

Doc. Boris RED

Thank you for the re-drafting & for your further suggestions. My replies are given for each of these suggestions. May I ask you to make the necessary adjustments? Don't override them - I do not feel that discrepancies between your notes & my conclusions are excessively large.

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11th May 1989

To: M. Lamfalussy

From: Claudio Borio

Copy to: Dr. Baer

Fiscal policy co-ordination in an EMU

Please find attached a revised version of the paper on fiscal policy co-ordination in an EMU. The changes so far have been kept to a minimum, but probably more will be needed so as to avoid inconsistencies between the main body of the paper and the conclusions.

I have taken out the original set of conclusions and replaced it with a slightly rearranged version of your covering note. The introduction now also includes the final paragraph of your note so as to guide the reader through the assessment of the various arguments. Qualifications have been added to some of the paragraphs in the assessment so as to make them more consistent with your views.

The main points that may require further attention are the following:

- OK
1. Your conclusions emphasise the need to ensure convergence also after the EMU is established. That is not apparent in the analysis. This source of tension could be defused by making some explicit reference to convergence in some of the arguments (e.g. Argument 2 on the disproportionate use of Community savings by one country) and modifications to the language used in describing the empirical evidence (see Appendix I, Section II.3, pages 5-6 and Section IV, page 11, second indentation).
 2. The last three paragraphs of Appendix I (pages 10-11 from "Finally, ..." to the end) need no longer serve a useful purpose or may sound too agnostic and negative given your opinions. They

OK

could either be dropped altogether or heavily redrafted, as they would help to support certain qualifications in the main text of the note.

No need for
drafting changes

3. If you deem it necessary, further potential sources of tension could be smoothed out by small drafting changes modifying the emphasis of the analysis, especially in Arguments 1 to 3.

Yes, please do
make the
necessary
changes.

4. As drafted, your conclusions on the need for a Community-wide fiscal policy would appear to place unnecessary emphasis on short-run macro-management, which may be unintentional. If so, it might be wise to have a more neutral paragraph with respect to the time-horizon of policy so as to pre-empt criticism.

In the new draft all modifications have been highlighted with a marker pen.