Executive summary

Economic policy should continue to sustain the recovery and address financial weaknesses and longer term fiscal sustainability. Monetary policy should continue to support the recovery. Legislative decisions are required to avoid the fiscal "cliff" in 2013 due to the scheduled expiration of tax cuts and automatic spending cuts, while further reducing the federal budget deficit at a gradual pace so as to put the federal debt-GDP ratio on a downward path and restore fiscal sustainability. The United States has been active in its efforts to reduce the risk of financial crises, thanks notably to the "Dodd-Frank Act", which should be fully implemented. In addition, the Federal Reserve and other US agencies with financial responsibilities are engaged with regulators from other countries to find ways to address the vulnerabilities exposed by the crisis. Banking institutions should be encouraged to maintain high levels of equity capital, and efforts to develop improved analytical tools and information systems to monitor risks to the financial system should be continued.

Although job creation has improved and the unemployment rate has come down from a high of 10.0% in October 2009, the effects of the recession on the labour market remain. Unemployment duration is still extremely high, and about 40% of the unemployed have been out of work for 27 weeks or more. Policies should continue to promote job creation and facilitate the return to work. Recent reforms passed as part of the Middle Class Tax Relief and Job Creation Act of 2012 put more emphasis on labour activation to help the long-term unemployed search for jobs but there should also be more emphasis on helping them to find adequate training programmes. In the longer term, education and training are key to raising the skills and wages of the workforce, and in this regard, further enhancing the community college system would be a cost-effective way to provide more individuals with an affordable way to increase their human capital.

Income inequality and relative poverty are among the highest in the OECD. This is associated with a number of negative consequences, including low intergenerational social mobility. At the same time, there is no consensus in the economic literature that reducing inequality would be harmful to economic growth. High income inequality is attributable to a significant degree to the large dispersion of earned income, which should be addressed by reforming education, so as to provide disadvantaged students with the skills needed to fully realise their potential. To reduce both income inequality and distortions in resource allocation, tax expenditures that disproportionately benefit high earners should be limited over time. In particular, effective tax rates on debt-financed corporate investment and housing should be equalized at the higher rate on equity-financed corporate investment while simultaneously lowering the corporate tax rate. Social transfers could be more effective in alleviating poverty through better targeting of the truly needy and simplifying of transfer programmes.

The US economy is very innovative, but fissures have begun to appear. Innovation performance has weakened according to various indicators, although from a high level. To foster innovation and economic growth, reductions in the federal R&D budget should be as limited as possible. Ideally, funds would be appropriated to continue on the path approved in the 2007 America COMPETES Act of doubling the budgets for three key science agencies within a decade. Patent reform should be taken further than in the America Invents Act by ensuring that the legal standards for granting injunctive relief and damages awards for patent infringement reflect realistic business practices and the relative contributions of patented components of complex products. In light of spillover benefits from manufacturing activity, the measures proposed by the Administration to strengthen manufacturing competitiveness should be implemented. Education reform is needed to strengthen achievement and to address lagging tertiary attainment in the fields of science, technology, engineering and mathematics (STEM).

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