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**The World Economy in 2004 - three new-ish questions**  
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1. What are the long-term effects of very cheap money?

- You can create demand in the "Anglos" but a cost of delaying adjustment
- You can't create domestic demand in Japan/Germany/Italy
- Cheap money has more impact on fixed asset prices than financial asset prices
- It does not feed through to manufactured goods prices or local costs
- It reduces the discipline of the bond markets
- Not much evidence that it results in poor business investment decisions
- Some evidence it may lead to poor portfolio investment decisions

2. To what extent is the non-OECD tail starting to wag the OECD dog?

- Incremental growth increasingly from non-OECD (45% in 2003?)
- Already an impact on commodity prices (up)...
- ... and manufactured goods prices (down)
- Will service industry prices be squeezed too?
- Impact on investment flows, currency movements, regulation, etc.
- And on the shape of economic cycles?

3. Why might this cycle be different to previous ones?

- Pressure on resources comes earlier in the cycle
- Adjustment between developed world countries comes later
- Path of long-term transition to price stability still unclear
- Power has shifted away from OECD nations

Conclusion?

Cycle appears quite "normal" – solid but not yet mature. But maybe the upswing will not last as long as expected, and maybe greater bumps on the road ahead than are currently "in the markets".