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The basic difference between the frameworks for policy decision making provided by the EMS and EMU.

In the European Monetary System (EMS) policy decisions in the monetary, economic, fiscal and budgetary fields are of the unrestricted competence of national authorities. Decisions are taken autonomously, sometimes after consultations in Community bodies which may or may not entail adjustments in planned decisions.

For those countries whose currencies participate in the exchange rate mechanism, there is a certain restriction of national sovereignty insofar as changes of central rates can no longer be decided unilaterally, as was the case in the European Monetary Snake, but are subject to the consensus of all participants. The experience with both systems, however, shows that the material impact of this constraint is of limited importance in practice.

Thus, in the framework provided currently by the EMS, policy decision making rests with several autonomous (national) decision centers. The complex process is characterized i.a. by interaction, interdependance, reactivity and competition between national economies of heterogeneous political traditions, institutional structures and degrees of economic development.

Under this system of "spontaneous" order, a very important, if not the main source of short-term surveillance and sanction is the foreign exchange market and the balance of payments performance. If the stance and the mix of policies chosen at a national level are credible to the market, the current exchange rate in the EMS will not come under attack. If the policy cocktail lacks credibility in the market or if the balance of payments performance falters, the market will fairly rapidly exert growing pressures on the currency of the country concerned and thus trigger corrective action by policy makers.

It may be argued that foreign exchange markets may at times be affected by misjudgements leading to a significant overshooting.This has been the case with the U.S. dollar market because of the strategic value and the world reserve character of that currency. In the case of European currencies, however, which have no significant strategic and/or reserve currency rôle, the foreign exchange markets have in general not developed into lasting misalignments of their respective values. (In this respect it is interesting to note that gyrations of the U.S. dollar exchange rate would probably not be eliminated or even reduced by the creation of a single European currency because such a currency would, in the absence of a strong political union, lack the political and strategic format of the U.S. dollar).

The relative success of the EMS owes a great deal to the discipline stemming from foreign exchange markets, since in the case of some countries participating in the exchange rate mechanism (e.g. Belgium in 1982 and France in 1983), fundamental reorientations of policy choices were greatly accelerated through the acceptance of market pressures. In retrospect it would at least seem doubtful, whether, in the absence of market pressures, it would have been possible, by mere analysis and suasion, to scrap a sacred political cow like automatic wage indexation.

Thus it can be said that, in the case of countries whose currencies participate in the exchange rate mechanism, foreign exchange markets have performed a helpful function of discipline and, together with balance of payments performances, have provided useful early warning indicators and guideposts for policy shaping and decision making.

After the transition to Economic and Monetary Union (EMU) with a centralized monetary policy for a single currency or a set of currencies linked by irrevocably fixed parities, the monitoring and guiding rôle of foreign exchange markets and balance of payments performances will by definition cease to exist.

Decision making in monetary policy and in certain areas of fiscal and budgetary policies will rest with a central authority. Member countries (EEC-regions in economic terms) will however retain a still significant portion of autonomy in the field of economic and budgetary policies. The budget of the Community (the central budget) will remain comparatively small. There will be no intra-Community exchange market and balance of payments, for intra-Community transactions will be dedramatized to mere statistics with no effects on foreign exchange reserves.

Under these conditions the adequacy of policies at the central level and of policy combinations between the Community level and national (regional) levels will have to rely solely on a majority based consensus on analysis, on evaluation and on the choice of appropriate means as well as on "burden sharing".

Misalignments between centrally decided policies and policies decided at national levels, or coordinated but erroneous policy choices at both levels, will no longer be signalled by the reaction of foreign exchange markets. Similarly regional payments disequilibria will be dedramatized since they are no longer accompanied by a depletion of foreign exchange reserves.

Economic and Monetary Union, as compared to the present European Monetary System, is a more "contructivist" order which eliminates market effects and is based on coordination and political compromise. Past experience with deliberate political coordination and fine-tuning in the economic area, both in the

Community (e.g. the common agricultural policy) and in a wider context (e.g. the "Locomotive approach" in 1979 on a Group of Ten level) failed to produce convincing positive results.

Under such a system the identification of misalignments may be delayed either involuntarily or for pertinent political reasons. Regional disequilibria may build up in a gradual way, imperceptibly and easy to ignore in the short to medium term. As a result and in the end severe losses of competitiveness, disindustrialisation and unemployment may develop before a new political consensus about the correct diagnosis and corrective action is reached. Coming late, such action has to be more robust and painful than if it had been taken in a timely manner under the more immediate pressure of the foreign exchange markets.

Conclusions.

The EMS, and more specifically the adhesion to the exchange rate mechanism, has been and continues to be an efficient factor of convergence by imposing the sanctioning power of foreign exchange markets on policy decision making.

EMU would eliminate market pressures and would have to rely mainly on a more or less political consensus on analysis, evaluation, the choice of means and burden sharing in the determination of policy mixes at the Community level and national levels.

As long as there is a significant need for further adjustment and convergence of economic and budgetary performances of Member countries, the framework of discipline provided by the EMS appears to be more appropriate because it is quicker in correcting deviations from the path of orthodoxy of market oriented economies.