In our second report, Nicholas Bloom, John Van Reenen and colleagues assess the damaging impact of policy uncertainty on the US economic recovery.

- US output growth continues to disappoint and unemployment remains painfully high. Some research suggests that uncertainty, particularly over economic policy, partly explains the sluggish nature of the recovery.

- Uncertainty can hamper economic performance by leading firms to ‘wait and see’ before investing and hiring; by raising the cost of borrowing for businesses and consumers; and by prompting households to cut back on discretionary spending. Uncertainty can also undercut longer-term productivity growth by slowing capital formation and the reallocation of jobs and workers.

- Policy uncertainty has been at high levels since the financial crisis, both in the US and in Europe. The US ‘debt ceiling’ crisis in the summer of 2011 is a good example of uncertainty generated by the policy process itself.

- It is hard to disentangle the role of policy uncertainty from other factors that contribute to low demand and sluggish growth. Still, there are good reasons to think that less policy uncertainty would be beneficial. According to one recent study, restoring policy uncertainty to levels that prevailed before the financial crisis would raise employment by an estimated 2.3 million over 18-24 months.

- The US political arena features much assignment of blame for the anaemic recovery and the uncertain policy outlook. For example, Republicans blame the president and Congressional Democrats for creating regulatory uncertainty and failing to stop deterioration in the US fiscal outlook. Democrats accuse Republicans of political brinksmanship and an obsessive focus on tax and spending cuts.

- Political polarisation has eroded the scope for a bi-partisan approach to policy-making and contributed to economic uncertainty. Fewer marginal Congressional districts means that candidates focus their campaigns on their political bases in primary elections and pay less attention to middle-of-the-road voters in general elections. This source of polarisation appears to reflect fundamental shifts in where Americans choose to live.