

## OECD predicts more shocks to economy

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WORLD ECONOMY  
JULIAN HARRIS

SHOCKS to the world economy will become more frequent as the pace of globalisation quickens, the Organisation for Economic Co-operation and Development (OECD) warned yesterday.

More interconnected economies mean that one-off events will cause price shocks to be felt throughout the world, the OECD said.

The Paris-based group cited Russian fires and export bans last year, which combined with floods elsewhere to hike global food prices.

The price rises provoked riots elsewhere in the world, highlighting the potential for one-off events to cause instability on a wide scale, the report explained.

"The economic spill-over effect of events like the financial crisis or a potential pandemic will grow," the OECD said.

Some financial regulation, such as the Basel accords, can work effectively during times of moderate leverage, yet can actually worsen a crisis when leverage levels are higher, it said.

"And small random events, which are harmless in situations of moderate leverage, can become the triggers for downward spirals of asset prices during times of massive leverage."

Highlighting the threat from infectious illnesses due to increasing movement of people across continents, the OECD called for policies that encourage the development of more drug-resistant antibiotics.

Authorities should consider fast-tracking patent applications and tax incentives to promote pharmaceutical development. The report acknowledged "the very high costs of antibiotic drug development."

Commenting on the report, economist Dan Ikenson of the Cato Institute in Washington DC said that the benefits of globalisation heavily outweigh any risks. "Study after study has shown that countries that are more open to the global economy grow faster," Ikenson said.