

UNITED STATES

Productivity has grown at a relatively rapid pace and material living standards are high on average. Nevertheless, labour utilisation has been falling and income inequality is high and rising. No major reform programme has been carried out in recent years. Efficiency and equity gains can be achieved by addressing weaknesses in the following areas.

Priorities supported by indicators

Improve primary and secondary education

Despite higher spending per pupil than in most other OECD countries, the outcomes of compulsory education are poor, with PISA scores among the worst in OECD, constraining productivity gains.

Actions taken: No major action taken since the enactment of “No Child Left Behind” in 2002 and its reauthorisation in 2007. The Administration has proposed substantial investments to renovate schools and to fund educational programmes.

Recommendations: Complete the implementation of “No Child Left Behind” in all states and extend its framework to upper-secondary education. Improve accountability and transparency of the scheme by requiring a systematic measure of performance. Furthermore, students at under-performing schools should be free to choose alternative schools.

Restrain health care costs

The overall health status of the US population does not compare favourably with that in most other OECD countries, despite relatively high healthcare expenditure per capita. Many Americans lack adequate health insurance. In the longer term, rising Medicare expenditure is the main threat to the sustainability of public finances.

Actions taken: The State Children’s Health Insurance Program, which provides free health insurance cover for children in low-income families, has been prolonged and extended to cover more children. The Administration plans to computerise all medical records within five years.

Recommendations: To reduce the impact of adverse selection risks and administrative costs on the individual insurance market, regulation should require community-rated and guaranteed issue policies and make health insurance compulsory. Means-tested subsidies should be introduced to help low-income persons afford health insurance. To fund these subsidies and reduce moral hazard, the open tax exclusion for employer-provided health insurance should be capped or terminated.

Reduce producer support to agriculture

Support for agriculture, while still below the OECD average, is highly distortionary and maintains excessive resources in low productivity activities.

Actions taken: In part to reduce greenhouse gas emissions, 2007 legislation set mandatory fuel standards to increase the share of renewable sources in overall fuel use beginning in 2008, with the aim of displacing 15% of projected gasoline use by 2017. The 2008 Farm Act extended these standards to displace an estimated 25% of gasoline use by 2022. By putting upward pressure on some commodity prices, these measures provide indirect additional support to farmers.

Recommendations: Subsidies for agricultural producers should be reduced and not tied to specific inputs or outputs. In particular, tax incentives and other requirements (including tariffs on imported ethanol) that boost demand for corn-based domestic bio-fuels should be phased out.

Other key priorities

- **Financial regulation.** Improve and streamline the regulatory framework to make it more unified and comprehensive, building on the Treasury’s “Blueprint for a Modernised Financial Regulatory Structure”, so that the US financial system can more efficiently play its key role of intermediating between savers and investors and foster economic growth. Reforms need to strengthen regulation of systemically important financial institutions. After the financial crisis has passed, housing financing should be left entirely to a well-regulated private sector.
- **Structure of the tax system.** Reduce the efficiency cost of taxation by broadening the tax base and shifting the weight of taxation from personal income taxation towards consumption-based taxes, especially on carbon-based energy consumption, which would also improve environmental outcomes. Such changes would help to create budgetary room for lower income taxes for most US families, as promised by the Administration, and to pay for the fiscal costs associated with the ongoing financial crisis.

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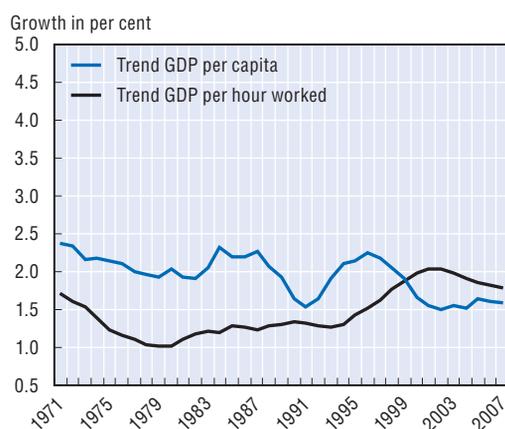
Structural indicators

Average annual trend growth rates, per cent

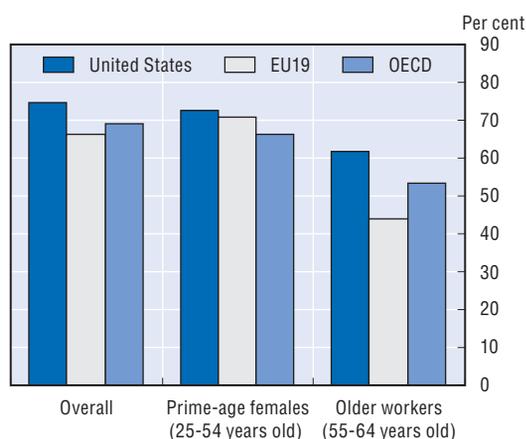
	1997-2007	1997-2002	2002-2007
GDP per capita	1.7	1.7	1.6
Labour utilisation	-0.2	-0.2	-0.3
of which: Employment rate	-0.1	0.0	-0.1
Average hours	-0.2	-0.2	-0.2
Labour productivity	1.9	1.9	1.9
of which: Capital intensity	1.1	1.3	1.0
Multifactor productivity	0.8	0.7	0.9

Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Trend growth in GDP per capita has fallen

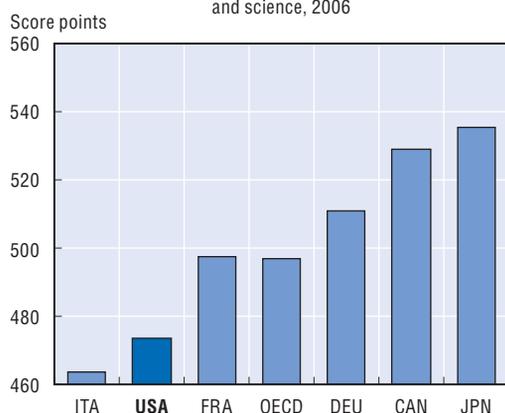


B. Employment rates are high, 2007

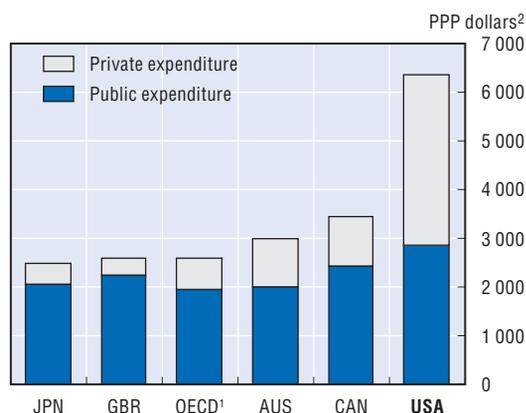


C. Education performance is poor at the compulsory level

Average mean PISA scores in mathematics and science, 2006



D. Health spending per capita is very high, 2005



1. Weighted average of OECD countries excluding the United States.

2. USD converted using GDP PPPs.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD, PISA 2006 Database; Chart D: OECD, Health Database.

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