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CLASS 2

TOPIC	***The Interdependence, Spillovers, and Coordination in Economic Policy***
LEARNING CONTENT - DETAILED CHARACTERISTICS	We present the three secular trends that has been deeply affected the economic policy nowadays: the rise of international interdependence as regards economic globalization, the assignment of policy responsibilities to supranational authorities, and the increasing devolution of power to subnational bodies such as regions and cities. We raise two important questions: how individual policymakers should behave in a context of significant horizontal interdependence between states and how should vertical interdependence between different levels of public authorities be structured to optimize policy results. We discuss the main reasons the horizontal and vertical interdependence in the economic policy making to be witnessed such as increasing trade and financial openness, border effects, home biases, and interconnectedness. We give examples for global public goods and discuss the motives for international policy coordination that arises from cross-border spillovers. The scope, rules, and means of the major international organizations (such as the International Monetary Fund, the World Bank, and the World Trade Organization) are discussed. Their institutional and financial strength and legal means are also considered. We comment on the global governance aspects as regards income inequalities, climate change, and migration.
KEY WORDS	Economic globalization, economic openness, horizontal and vertical interdependence, border effects, home biases, interconnectedness, global public good, international spillovers, International Monetary Fund, World Bank, World Trade Organization, global governance
SUGGESTED TOOLS	Power-point presentation Reading and interpreting economic data Real-world personal observation Interactive and group discussions A personal study plan
TIPS / METHODOLOGICAL REMARKS **(if applicable)**	Learning-by-doing and case studies activities. The focus is on the interpreting of economic policy interdependence and real-world problems such as income inequalities, climate change, and migration.

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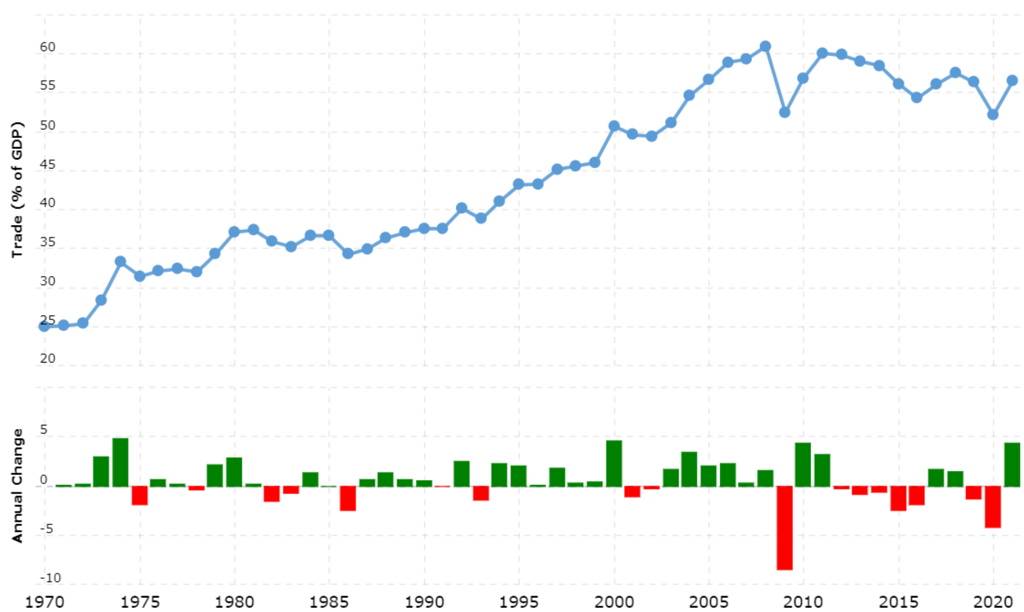
IMPLEMENTATION OF THE CLASSES	**STEP 1**	We discuss the aspects of economic globalization and how it affects economic policy making. The horizontal and vertical interdependence is distinguished following the main tasks of the policymakers. The institutional design and incentives are considered.
	STEP 2	Trade and financial openness indicators are presented. The evolution of trade and financial openness for advanced and emerging and developing countries is compared. The 2008 global financial crisis impact on economic policy is discussed. The students become aware of border effects, spillovers, home biases, and interconnectedness. See work card 1.
	STEP 3	The excludability, rivalry, and the definition of public goods is discussed. Climate preservation and the sustainable management of natural resources are global public goods. We comment on difficulties in the field of international cooperation in providing global public goods: how to constitute them, what are the appropriate instruments or rules to produce international public goods, and who should contribute to financing them.
	STEP 4	The design and powers of the most important global institutions are discussed. The historical context, structure, and main functions of the International Monetary Fund, the World Bank, and the World Trade Organization are commented on. Pro and cons of their functioning are discussed.
	STEP 5	The shortcomings of international coordination are considered. Empirical studies that evaluate benefits from economic policy coordination are presented. The historical episodes of systemic coordination of macroeconomic policy and the economic and social consequences are observed (such as the Bonn Summit in 1978 for engineering coordinated reflation, the Plaza Agreement in 1985 to amplify the depreciation of the US dollar, the January 1987 Louvre agreements to stabilize exchange rates, and the G20 coordination following the 2008 global financial crises). See work card 2.

ADITIONAL MATERIAL 1 (WORK CARD, PICTURE, RECORDING, QUIZZ, PRESENTATION, ASSIGNEMENTS)

WORK CARD 1 – THE INTERDEPENDENCE, SPILLOVERS, AND COORDINATION IN ECONOMIC POLICY

The most used measure of economic globalisation is the share of world trade in world GDP. See the figure below and answer the following questions:

World Trade to GDP Ratio 1970-2023



Source: World Bank

1. What is economic globalisation? What criteria distinguish economic from other types of globalisations?
2. What are multinational corporations and how do they differ from local firms? How multinational corporations affect economic globalisation?
3. How is the digitalization of the economy affecting global trade? What are the similarities and differences between Industry 4.0 and Industry 5.0?
4. What processes drove global deglobalization and how they affect the economic policy coordination? To what extent these processes are valid for the current stage of post-2008 deglobalisation?

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5. Why would world trade liberalization trends outweigh processes of deglobalisation after 2008? What are the characteristics of global economic and trade developments after 2008?

ADITIONAL MATERIAL 2 (WORK CARD, PICTURE, RECORDING, QUIZZ, PRESENTATION, ASSIGNEMENTS)

WORK CARD 2 – THE INTERDEPENDENCE, SPILLOVERS, AND COORDINATION IN ECONOMIC POLICY

Read the Chapter 2 *Coordinating Taxation Across Borders* in Fiscal Monitor: Fiscal Policy from Pandemic to War, International Monetary Fund, April 2022 which is available on the following link: https://www.imf.org/en/Publications/FM/Issues/2022/04/12/fiscal-monitor-april-2022

Do you agree with the statement? Why?
"International coordination on tax matters (i) reduces profit shifting by multinationals and tax competition between countries; (ii) improves tax enforcement by lifting the veil of secrecy to tackle tax evasion; and (iii) limits global warming."

What are the challenges an international coordination on tax matters to be achieved? Is it desirable or not in your opinion? What will be the effect on your country considering its economic structure and social specificities?