Smelling a Rat at the IMF

"I smell a rat," says Robert Wenzel, editor and publisher of EconomicPolicyJournal.com. The rodent whose odor Wenzel detects is the International Monetary Fund (IMF), which just issued a pair of reports assessing the U.S. economy and its financial sector. The Washington Post lists the major recommendations of the reports: "Cut Social Security. Ditch the deduction for interest on home mortgages. Tax gasoline."

In addition, the *Post* reports that the IMF "also said the Obama administration was overestimating U.S. economic growth and needed to trim government deficits by hundreds of billions of additional dollars if its announced budget targets are to be met."

Undoubtedly this is the case, as the *Post* explains:

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> The Obama administration's budget for next year, for example, assumes economic growth of close to 4 percent, with growth above 4 percent in the years that follow. The IMF forecast U.S. growth of 2.9 percent in 2011 and slightly slower growth in subsequent years. The agency also assumes that the United States will have to pay slightly higher interest to borrow money in the future.

That's enough to make the difference between a public debt load that gradually stabilizes at about 70 percent of gross domestic product by 2015, and one that under the IMF's scenario would continue piling up and approach 100 percent of GDP by the end of the decade, a level many economists consider unsustainable.

Good luck finding an economist (other than, perhaps, Paul Krugman) who thinks a debt load of even 70 percent of GDP is sustainable.

The IMF concludes that "the United States needs to move more aggressively to both cut spending and raise revenue, to the tune of $350 billion or more above what the administration now plans," according to the *Post*.

Here is where the rat enters the picture. Wenzel believes, with good reason, that the IMF "has long been a bought, and paid for, muscle arm of the U.S. government and the banking elite." The IMF, he explains, forces "austerity" programs on third-world countries that have accepted impossibly large loans from Western banks — programs that inevitably "include heavy new tax burdens on the working class," with the newly raised revenue being used "to payoff [sic] the banking elite."

Since the IMF is, in Wenzel's opinion, a tool of the U.S. government, it stands to reason that the Obama administration requested the IMF review of the nation's finances as "cover," in Wenzel's words, for tax hikes. "Once the mid-term elections are over," he concludes, "American tax payers are going to be muscled, the way the IMF now muscles third world peasants."

It may also be that the IMF is being used as cover for Social Security benefit cuts. The *Post* points out that "other highly indebted nations in Europe … are all moving to reduce entitlement costs by increasing their national retirement age."

Though the *Post* avers that doing the same thing "may prove politically untenable" in the United States, McClatchy Newspapers reports that, in fact, it is being discussed openly by leading politicians of both parties. Both House Majority Leader Steny Hoyer (D-Md.) and House Minority Leader John Boehner (R-Ohio) have voiced support for raising the retirement age at which Americans are entitled to full Social Security benefits to 70. House Speaker Nancy Pelosi (D-Calif.) "wouldn't rule out the option," according to McClatchy.

The McClatchy report cites the IMF reports as a reason to increase the retirement age, quoting Peter Peterson, founder and chairman of a foundation that works for federal debt reduction: "If we could address Social Security reform, it would provide a much-needed confidence builder with our valued foreign lenders … so they don't lose faith that we can manage our own fiscal affairs."

Peterson is correct, and to the extent that the IMF assessment can be used to reduce federal spending, it is all to the good. Spending, not revenue, has long been the real problem in Washington: The federal government took in $2.1 trillion in taxes and other fees in 2009 — more than the entire federal budget just seven years earlier — yet ended up $1.4 trillion in the hole.

No matter how much money the Treasury takes in, politicians always find ways to spend more. Gigantic entitlement programs — Social Security, Medicare, and now ObamaCare — are the primary problem, and also the most politically difficult to cut. However, spending nearly as much as the rest of the world combined on defense doesn't help: "The total expenditures to maintain our world empire is [sic] approximately $1 trillion annually, which is roughly what the entire federal budget was in 1990!" exclaimed Rep. Ron Paul (R-Texas) in his May 24 *Texas Straight Talk*.

With Obama in the White House, though, it is highly unlikely that any spending will be reduced significantly. Thus, Wenzel is probably correct in his assessment that the IMF is being used by the administration as cover for tax hikes, among them an increase in the gasoline tax and the elimination of the home mortgage interest deduction. If tax increases are implemented, the "rats" at the IMF will make out like bandits while the rest of us are brought ever closer to the level of "third world peasants." "It's a sick game," writes Wenzel — and ordinary Americans are going to be the losers.