The World's *Scariest* Emerging Market

By Desmond Lachman

Welcome to America.

According to a Wall Street joke, the longest river in the emerging market countries is De Nile. However, looking at the U.S. economy today, especially after the September 2008 Lehman bankruptcy crisis and the November 2016 election of Donald Trump as president, one has to wonder whether it is instead we in America who are in denial about the troubling direction of our country's economy.

Might we now not be choosing to turn a blind eye to the fact that the United States is increasingly coming to resemble those major emerging market economies such as Brazil, Russia, Turkey, and Ukraine in terms of its poor economic governance, its dysfunctional politics, and the general direction of its economic policies? Might we also now be choosing to ignore the strong possibility that our increasingly sclerotic economy could be an underlying cause of the disturbing slowdown in the country's productivity growth over the past couple of decades?

In the 1980s and 1990s, during my long career at the International Monetary Fund, I visited many emerging market economies throughout Asia, Eastern Europe, and Latin America. By the time I visited Moscow in 1998, I thought that I had seen it all. Yet I still recall the shock that I felt at a meeting in Russia's dingy Ministry of Finance, where it dawned on me how a handful of young oligarchs was bringing Russia's economy to ruin in the pursuit of their own selfish interest.

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My Russian experience reinforced my view that at the heart of all too many emerging market countries' repeated bouts of poor economic performance was their weak economic governance. All too often in those countries, a handful of powerful oligarchs managed to capture the reins of government while economic policy came to be made mainly in the interest of the favored few at the expense of the many. This sapped those economies of their vitality and made it very difficult for their governments to implement much-needed economic reforms.

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Looking now at President Trump's cabinet of billionaires and at his predilection for promoting regressive policies in the areas of health care and tax reform, can we really say that we are qualitatively different from the Brazils, Russias, and Ukraines of the world?

Looking at Goldman Sachs' disproportionate share of high-level government economic positions over the last twenty years, can we really say that Wall Street does not have excessive power in U.S. economic policymaking?

Considering the special interest groups' repeated success in blocking legislative initiatives that a majority of the public might favor and that might be in the public interest, can we really say that American special interests do not have too much influence on the direction of public policy? If one entertained any doubts on this score, all one need do is look at the country's increasingly Byzantine and regressive tax code, which is characterized by excessively high tax rates and by all too many tax deductions for special interest groups.

Another glaring weakness of the emerging market economies is their general lack of market competition and the domination of their economies by a handful of conglomerates and special interest groups. Here too it is difficult to say that the U.S. economy is not steadily drifting in an unhealthy direction. Indeed, today two-thirds of all U.S. economic sectors have become very much more concentrated than they were in the 1990s, while U.S. corporations today are far more profitable than they have been at any time since the 1920s.

Meanwhile, the anti-trust legislation that the United States might have on its books has for all intents and purposes become a dead letter of the law. It has done so as the Amazons, Apples, Facebooks, and Googles of the world go on unchecked buying sprees to snuff out competition. The way in which these companies are wresting control of their space in our new digitalized economic age has to be reminiscent of the way in which the railway and oil industry combinations and trusts gained excessive market power in the days of the robber barons at the end of the nineteenth century. Where is a trust-busting Teddy Roosevelt when we so sorely need him to revitalize the competitive spirit of our country?

If there is one common thing that characterizes the run-of-the-mill emerging market economy, it is its policymakers' distrust of free trade and their predilection for high tariff walls that might benefit the favored few. With the United States now championing an American-first strategy, which places emphasis on erecting trade barriers and ripping up trade agreements, can we seriously say that the United States is qualitatively different from the emerging markets with respect to trade policy?

With the Trump Administration seemingly casting off the U.S. leadership role of the past seventy years for an open global economy, as underlined by its repeated refusal to back the G-20 countries' pledge to refrain from intensifying trade protection, how different is the United States from the rest of the world in its attachment to the principles of free trade?

Yet other characteristics of the emerging markets that all too often lead them down the road to economic and financial market ruin are their disdain for disciplined budget policies. Should we therefore not be concerned that at a time when the U.S. economy is close to full employment, the Trump Administration is proposing unfunded tax cuts and increased infrastructure spending that would almost certainly increase the budget deficit and raise the public debt? If now during the good times

What happens to the U.S. economy continues to be of far greater consequence for the global economy.

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it is not the right moment to reduce the country's public debt level, when will there ever be a good time to do so?

Should we also not be concerned that at the very time when there already appears to be financial market excesses as evidenced by record debt levels, asset price bubbles, and the gross mispricing of credit risk, the Trump Administration keeps pushing for the rolling back of those financial market regulations that were adopted in the wake of the 2008–2009 Great Economic Recession? Would that not take us back to the pre-Lehman crisis days of inadequate banking sector regulation that might set the stage for another Lehman-style economic and financial market crisis?

Despite the seeming growing similarities between the United States and the emerging market economies, the one thing that still distinguishes the U.S. economy from the emerging market economies is its very size. After all, the United States still remains the world's largest economy, accounting for around a quarter of global economic output. This means that what happens to the U.S. economy continues to be of far greater consequence for the global economy than what might be happening in the emerging market economies. For that reason, it is not only in the U.S. interest but also in the interest of the global economy as a whole that we must hope that the United States will soon start to arrest its seemingly inexorable drift towards emerging market status. ◆

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