



The Political Economy of the European Economic and Monetary Union: Political Sources of an Economic Liability

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Abstract

EMU would be an economic liability. A single currency would cause, at most, small trade and investment gains but would raise average cyclical unemployment and possibly raise inflation, perpetuate structural unemployment, and increase the risk of protectionism. EMU is nevertheless being pursued in order to create a political union. Fundamental disagreements among member states about economic policies, foreign and military policies, and the sharing of political power are likely to create future intra-European conflicts. A United Europe would be a formidable participant in the twenty-first century's global balance of power, with uncertain consequences for world stability and peace.

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