IMF chief says "self-inflicted wounds" put drag on U.S. economy

WASHINGTON, June 4 (Xinhua) -- The U.S. economy is not doing as well as it should, largely because of self-inflicted fiscal wounds, said the International Monetary Fund (IMF) managing director Christine Lagarde on Tuesday."We are seeing a steady increase in private demand, driven by a recovery in the housing sector and in the automobile industry, and easing financial conditions. Because of this, we believe growth will be almost 2 percent this year, and higher still next year," Lagarde said at the Brookings Institution, a Washington-based think tank.The IMF chief said despite the progress, fiscal adjustment will constitute an enormous 2.5 percent of U.S. gross domestic product (GDP) this year. The "blunt instrument" of sequestration, which imposes deep cuts in many vital programs while leaving untouched the key drivers of long-term spending, should be replaced by "more back-loaded measures."Lagarde noted the "steady progress" the United States has made in reducing its fiscal deficit by some 7 percentage points of GDP since 2009. "Nevertheless, the longer-term debt profile remains a major concern," she added."While fiscal adjustment might be too aggressive in the short term, it is certainly far too timid in the medium term. At this point in the recovery, it is more important than ever to put in place a credible, medium-term roadmap to bring down the debt - a balanced plan made up of savings in entitlement spending plus additional revenues," Lagarde said.The U.S. economy grew at an annual rate of 2.4 percent in the first quarter. Economists hold that while the economy showed some resilience in the face of government spending cuts, the fiscal drag may become more evident in the second quarter. The U.S. Federal Reserve officials said they still need more time to figure out whether the economy is healthy enough to weather the fiscal tightening before they make any decision on tapering the monetary stimulus.