



United States of America: Staff Concluding Statement of the 2019 Article IV Mission

June 6, 2019

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or ‘mission’), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under [Article IV](#) of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

The IMF staff team shared the 2019 Article IV concluding statement with the United States (U.S.) authorities on May 20, 2019.

A Positive Near-Term Outlook

1. **In July the U.S. economy will have achieved the longest expansion in recorded U.S. history.** Since June 2009 the economy has repaired the damage wrought by the financial crisis and demonstrated extraordinary resilience, enduring both domestic policy tightening (in 2011-15 there was a cumulative 5¼ percent of GDP withdrawal of fiscal stimulus) and a range of external shocks. Unemployment has been on a downward trend for almost a decade and is now at levels not seen in 50 years. Over the course of this expansion an average of 2 million jobs per year have, on net, been created. Real wages are rising, including notably for those at the lower end of the income distribution, and productivity growth appears to be recovering. Against this backdrop, inflationary pressures remain remarkably subdued. The U.S. external position is judged to be moderately weaker than implied by medium-term fundamentals and desirable policies.

2. **Real GDP is expected to grow at an annual rate of 2.6 percent this year, before moderating to around 2 percent in 2020.** A fiscal expansion put in place in 2017-18—with tax reductions and an increase in both defense and nondefense spending—has helped bring annual growth to 2.9 percent in 2018. However, as the effects of this fiscal impulse fade over the next few years, growth will gravitate back toward potential (of around 1¾ percent). Risks

are viewed to be broadly balanced around this forecast. A deepening of ongoing trade disputes or an abrupt reversal of the recent ebullient financial market conditions represent material risks to the U.S. economy (with concomitant negative outward spillovers). These risks are interconnected with trade policy uncertainty an important factor for both domestic and global financial conditions as well as for business investment decisions. On the other hand, a Congressional agreement that raises budget spending caps or a positive resolution of trade tensions could provide a supportive tailwind to activity.

But Accompanied by Troubling Social Indicators

3. **Despite these positive macroeconomic outcomes, the benefits from this decade-long expansion have not been widely shared.** Real GDP per capita is at an all-time high but a broader set of social indicators shows a more sobering picture.

- Life expectancy is declining and is well below that of other G7 countries (despite having been near the G7 median in the 1980s). Rising suicide rates and deaths linked to drug overdoses ([Case and Deaton 2017](#)) have contributed to this diminished longevity.
- The income of the median U.S. household, in inflation-adjusted terms, is only 2.2 percent higher today than it was at the end of the 1990s. This is despite real per capita GDP being 23 percent higher over the same period.
- The wealth and income distribution are increasingly polarized. The poorest 40 percent of households have a level of net wealth that is lower today than it was in 1983 (see [Wolff 2017](#)) and a growing share of the population earn less than one-half of the median income (see [Alichi et al. 2017](#)).
- The poverty rate remains close to the level that it was immediately before the financial crisis. According to the latest [supplemental poverty measure](#), almost 45 million Americans are living in poverty.
- Socioeconomic mobility has steadily eroded. As just one indicator of declining mobility (see [Chetty et al. 2016](#)), one-half of the current cohort of young adults earns less than their parents did at a similar age (40 years ago, only 10 percent of young adults were in such a position).
- Despite spending a high share of GDP on education (relative to OECD peers), education outcomes have been disappointing. U.S. high school students consistently score below most other G-7 countries in internationally comparable math and reading tests; a high noncompletion rate for colleges results in less than one-half of 25-34 year-olds having an undergraduate degree (see [OECD 2018](#)); and the rapid rise in the cost of college education has led to a significant overhang of student debt.

4. **Addressing the growing divergences between the aggregate fortunes of the real economy and the standard of living for the bulk of the U.S. population is complex and will require action on many fronts.** Policies that could be considered include: instituting comprehensive paid family leave; providing means-tested assistance to families to help defray child and dependent care expenses; expanding eligibility and increasing the generosity of the Earned Income Tax Credit (EITC); increasing the federal minimum wage; and simplifying and increasing the generosity of social assistance programs while avoiding “cliffs” in the phase out of social benefits as disposable income rises. Continued efforts are needed to expand health care coverage, particularly for those at the lower end of the income distribution, while containing health care cost inflation. It will be important to capitalize on the range of experiences at the state and local level to expand, and fund, programs that have demonstrated results in countering the upswing in opioid addiction and related deaths. The Federal government could better prioritize its spending on education to incentivize increased resources for early childhood education, universal pre-K, science, technology, engineering and mathematics programs, apprenticeships and vocational education, and programs that improve preparedness and retention at the college level. Finally, reconsidering the funding model for public schools could help reduce disparities, especially if such changes put more resources in schools with a higher concentration of students from low-income households. Some of these measures will imply higher fiscal costs which will need to be offset both by tackling entitlement spending and raising revenues (see below). However, addressing these troubling social outcomes will help strengthen human capital, increase labor force participation, boost productivity, support aggregate demand and raise medium-term growth.

Fiscal Imbalances Need to Be Addressed

5. **The U.S. public debt is on an unsustainable path.** The administration’s fiscal expansion has supported economic activity at a time when the global economic expansion was weakening. Nonetheless, this has come at the cost of a continued increase in the debt-to-GDP ratio (now at 78 percent of GDP for the federal government and 107 percent of GDP for the general government). Policy adjustments are needed to steadily reverse the increase in the fiscal deficit and to put the public debt on a downward path. There are a range of possible policy options to choose from but, as has been discussed in past consultations, any successful package will require steps to address the expected increases in entitlement spending on health and social security and to raise indirect taxes. Undertaking supply-side measures that sustainably raise potential growth would reduce the size of the policy adjustment needed to achieve fiscal sustainability and increase productivity. For example, legislating a skills-based immigration reform could both increase productivity and the size of the labor force as well as lessen the pressures from aging, with beneficial consequences for the debt-to-GDP dynamics. Similarly, other long-standing recommendations could help raise potential output including

upgrading public infrastructure and further simplifying and harmonizing a range of regulations within the Federal government and across states.

6. **The prolonged government shutdown earlier this year demonstrates, once again, the dysfunction inherent in the U.S. budgetary process.** Such policy-induced uncertainty is not good for the U.S. economy and has negative outward spillovers for the rest of the global economy. It will be important, therefore, to find institutional mechanisms to avoid such self-inflicted wounds that are created by political brinkmanship over appropriations and the debt ceiling.

Monetary Policy Has Appropriately Paused

7. **Further increases in the policy rate should be deferred until there are greater signs of wage or price inflation than are currently evident.** Faced with falling inflation, anchored inflation expectations, a flat trade-off between inflation and slack, and continued uncertainties around the global outlook, the balance of risks argue in favor of a pause to further changes in monetary policy. Such a pause will give policymakers time to gauge the balance of risks to both inflation and employment outcomes and to build a clearer picture of whether further adjustments in the federal funds rate are warranted. It may also allow for some temporary overshooting of the Federal Reserve's inflation goal (so that inflation approaches the Fed's 2 percent medium-term target from above). Finally, it is possible that continued policy accommodation could generate lasting, positive supply-side effects as scarce labor resources are allocated more efficiently and as labor force participation increases.

8. **The Fed's continued adherence to the principles of data dependence and clear, forward-looking communication will be vital to avoid creating volatility in financial conditions or negative spillovers to the rest of the world.** To assist in this communication effort, the Fed could consider publishing a quarterly monetary policy report that details a central economic scenario that is endorsed by the FOMC (with a quantification of how FOMC members see the distribution of risks around that scenario).

9. **The Federal Reserve's ongoing review of its monetary policy strategy, tools and communications is a timely effort to assess how the Fed can best continue to meet its dual mandate.** There is a growing consensus that the decline in various estimates of the neutral interest rate in recent decades has increased the likelihood that monetary policy will be constrained by the lower effective bound in future recessions. In addition, despite the Fed pursuing a symmetric target, personal consumption expenditures inflation has been stubbornly below the Fed's medium-term target for much of the past decade. The Fed's

ongoing assessment of alternative strategies for meeting its dual mandate will, therefore, be invaluable in helping to inform the formulation of policies and to ensure the continuing credibility of the Fed's clear commitment to its mandate of maximum employment and stable prices.

10. **Beyond possible changes to the policy strategy, providing greater clarity and a more holistic picture of the expected evolution of the operating framework for monetary policy would be valuable.** Operational changes could involve introducing a standing repo facility (to help cap spikes in money market rates); moving away from the federal funds rate as the operating target; and returning to a point target for the policy rate (rather than the current target range).

Medium-Term Financial Stability Risks Are Growing

11. **The financial system appears healthy but medium-term risks to financial stability are rising.** U.S. banks are well capitalized and asset quality appears to be generally good. Credit remains available to both households and corporations and the cost of borrowing is relatively low. However, corporate leverage is historically high, and underwriting standards are weakening. In addition, asset valuations are rich while risk premia, term premia and the market pricing of volatility are at low levels leaving financial conditions extremely loose. An abrupt reversal of this accommodative environment, interacting with leveraged corporate balance sheets, could create a significant downdraft to activity, investment, and job creation.

12. **It is of concern, therefore, that there has been little institutional response to counter these growing risks to medium-term financial stability.** Instead, the recent tailoring of financial regulation has led to a steady easing of regulatory constraints at a late stage in the cycle. It is thus essential that any further changes to the financial oversight regime not only preserve, but also enhance, the current risk-based approach to regulation, supervision and resolution. Risk-based capital and liquidity standards, combined with strong supervision, need to be the central tools in incentivizing financial institutions to manage well the risks they undertake, including through a robust Comprehensive Capital Analysis and Review process. The FSOC should continue its efforts to respond to emerging threats to financial stability and, in this work, there is scope to strengthen and more fully resource the Office of Financial Research. Also, the U.S. should maintain its engagement in developing the international financial regulatory architecture while adhering to agreed, international standards. Finally, there is a need to strengthen the oversight of nonbanks and to address continuing data blind spots that impede a full understanding of the nature of financial system risks, interlinkages and interconnections associated with nonbanks. These topics will be a focus of the ongoing Financial Sector Assessment Program for the United States.

Trade Tensions Represent a Threat to The Outlook

13. **For the global economy to function well, it needs to be able to rely on a more open, more stable, and more transparent, rules-based international trade system.** Rising import tariffs and other steps taken by the administration are undermining the global trading system, increasing restrictions on trade in goods and services, and catalyzing a cycle of retaliatory trade responses. Rather than expanding tariff and non-tariff barriers, the U.S. and its trading partners should work constructively to better address distortions in the trading system that are partly rooted in the system's inability to adapt to long-term changes in the international environment. It is especially important that the trade tensions between the U.S. and China—which represent a threat to the global outlook and create important negative spillovers to other countries—are quickly resolved through a comprehensive agreement that strengthens the international system (not through a managed trade deal that targets a compression in the bilateral U.S.-China trade deficit). As highlighted in the April 2019 World Economic Outlook, tariff measures are likely to be ineffective at containing bilateral trade deficits and will be damaging to the U.S. and to global macroeconomic outturns. Instead, the external imbalance will need to be addressed through fiscal adjustment and supply side reforms that improve productivity and competitiveness.

14. **The U.S. would gain by working with international partners to strengthen the rules-based, multilateral trading system.** This should include advancing trade negotiations in areas such as e-commerce and services and ensuring the continued enforceability of existing WTO commitments through a well-functioning WTO dispute settlement system. In this regard, the U.S., Mexico and Canada Agreement could, if approved, alleviate uncertainty and provide some modernization in the areas of services, e-commerce, and data transparency.

15. **Finally, greater attention needs to be paid to the welfare of those workers dislocated by the ongoing reshaping of the U.S. economy by technology and trade.** This will require intensifying policy efforts such as through greater public investments in training and education, temporary income support, and job search assistance.

Governance and Transparency Assessment

16. **In line with the recommendations of the Financial Action Task Force's Mutual Evaluation Report, the U.S. should address weaknesses in entity transparency and the content and coverage of preventive measures that may make it easier for foreign corrupt officials to hide their proceeds in the U.S.** The U.S. is substantially effective at investigating and prosecuting money laundering and in cooperating with other jurisdictions in investigations that involve corruption proceeds held in the U.S. However, more needs to

be done to ensure law enforcement agencies have timely access to beneficial ownership information (to speed up investigations and help prevent the abuse of legal entities for money laundering purposes). Requirements should also be strengthened for regulated firms regarding the identification and verification of beneficial ownership for customers and politically exposed persons. Improvements are also needed to make lawyers, accountants, and trust and company service providers subject to customer due diligence and suspicious transaction reporting obligations. Finally, there is a need to address money laundering risks in high-end real estate (where real-estate agents are not subject to comprehensive AML/CFT requirements and where non-bank mortgage lenders and originators have limited awareness of obligations, especially with regard to politically exposed persons).

United States: Selected Economic Indicators

	2018	Projections					
		2019	2020	2021	2022	2023	2024
Real GDP (% change from previous period)	2.9	2.6	1.9	1.8	1.7	1.6	1.6
Real GDP (q4/q4)	3.0	2.3	1.9	1.7	1.7	1.6	1.6
Output gap (% of potential GDP)	1.1	1.7	1.7	1.6	1.6	1.5	1.4
Unemployment rate (q4 avg.)	3.8	3.5	3.5	3.7	3.7	3.8	3.8
Current account balance (% of GDP)	-2.3	-2.1	-2.5	-2.7	-2.6	-2.5	-2.4
Fed funds rate (end of period)	2.4	2.6	2.9	2.9	2.9	2.9	2.8
Ten-year government bond rate (q4 avg.)	3.0	2.8	3.0	3.2	3.2	3.2	3.2
PCE Inflation (q4/q4)	1.9	2.1	2.2	2.0	1.9	1.9	2.0
Core PCE Inflation (q4/q4)	1.9	1.8	2.1	2.1	2.0	2.0	2.0
Federal fiscal balance (% of GDP)	-3.9	-4.2	-4.0	-4.0	-4.3	-4.1	-3.8
Federal debt held by the public (% of GDP)	77.8	78.7	79.6	80.6	82.0	83.3	84.2

Sources: BEA; BLS; Haver Analytics; and IMF staff estimates.