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Statement by Mr. Sobel and Ms. Svenstrup on United States
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After experiencing the slowest economic recovery in the post-war period, the U.S. economy is benefiting from a renewed sense of confidence, supported by strong underlying fundamentals and the new Administration's pivot to a robust fiscal, regulatory, and trade policy agenda to raise U.S. productivity and strengthen labor force participation among prime-aged workers. Following a slowdown in the first quarter, economic growth has rebounded; consumer confidence has improved; and job growth has increased, with 222,000 new jobs created in June. Rising home prices and deleveraging continue to improve household balance sheets and bolster household spending. Business investment, which was weak for much of last year, has since expanded. Headline and core inflation remain stable.

Although the underlying economic momentum is positive, we are not satisfied with the current modest growth trajectory. Further, as staff outline, many deep-seated challenges persist across a broad front, including potential growth well below historical averages, prime-age workers opting out of the labor force, and public debt that has doubled since 2007. The Administration is tackling these challenges and reviving growth through policies that will significantly boost U.S. productivity, increase U.S. business competitiveness, accelerate real median wage growth, and strengthen labor force participation. We are confident that the right set of policies can lift economic growth to 3 percent by 2021. As such, the Administration is undertaking an ambitious policy agenda to simplify the tax system, streamline regulations, and improve trade policy. These three initiatives—along with improved infrastructure, health care reform, and higher domestic energy production—will increase business investment and generate higher and more sustainable growth for all Americans. Promoting economic growth, creating jobs, and reforming safety net programs will help to address poverty and reduce inequality.

Fiscal Policy: We are implementing a new fiscal strategy that supports growth and is better oriented to address medium-term U.S. structural dynamics. Thus, the Administration's proposed budget aims to better control federal spending and roll back burdensome federal regulations that unduly impact U.S. workers and negatively weigh on U.S. businesses. This mix of policies will spur faster growth, balance the budget within ten years, and steadily decrease publicly-held debt from the current level of 77 percent of GDP to 60 percent in FY 2027.

The Administration has also made comprehensive personal and corporate tax reform a top priority, and is working with Congress to design the most significant U.S. tax reform since 1986. Reforming the tax code is critical to create jobs, incentivize investment and economic growth, raise real after-tax wages, increase small business formations, and establish a more level playing field for American businesses globally. Core elements of the tax plan include:

- Reducing the business tax rate and eliminating special interest tax breaks that are inequitable and interfere with productive, efficient, business decisions.
- Shifting to a territorial-based system and implementing a one-time repatriation tax on overseas profits to encourage corporations to bring back offshore funds to be invested in the United States.
- Simplifying the personal tax system and lowering tax rates by eliminating the burdensome Alternative Minimum Tax, cutting the current seven tax brackets to only three, raising the standard deduction, and eliminating targeted tax breaks that mainly benefit the wealthiest tax payers.
- Protecting homeownership, charitable giving, and retirement savings tax benefits.

The President's budget proposes a net $3.3 trillion cut in total non-defense spending over ten years relative to the baseline, with roughly two-fifths coming from discretionary programs and the rest coming from mandatory categories. Specifically, the Administration is proposing to reform healthcare, welfare, and student loan programs; prioritize foreign assistance; and right-size the federal government—all with an eye towards greater efficiency. The budget proposal also includes $200 billion to fund transformative infrastructure projects and processes with the goal of catalyzing an additional $800 billion in public and private infrastructure investment over ten years, made possible through reforms to regulations, better cooperation between government agencies, and streamlining the permitting process to avoid undue delays. The budget also boosts defense spending in the next few years, to strengthen our commitment to protect national security.

The Administration is working closely with Congress to finalize and enact these plans.

Monetary Policy: The Federal Reserve continues to make progress toward its goal of maximum employment and price stability. The labor market has strengthened. Job gains have averaged about 180,000 per month this year. The unemployment rate has fallen ½ percentage point since last year to 4.4 percent. Broad measures of labor market slack have also fallen, and progress has broadened, with the jobless rates for most major demographic groups declining. Overall inflation has moved up from a year ago, but has edged down in recent months. These lower readings have been driven significantly by what appear to be one-off reductions in certain categories of prices, such as wireless telephone services and prescription drugs. The Federal Open Market Committee (FOMC) judges that the economy will continue to expand at a moderate pace over the next couple of years, and increased resource utilization should foster a stronger pace of wage and price increases.

Recognizing the considerable progress the economy had made, the FOMC reduced the amount of monetary policy accommodation in March and June, raising the target range for

the federal funds rate to 1 to 1¼ percent, after having raised the target range for the federal funds rate last December. Accordingly, the FOMC continues to expect that the ongoing strength of the economy will warrant gradual increases in the federal funds rate to sustain a healthy labor market and stabilize inflation around the 2 percent longer-run objective. This view is based on the FOMC's judgement that the federal funds rate is still below the neutral level—namely the level where is it not providing accommodation or a restraint on the economy. Of course, the outlook for both inflation and employment is subject to considerable risks, but the FOMC is committed to managing these risks and is monitoring the situation closely. Moreover, the FOMC has repeatedly said that the path of monetary policy is not on a preset course and will remain data dependent. The FOMC remains committed to clearly communicating its policy. Clear communication should help to avoid international spillovers that might result from abrupt or unanticipated policy moves.

Provided that the economy evolves broadly as anticipated, the FOMC also expects to begin implementing a balance sheet normalization program later this year. The approach has been well-communicated, with the Addendum to the Policy Normalization Principles and Plans issued in June to provide additional details. The balance sheet is not intended to be an active tool for monetary policy in normal times, and normalization will be gradual and predictable. The FOMC has not set the longer-run normal level of reserve balances, which will depend on various factors, including the banking system's future demand for reserves. Decisions about the long-term operating framework do not need to be decided for some time—the current system is working well and future deliberations will depend on what is learned in normalization process.

Financial Regulation: We are committed to removing and streamlining excessive or ill-designed federal regulations to boost growth, foster job creation and improve the business environment, with a focus on restarting small business dynamism. A key part of deregulation will include modernizing and recalibrating financial regulation, because a vibrant economy requires a financial system that efficiently and effectively allocates capital to businesses and consumers. Reviewing and recalibrating financial regulation will help ensure that regulation appropriately addresses risks to the financial system while also facilitating economic growth.

We agree with staff that the U.S. financial system is strong, with moderate financial stability risks. Capital and liquidity ratios at most large U.S. banks continue to be at historic highs, and reliance on short-term wholesale funding has continued to decline. Compared to European and Japanese G-SIBs, U.S. firms have higher and more consistent profitability, and higher price-to-book ratios. Recent increased valuation pressure across a range of asset markets has not been accompanied by increased leverage in the financial sector or increased borrowing in the nonfinancial sector. Further, household debt as a share of GDP continues to be subdued, and debt owed by nonfinancial businesses, although elevated, has been either flat or falling in the past two years.

Cybersecurity continues to be a pressing concern for private sector financial firms and governments around the world. In the United States, the Administration is committed to taking a whole-of-government approach to protect Americans from the constantly evolving threat of cyber-attack. We continue to work across federal agencies and international

borders, as well as forge strong public-private partnerships, to develop and disseminate best practices and improve response to cybersecurity incidents throughout the system.

In light of the soundness of the financial system, a prudent rebalancing of regulatory principles is warranted, reflecting on the lessons learned since the financial crisis and subsequent passage of the Dodd-Frank Act. It is important to reexamine the regulatory changes, both individually and in concert, guided by free-market principles and with an eye towards maximizing economic growth consistent with taxpayer protection. The Treasury Department is analyzing the U.S. financial system over six separate reports, and issued the first report—covering the depository system—in June 2017.[1] In this report, Treasury identifies several specific proposals to better tailor the regulatory approach based on firm size and complexity, decrease regulatory duplication among agencies, and enhance regulatory cooperation and coordination. The proposal also recommends that Congress expand the authority of the Financial Stability Oversight Council to play a larger role in the coordination and direction of policies. Most of the report's proposals could be accomplished by regulatory changes, while a portion requires new legislation by Congress.

We will use our leading voice in financial regulatory discussions in international fora to advance appropriate and robust international standards that promote financial stability and a level playing field for U.S. firms, while opposing regulatory initiatives that unnecessarily hamper economic growth. The Administration supports efforts to finalize remaining elements of the Basel III framework, including establishing a global risk-based capital floor.

Trade/External Sector: The United States has one of the most open trade policy regimes and economies in the world. We are committed to expanding trade, ending unfair trade barriers in other markets, and opening other countries' trade regimes to American products and services. The Administration's policy is to promote fair and reciprocal trade, and to press for a level playing field for U.S. firms. Our current focus is on building strong bilateral trade agreements. We also recognize the importance of a rules-based international trading system, and are seeking to improve the way the WTO functions, especially the dispute settlement system.

Given the Fund's role as the global guardian of openness and the Managing Director's recent call for countries to reduce barriers, subsidies, and other measures that distort trade, we urge staff to closely examine the openness of other countries' trade regimes and include the findings in their surveillance reports. As this chair frequently notes, the global economy continues to exhibit large and persistent external imbalances. This contributes to the sentiment that the existing international monetary system and trading system do not benefit all. We will therefore actively work in international fora, including at the IMF, World Bank, the G-7, and the G-20, to address this issue.

We note staff's assessment that the external position of the United States is weak in comparison to medium-term fundamentals—we wonder how much of this is due to

[1] The other five reports will cover the following topics: capital markets, asset management and insurance industries, non-bank financial institutions, orderly liquidation authority, and the Financial Stability Oversight Council non-bank designation process.

excessively large surpluses and/or persistent currency misalignments elsewhere. We call upon the IMF to be far more vigilant in its analysis of external imbalances and tackle the asymmetric bias of the international monetary system in order to step up the pursuit of strong, sustainable, and balanced global growth.