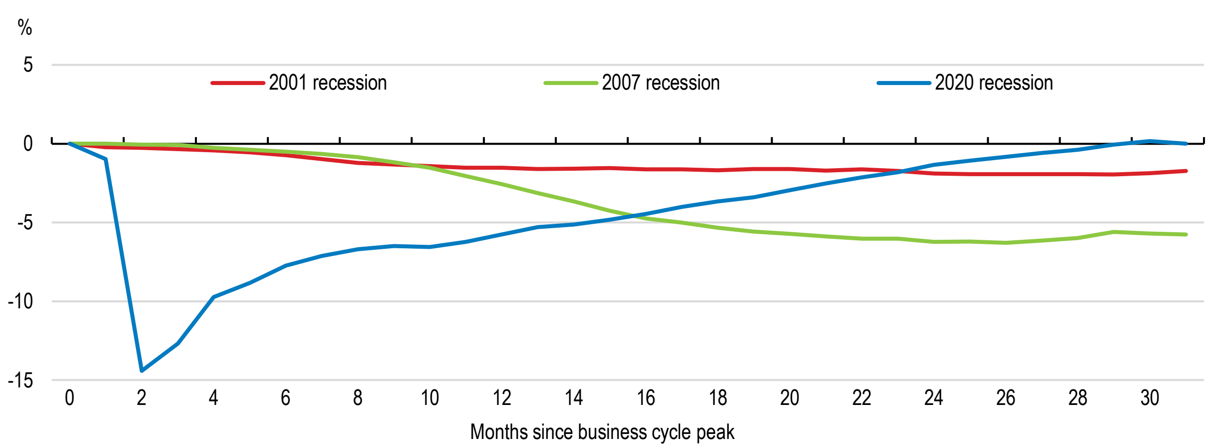
1. Introduction

The United States, along with other OECD countries, is facing considerable uncertainty at present. Just when some of the supply-chain challenges triggered by the pandemic had started to fade, Russia's war against Ukraine has inflicted a new negative supply shock on the global economy. Although direct trade and financial linkages of the United States with Russia and Ukraine are limited, there are impacts on global markets that are having considerable flow on effects for domestic inflation and output.

Prior to the outbreak of Russia's war against Ukraine, the United States economy had rebounded strongly from the depths of the pandemic. The scale of both the health and economic shock necessitated a large and enduring government response, with macroeconomic policies playing an important role in stabilising the living standards of the population. Compared with past recessions, the economic recovery was remarkable: real gross national income had bounced back above its pre-pandemic trend level by the end of 2021 and the labour market recovery has been notably stronger than in earlier episodes (Figure 1.1).

Figure 1.1. The economic shock was abrupt but the recovery was strong

Non-farm employment, percentage change from business cycle peak



Note: Business cycle peak taken from the National Bureau of Economic Research.
Source: BLS; OECD calculations.

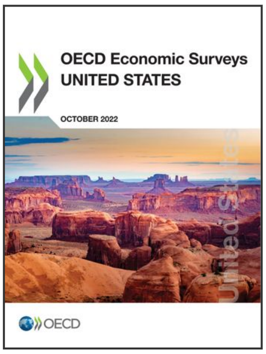
StatLink https://stat.link/ocynp0

Even so, the legacies of the pandemic are visible. There have been over 900,000 deaths associated with COVID-19 and many more who remain sick or caring for someone with the virus. Job losses were largely concentrated in lower wage sectors, which disproportionately include minorities. Macroeconomic imbalances have become more apparent in various areas, with higher inflation, elevated asset prices, the persistent external deficit and rising public debt. These developments have exacerbated complex preexisting policy challenges posed by rising inequality, an ageing population and the need to transition to a less emission-intensive economy.

The United States administration is keenly aware of these challenges. A strong emphasis is being placed on narrowing the polarised distribution of income and wealth, investing in physical infrastructure, supporting the green transition and lifting opportunities for minority groups. With the flexible and highly innovative nature of its economy, the United States is well placed to tackle these priorities and to take advantage of the structural shifts in the global economy that may be a legacy of the pandemic.

Against this backdrop, the main messages of this *Survey* are:

- The economic recovery from the pandemic was rapid and the unwinding of cyclical support from macroeconomic policies is appropriate. Inflationary pressures have risen sharply and need to be tackled through more restrictive macroeconomic policy. Nonetheless, continued targeted and temporary fiscal support may be needed to cushion the impact of Russia's war against Ukraine on vulnerable groups.
- Fiscal pressures will mount in the face of an ageing population, the climate transition and a desire to further strengthen the social safety net. The associated costs should be primarily met by broadening the revenue base and improving spending efficiency in areas such as health and infrastructure spending.
- A hollowing out of the income distribution over the past few decades has resulted from the comparatively weak disposable income growth of middle-income households. Reducing childcare costs for this group can boost disposable income and allow greater labour force participation. At the same time, policies that assist with the rising costs associated with the climate transition and facilitate new jobs for those in carbon intensive industries will be needed.



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