

US economy

IMF warns US on ballooning fiscal burden

Gita Gopinath urges Washington and other advanced economies to reduce their debt



The IMF's Gita Gopinath: 'The temptation to finance all spending through borrowing really is something that countries should avoid'
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Claire Jones and **Martha Muir** in Washington JUNE 8 2024

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The IMF's second-in-command has urged the US to shrink its mounting fiscal burden, saying strong growth in the world's largest economy gave it "ample" room to rein in spending and raise taxes.

Gita Gopinath, the fund's first deputy managing director, said it was time for advanced economies to "invest in fiscal consolidation" and address how they plan to bring debt burdens back down to pre-pandemic levels.

"For the US, we see ample ground for them to reduce the size of their fiscal deficits, also given the strength of the [US economy](#)," she told the Financial Times in an interview.

The warnings come as economists and [investors](#) fear that years of fiscal profligacy by both Democrats and Republicans are storing up trouble for the US economy.

The Congressional Budget Office, the federal government's fiscal watchdog, [expects](#)

debt to GDP to soar above its previous second world war-era high in 2029. It is forecasting deficits of between 5.2 per cent and 6.3 per cent over the next 10 years, should Congress's economic plans remain the same.

"The temptation to finance all spending through borrowing really is something that countries should avoid," Gopinath said.

The IMF said in its benchmark Fiscal Monitor, published in April, that it expected the US to record a fiscal deficit of 7.1 per cent next year — more than three times the 2 per cent average of other advanced economies. It warned that fiscal deficits in both the US and China posed "significant risks" for the world economy.

Gopinath praised the euro area's latest fiscal reforms, though she added that implementation of the [measures](#), agreed in December, was "going to be absolutely critical".

Many view 2025 as a crunch year for the US's fiscal outlook, with Donald Trump pledging to make his 2017 tax cuts permanent if re-elected, and Joe Biden's failure to curb high levels of spending, raising concerns that deficits could balloon even further than already anticipated.

The IMF's annual review of the US economy, the so-called Article IV consultation, is due out later this month.

Gopinath said that in all advanced economies there was "no way of getting around" the fact that fundamental reforms were needed to pensions systems and medical spending as populations age.

"That is going to be critical," she added.

Although the Biden administration has struggled to rein in spending on health and social care, Gopinath implied that the IMF supported the White House's efforts to push rich Americans to pay more tax.

"We see grounds in several countries for more progressive taxation," she said, adding that capital gains and inheritance taxes could be more effectively implemented.

Gopinath warned that the adoption of generative AI "could amplify the next economic downturn" even though it could raise productivity and boost growth.

IMF research has found that the technology could endanger 30 per cent of jobs in advanced economies, 20 per cent in emerging markets and 18 per cent in low income

countries.

Gopinath said countries should rethink how they support workers in jobs displaced by technology.

“We do think that the generosity of unemployment insurance can be higher in some countries,” she said, adding that wage insurance to cover the gap between workers’ old and new salaries could also work.

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