The Daily Dish

The IMF Warns the U.S.

DOUGLAS HOLTZ-EAKIN | APRIL 19, 2024

Eakinomics has pointed out the continual malfeasance that is U.S. federal budget policy. Now the International Monetary Fund (IMF) has weighed in. The basic story was in every newspaper, but as the *Financial Times* put it: "The IMF has warned the US that its massive fiscal deficits have stoked inflation and pose 'significant risks' for the global economy."

That's right. The U.S. fiscal situation has migrated from a missed opportunity to a risk to the U.S. future to an immediate threat to the global economy. At a press briefing, the IMF officials elaborated on the issue. As the t ranscript records:

> *Mr. GASPAR:* When it comes to fiscal policy in the U.S. right now, I'd like to start the story with the very strong turning point in U.S. fiscal policy in 2023. In 2022, the U.S. was well on track to normalize fiscal policy after the pandemic. And my favorite indicator of fiscal stance – which is the cyclically adjusted primary deficit – was at 1.9 percent of GDP that year. In 2023, it was multiplied by almost three, to reach 5.6 percent of GDP. And going forward, the primary deficit in the United States will stay in the range of three-point-something and only comes below three toward the end of our projection period. That leads to a situation where debt is increasing at about 2?percentage points of GDP per year.
>
> We have emphasized many times that this fiscal policy puts pressure on policy rates. It puts pressure on long-term rates. It affects costs of funding everywhere in the world. And if the stance of policy in the United States is also uncertain, there is also an element of risk, which is reflected in the pricing.

There are two major points to take away. First, in the view of the IMF, this is not a hangover from responding to the pandemic. Far from it. The United States was "well on track to normalize fiscal policy," but instead the Biden Administration tripled the primary deficit (the difference between non-interest spending and revenues) to 5.6 percent of gross domestic product (GDP). Absolutely irresponsible.

The second is that this is a direct contradiction to the anti-inflation efforts of the Federal Reserve and forces it (and other monetary authorities) around the world to keep rates higher: "this fiscal policy puts pressure on policy rates. It puts pressure on long-term rates. It affects costs of funding everywhere in the world."

Not exactly how to win friends and influence people.

There are now so many reasons to get serious about the budget outlook that one might expect it to be at the top of every candidate's policy platform – the basic unfairness to the next generations, the headwinds to growth in real wages, the diminished capacity to respond to emergencies, and the risks of operating in literally unknown territory. Instead, it has been ignored by the two leading presidential campaigns and this inattention mimicked by everyone else.

This complacency is seemingly the result of the fact that the debt has risen sharply without inducing a crisis. But

crisis is a failure, a clear F on the policymakers' report card. Not having a crisis doesn't mean that things are fine – a B – or even good – an A. Not having a crisis means that U.S. policy is getting a D. The United States can and should do better than a D. It should have a budget outlook that serves the future growth and security of the nation and does not endanger others. The IMF report is another clear reminder of this reality.