

IMF says growing US debt must be “urgently” dealt with

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The International Monetary Fund has warned that the rapidly growing US public debt must be “urgently” addressed lest it cause major problems for the global economy and its financial system.

The warning is the centre piece of the annual Article IV review of the US issued last week which estimated that the debt-to-GDP ratio would rise steadily and reach 140 percent by 2032. This would mean debt and deficits exceeding the previous highs they reached in the wake of World War 2 and there was a “pressing need to reverse the ongoing increase to public-debt GDP ratio.”

“Such high deficits and debt create a growing risk to the US and global economy, potentially feeding into higher fiscal financing costs and a growing risk to the smooth rollover of maturing obligations,” the IMF said.

“These chronic fiscal deficits represent a significant and persistent policy misalignment that needs to be urgently addressed.”

The prescriptions advanced by the IMF amount to nothing less than what would be called a “structural adjustment program” like those imposed on less developed countries. These have led to the eruption of mass social and class struggles as took place in Sri Lanka in 2022 and have now exploded in Kenya.

The IMF said that to put the debt-GDP on a “clear downward path, a frontloaded fiscal adjustment will be needed that shifts to a general government primary surplus of around 1 percent of GDP (an adjustment of around 4 percent of GDP relative to the current baseline.)”

With the US GDP currently at \$27.6 trillion, this means an “adjustment” of more than \$1.1 trillion.

Under conditions where military spending will continue to be increased as the US expands its global war front, this means years of an austerity program

directed against social spending hitting the working class.

This is spelled out in clear terms by the IMF.

“There are various tax and spending options to achieve this adjustment over the medium-term. However, policies will need to go beyond finding efficiencies in discretionary non-defence spending. Policymakers will need to carefully consider raising indirect taxes, progressively increasing income taxes (including for those earning less than \$400,000 per year), eliminating a range of tax expenditures, and reforming entitlement programs. Putting these measures in place will necessitate taking difficult political decisions over the course of multiple years.”

The sting here is in the tail. Under conditions where any tax increases on the wealthy and corporations will be only marginal at most or successfully evaded as has been the case in the past, the chief burden of the shift in resources would be borne by an attack on social services, to which the IMF points with the euphemistic phrase “reforming entitlement programs.”

The IMF report card on the US economy claimed that it has turned in a “remarkable performance over the past few years” but then detailed major problems building up not far below the surface.

Besides the explosion of public debt, it pointed to major issues in the financial system. It warned that there was “insufficient progress in addressing the vulnerabilities” highlighted by the 2023 bank failures, when three major banks failed as a result of the interest rate hikes initiated by the US Federal Reserve in March 2022.

Fed policy could also lead to financial turbulence. It is seeking to reduce its holdings of debt built up because of the quantitative easing program introduced after the crisis of 2008 and expanded further in

response to the crisis in the market for US government debt in March 2020 at the start of the pandemic.

This process, known as quantitative tightening, is now being eased somewhat because of the possibility of liquidity problems in the \$26 trillion Treasury market and the short-term, sometimes overnight, repurchase (repo) market where interest rates jumped from their normal level of a fraction of a percentage point to as much as 10 percent in September 2019.

“The decision on when to stop the shrinking of the balance sheet will need to be handled carefully so as to prevent inducing volatility on short term funding markets,” the IMF said.

The IMF took aim at the increase in tariffs and other restrictive policies being rapidly introduced the US, supported by both sides of the political aisle. It stated that their ongoing intensification and “the increased use of preferences in the treatment of domestic versus foreign commercial interests represents a growing downside risk for both the US and the global economy.”

It said the US should address the core issues with its trading partners that risk undermining the global trade and investment system.

“Tariffs, nontariff barriers, and domestic content provisions are not the right solutions since they distort trade and investment flows and risk creating a slippery slope that undermines the multilateral trading system, fragments global supply chains, and spurs retaliatory action by trading partners.”

The US, it said, should unwind obstacles to free trade and instead seek to bolster its competitiveness.

There is no chance of this happening because the dominant view in Washington is that the system of free trade, which the US once promoted, has worked against its national interests, undermining its global economic dominance which must now be rectified by a combination of economic and military warfare.

Speaking to a press conference on Thursday on the IMF report, managing director Kristalina Georgieva said the fund did not support the Biden administration’s tariffs on Chinese green technology goods nor the plans of Trump to introduce a 10 percent tariff on all imports.

But she then effectively endorsed the measures saying there was a “political case” for such actions.

On the issue of fiscal debt, she said the US had the

space to deal with its fiscal problems but there was always the temptation to postpone decisions related to debt and deficits to the future. The role of the IMF, she added, was to be the “voice of reason.”

The voice of IMF “reason” has thundered out on the streets of Nairobi, Kenya, where the government has shot down protestors demonstrating against the imposition of its austerity program.

Conditions in the US have not yet reached the stage of those in Kenya, but the same underlying financial processes are at work. The US has been deeply involved in the attacks of the Ruto government on the working class.

As the underlying crisis of American capitalism deepens, it will deal no less ruthlessly with opposition in the working class to massive attacks which the IMF, as the international representative of the financial oligarchy, is insisting must be “urgently” carried out.



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