to specific inputs or outputs.

Other key priorities

- Reduce the efficiency cost of taxation by broadening the tax base and move from personal income taxation towards a consumption-based tax system, *inter alia*, by raising current low taxes on carbon-based energy consumption which would in addition improve environmental outcomes.
- The disincentive effects of the disability insurance system have been increasing due to declining relative wages for unskilled labour and the rising real value of medical benefits, locking an increasing share of the population out of the labour force. These unintended developments should be reversed and eligibility criteria tightened.