NYT. Sluggish U.S. Economy a Global Concern September 27, 2002 By EDMUND L. ANDREWS

WASHINGTON, Sept. 25 - Despite nearly daily news of economic strife in Brazil and Argentina, a growing number of economists and governments around the world worry that the biggest risks to the global economy are emanating not from Latin America or Asia but from the United States and Europe.

Bankers and finance ministers will descend on Washington this weekend for the annual meetings of the International Monetary Fund and the World Bank, anxious about economic imbalances in the United States, the possibility of war in Iraq and foot-dragging on free-trade by rich countries.

In its newest assessment of world economic prospects, the I.M.F. joined other forecasters on Wednesday in reducing its expectations for growth in the United States and noted that neither Europe nor Japan showed signs of taking up the slack.

The fund also stepped up its criticism of the United States for running up huge trade imbalances, calling them "unsustainable" and a possible source of instability if they lead to a sudden a steep drop in the dollar.

The fear is that global financial markets could impose a sharp and unpleasant correction, possibly in the form of a collapse in the dollar. A steep decline in the dollar would wreak havoc on poorer nations, whose exports to the United States would become too expensive.

The I.M.F. and the World Bank are also taking aim at trade barriers, rebuking both Europe and the United States in particular for their high levels of farm subsidies and import quotas. Both institutions argue that trade barriers in the world's wealthy countries, including the new American farm bill, which authorizes more than $100 billion in farm subsidies in the next eight years, present major obstacles for poor countries.

Yet with as many as 20,000 anti-globalization protesters hoping to harangue and perhaps even disrupt the meetings, the fund and the World Bank are themselves under fire from many directions at once.

The protesters, backed by an increasingly influential array of respected economists, complain that the two institutions are controlled by the United States and have undermined poor countries by insisting on free-market policies that primarily benefit large corporations.

The institutions themselves struggle to get the ear of the Bush administration, which despite promises to double aid to poor countries remains skeptical about the usefulness of the I.M.F. and the World Bank and is flatly uninterested in some of their criticisms.

The fund is complaining that the United States' huge balance-of-payments deficit - the gap between the amount of money that flows into the country and the amount that flows out - cannot be sustained and could lead to global disruptions.

Between the United States' trade deficit and the huge foreign investment it has attracted for the last several years, the United States needs inflow of about $4 billion a day to pay for all its spending.

"Instability in the lead country can have an adverse impact on the international financial system," the fund noted in its latest economic forecast. It called the United States' huge payments imbalances a "significant risk" and noted that much of it stemmed from "financial excesses" of the technology boom.

If American stock markets remain in their current slump, or drop even further, the fund warned that global economic prospects would become even shakier.

The meetings here this weekend are likely to be an echo chamber for anxieties in rich and poor countries alike. On Friday, the United States will be the host for a meeting of finance ministers from the Group of Seven top industrialized countries, while a loose coalition that includes militant opponents of capitalism has vowed to shut down Washington with protests.

A much broader array of groups will demonstrate on Saturday over issues ranging from debt relief for poor countries to sweatshops in Asia and environmental damage in the Amazon rain forest.

Inside the meetings, finance officials from around the world will wrestle with other issues: anxiety about whether Brazil will remain solvent even after a $30 billion rescue package from the I.M.F. in August, or whether Argentina, which has defaulted on more than $140 billion in loans, will sink even further.

There is widespread unhappiness with the World Bank's six-year-old effort simply to write off debt of the most impoverished countries. Only six of more than 30 countries have actually had debt forgiven, and several of those already need additional debt relief because their economies have been ravaged by plunging prices for commodities like coffee and cotton.

The United States is also edging closer to an agreement with the fund on a system that would effectively allow countries to enter bankruptcy proceedings. The proposals under consideration would allow countries to renegotiate their debts by getting agreement on a plan from a majority of their creditors.

Looming over everything else, however, will be the anxiety over the American economy - the only obvious engine of world growth. Without American demand for foreign products, growth stagnates from Europe to Southeast Asia.

"The recovery continues to depend heavily on the outlook for the United States," the fund said today, adding that the economic recovery in Europe is "not yet self-sustaining" and that Japan remains stagnant.

Nor are there many signs that European countries are willing to make their stringent job-protection laws more flexible, a move that economists have been urging for more than a decade.

The head of Germany's Bundesbank acknowledged this week that growth in Germany, the world's third-largest economy, will be only about 0.6 percent this year. Japan, meanwhile, remains paralyzed on economic reform and its banking system hobbled by huge portfolios of bad loans. Last week, Japan's central bank took the extraordinary step of buying up depressed stocks from many of its biggest and most troubled banks.

"Japan is the biggest risk of all to the world economy," said C. Fred Bergsten, president of the Institute for International Economics, a policy research organization in Washington. "I think we're seeing signs of a panic there."

The question is whether the United States will continue to pull the world along, given investors' shaken confidence, high levels of corporate and individual debt, and a currency that many believe has nowhere to go but down.