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The Dilemma of Rational Choice:

A Case on EMU and Sovereign Debt Crisis

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Abstract: Rational Choice Institutionalism, different from the realist rationalism, they believe that anarchy does not only lead to chaos. An institution established with common interests and penalties will provide an order which can let states gain more while spending a lower cost. However, the penalties and common interests should be kept under balance, or it will present some problem. The European Sovereign Debt Crisis has been a fuse of the unbalance in EMU of EU's institution.1 To resolve this issue, the development direction of EU integration should be moved to depth instead of width. To some extent, EU's future is still bright.

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I. The Motive of International Cooperation and Rational Choice

1, Cooperation in an Anarchy World

Nowadays, there has been nearly no more arguing on the view that anarchy is a central role in international politics. Nearly every master in the field of international relations has all mentioned this natural character of the international politics. For example, Kenneth Waltz asserts that anarchy is the first element of structure in the international system.[1] Robert Art and Robert Jervis in their works mention that "anarchy is the fundamental fact of international relations" [2] Anarchy can be understood at least two meanings. The first meaning that anarchy carries is a lack of order. It implies chaos or disorder.[3] From the view of realism, the anarchy will cause the conflicts among countries which are going after their own benefits freely. It results that such lack of order is often related with the cause of war. Just as Robert Gilpin claims "a recurring struggle for wealth and power among independent actors in a state of anarchy" is the fundamental nature of international politics.[4]

The second meaning of anarchy means the absence of common government in the international world. Without a common government, the relations among states are quite similar with the relations among people which are accompanied by violence. In this conception, international politics is "a competition of units in the kind of state of nature that knows no restraints other than those which the changing necessities of the game and the shallow conveniences of the players impose". [5]Conflict and war result, since each state is judge in its own cause and can use force to carry out its judgments.[6] So, the difficulties of cooperation, obviously is caused by world political "state of war". States' self-help action will hinder the international cooperation. States in this kind of international system are difficult to trust others absolutely. As a result, chaos is unavoidable in an anarchy world, because states can obtain their state's benefit only by struggling for power. It can be regarded as the initial international environment in which one peopled by egoistic, anomic states and they pursue their self-interests within a self-help system without any centralized authority. States must rely on "the means they can generate and the arrangements they can make for themselves".[7]

Unlike the view of realism, although the institutionalism has admitted the world's anarchic, they do not consider this feature as the cause of eternal conflict among nations. On the contrary, they believe that this fundamental fact about international politics will be the motive of international cooperation. They do

[1] Kenneth Waltz, *Theory of International Politics*, (New York: McGraw-Hill Humanities, 1979), p.8.

[2] Robert Art and Robert Jervis (eds.), *International Politics, Enduring Concepts and Contemporary Issues* 2nd edition (Boston: Little Brown, 1986), p.7.

[3] Friedrich Kratochwil Edward D. Mansfield, I*nternational Organization and Global Governance*: *A Reader*, Second Edition, Peking University Press (Beijing 2007).p5.

[4] Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), p.7.

[5] Hoffmann, Stanley, *The State of War: Essays on the Theory and Practice of International Politics* (New York: Praeger 1965) p. vii

[6] Waltz, Kenneth, *Man, the State and War* (New York: Columbia University Press, 1959), p. 159.

[7] Waltz Kenneth, *Theory of World Politics*, (Reading, Mass: Addison Wesley 1979) p. 111

not consider the conflict and cooperation is a pair of opposite definition. In their view, cooperation will not exist without conflict and it is a way of dealing with conflict. Perhaps especially in world politics, cooperation is almost never a situation in which two nations simply recognize and act in a harmonious relationship. Rather, cooperation involves bargaining between two or more nations that modify their behavior or preferences in order to receive some reciprocal act from each other.[8] So, they conclude that anarchy will force the states to realize their benefits by pursuing the international cooperation.

2, Rational Choice

In anarchy system, actors' rational and selfish characteristics determine actors will follow the way which can bring them the most. Realists believe that the rational choice and they assume the actors in international politics are rational egoism. "We put ourselves in the position of a statesman who must meet a certain problem of foreign policy under certain circumstances, and we ask ourselves what the rational alternatives are from which a statesman may choose ...and which of these rational alternatives this particular statesman, acting under these circumstances, is likely to choose. It is the testing of this rational hypothesis against the actual facts and their consequences that gives meaning to the facts of international politics and makes a theory of politics possible".[9] Nowadays, realists also study the international cooperation while cooperation studies have also explained something basing on the assumption that the international system is anarchic. Robert Axelrod defines his central question as being "under what conditions will cooperation emerge in a world of egoists without central authority?"[10] To realists, the cooperation under anarchy world is difficult, and the most classic instance used by them is the prisoner dilemma. They believe the most important problems facing humanity are in the area of international relations, where independent, egoistic nations face each other in a state of near anarchy. Many of the problems take the form of an iterated Prisoner's Dilemma.[11]

In this famous model of Prisoners' Dilemma, the rational choice is the key point. Both prisoners will choose to defect rather than collective action, although the collective action will bring them both the largest benefit. It is a reflection of the real world to some extent. States are always suspicious of other states. From the view of rationalists' view, the dominant strategy for an egoistic individualist has to defect. Prisoners' Dilemma has great heuristic value.

World politics would lead us to believe that the sources of discord must lie in the nature of the actors rather than in their patterns of interaction.[12] From Prisoners' Dilemma, we must pay attention to how to break the barriers on information and communication in the real international politics world. Only this problem can be solved, international cooperation will be possible when common interests exist. The institutionalists argue that, from the view of the rational choice, nations are not necessary to

[8] Thomas D. Lairson and David Skidmore, *International Political Economy the Struggle for Power and Wealth*, (Peking University Press 2004), p.149

[9] Hans J. Morgenthau, *Politics among Nations: The Struggle for Power and Peace*, (Peking University Press, 2006),p.5.

[10] Robert Axelrod, *The Evolution of Cooperation*, (New York, Basic Books, 1984), p.3

[11] Robert Axelrod, *The Evolution of Cooperation* ,(New York, Basic Books, 1984), p.190

[12] Robert O. Keohane, *After Hegemony , Cooperation and Discord in the World Political Economy*, (Princeton University Press, Princeton, New Jersey, 1984), p.69

struggle with each other, contrarily, to save the exchange cost, the most rational actor will choose cooperation rather than war and an institutional system will help to keep order and let them enjoy a peaceful environment and gain more benefits by offering less cost. That means to the institutionalism anarchy will lead to cooperation instead of conflict.

II. The Possibility of the International Cooperation

International cooperation has many forms. Ordinary they can be classified in terms of geography (regional or global levels) and function (single function or comprehensive). According to the level of cooperation, it can be classified into informal treaty, formal treaty and institution.

It is clear that, the higher the level of the cooperation the more cost for states to offer while the more efficient the cooperation system it is vice verse. On the other side, states will choose the level of cooperation according to their needs which are embodied by the range of the common interests among states. For example, the cooperation in economy is much more easier than in politics so institution in economy cooperation is much more frequent while political cooperation are always wandering at the level of formal or informal treaty. So, if we want to realize the possibility of the international cooperation, we should know about the relations between common interests and institutionalization.

1, Common Interests and Institutionalization

The anarchy world and the rational choice decide states will act for pursuing its largest benefits. So, as mentioned above, common interests becomes the significant point for contributing to international cooperation. Why should nations be longing for cooperation to occur? What factors bring it about? Perhaps the most obvious, but slippery, factor is the interests of the nations involved.[13] Nations decide to cooperate with each other because they are planning to arrive at a situation in which these nations coordinate their behavior so that they will achieve some critical purpose which they are enable to finish by themselves. The definition of the institution can be regarded as related complexes of rules and norms, identifiable in space and time. The level of institutionalization demands much more rules and norms which are much stricter. Still take the Prisoner's Dilemma as an example, In this case, under anarchic world both sides are afraid of being betrayed and give up the 'win-win outcome for both sides. However, if the actors realize that there are penalties exist in their system, the outcome will certainly change. Any side who betray other actors will be afraid of being punished by the system. In this circumstance, the betrayer must calculate whether the benefit from betray can make up the lost by systemic punishment. It becomes a strain to regularize actors' action to some extent. If they have already established the common rules or norms, they may worry about the penalty for violating them. Certainly, they will not worry about others' defect as well.

So, we can conclude, cooperation under the anarchic system can be realized if there are common interests and agreement on rules, norms and related penalties.

2,The Inverse Proportion of Common Interests and Institutionalization

Although these two elements are both essential for establishing an international cooperation system, the relations of the two

[13]Thomas D. Lairson and David Skidmore, *International Political Economy the Struggle for Power and Wealth*, (Peking University Press 2004), p.149

elements are opposite to each other. From the perspective of international interdependence, states will be care about if the benefits of coordination are much more than the costs of cooperation? National leaders must expect to receive significant payoffs or the avoidance of major penalties from working together.[14]

The dilemma is that if a cooperation system contains too much penalties, it will be good to the maintaining of the system's institutional order while it will increase states' entrance cost. That is to say, the institutionalization may reduce the common interests, and the attractive of the cooperation system will decline as well. But, without the penalties, "Free-Rider" phenomenon may appear, and reduce the efficiency of the institution. States are all rational actors, they will balance whether the new system will bring them more benefit or not, and choose whether take part in it or not.

That is to say, to establish a sound international relationship of cooperation needs to balance these two elements, and any bias will affect on the systemic function establishing in advance. In the next part I will provide a case of the EMU of EU and the Sovereign debt crisis which reflects the issues of the international cooperation, the crisis will be spread without the strict penalties.

Ⅲ. Case Study: EMU of the European Union and the Sovereign Debt Crisis

1, The Birth of EMU

EU's international economic cooperation effort is the most significant and extensive. Among all its successes, the establishment of Economic Monetary Union (EMU) of the European Union can be regarded as a milestone and it is by far the highest level of existing international economic cooperation all over the world.

The birth of monetary union means the birth of an arrangement where several countries have agreed to share a single currency. There are three stages coordinating economic policy for The European Economic and Monetary Union (EMU) to achieve the economic convergence and culminating with the adoption of the euro (EU's single currency). Although, all member states of the European Union are expected to join the EMU, there are some criteria for those nations which want to join the euro-zone. It is consisted of the requirements and the time framework within which need to be fulfilled for a country to join the monetary union. An important element of the birth of the new currency is the claim of the Legal Status of the Euro European and the Exchange Rate Mechanism ("ERM II"), in which candidate currencies maintain a limited deviation from their target rate against the Euro.[15]

All member states, except Denmark and the United Kingdom, have followed the arrangement of the treaty to join EMU. There are sixteen member states of the European Union which have entered the third stage and have taken the euro as their currency while eleven EU members continue to use their own currencies.

Before establishing the European Communities, the ideas of building an economic and monetary union in Europe has been raised. In 1929, Gustav Stresemann asked in the League of Nations for a European currency. It was under the background of a number of new nation states emerge in Europe after World War I and the increased economic

[14] Thomas D. Lairson and David Skidmore, *International Political Economy the Struggle for Power and Wealth*, (Peking University Press 2004), p.150

[15] Zhangjianxiong，*An Introduction to Economic Policies of The European Union*, (Chinese Academy of Social Sciences Press,2006), p.163.

division.

The really first attempt to start creating an economic and monetary union among the members of the European Communities can be traced back to an initiative by the European Commission in 1969. It set out the need for "greater co-ordination of economic policies and monetary cooperation" (Barre Report), which was followed by the decision of the Heads of State or Government at their summit meeting in The Hague in 1969 to draw up a plan by stages with a view to creating an economic and monetary union by the end of the 1970s.[16]

On the basis of these proposals, an expert group chaired by Luxembourg's Prime Minister and Finance Minister, Pierre Werner, presented in October 1970 the first commonly agreed blueprint to create an economic and monetary union in three stages (Werner plan).[17] The project experienced serious setbacks. At that moment, there is a series of crisis for European states to face. The Bretton Woods System was near the fringe of collapse, and the non-convertibility of the US dollar into gold in August 1971, the rising oil prices in 1972. The attempt to limit the fluctuation of European nations' currencies by adoption of the "snake in the tunnel" system, failed.

At the Hanover Summit in June 1988, the debate on EMU was fully re-launched when an ad hoc committee (Delors Committee) of the central bank governors of the twelve member states, chaired by the President of the European Commission, Jacques Delors, was asked to propose a new timetable with clear, practical and realistic steps for creating an economic and monetary union.[18] The Delkors report of 1989 set out a plan to introduce the EMU in three stages. It also contains the creation of institutions like the European System of Central Banks (ESCB), which in the future would be responsible to formulate and implement monetary policies.

In 1991, the Maastricht Agreement added a precise time for the three stages. Stage one: from 1 July 1990 to 31 December 1993; stage two: from 1 January 1994 to 31 December 1998; stage three: 1 January 1999 to now.

Table.1. Time table for the Euro[19]

July 1990	Capital controls are abolished
Dec. 1991	Maastricht Treaty is signed
Jan. 1994	European Monetary Institute is created
Dec. 1995	Single currency name is chosen –Euro
May 1998	Participants in the Euro are chosen
	Exchange rates among participants are fixed
	European Central Bank is established
Dec.1998	Conversion rates for the Euro are fixed.
Jan.1999	Euro takes effect.
Jan. 2001	Greece joins the Euro
Jan. 2002	Euro notes and coins are introduced.
July 2002	National notes and coins are withdrawn

2, Sovereign Debt Crisis

From the birth of the Euro, it experiences a little fluctuation and finally become stable. However, when the world is cheering for the success of the Euro and the EU's member states are attracted in the expansion plan, the breakout of the sovereign debt crisis has make them calm down.

In early 2010, sovereign debt crisis appears. It developed and concerned some European states, Greece, Ireland, Italy, Portugal and Spain. This led to a crisis of confidence, and it

16 Zhangjianxiong, *An Introduction to Economic Policies of The European Union*, (Chinese Academy of Social Sciences Press,2006), p.143.

17 Zhangjianxiong, *An Introduction to Economic Policies of The European Union*, (Chinese Academy of Social Sciences Press,2006), p.143

18 Verdun A., "The role of the Delors Committee in the creation of EMU: an epistemic community", *Journal of European Public Policy*, Volume 6, Number 2, 1 June 1999 , pp. 308-328.

19 Thomas D. Lairson and David Skidmare, *International Political Economy The Struggle for Power and Wealth*, (Peking University Press, 2004), p. 173.

not only spreads and risk insurance on credit default swaps between these countries but also other EU members, even Germany.

The Greek economy was one of the fastest growing in the eurozone during the 2000s; from 2000 to 2007 it grew at an annual rate of 4.2 percent as foreign capital flooded the country.[20] A strong economy and falling bond yields allowed the government of Greece to run large structural deficits. In order to do so, successive Greek governments have, among other things, run large deficits to finance public sector jobs, pensions, and other social benefits.[21] Since 1993 The Greek debt to GDP has remained above 100 percent.

Initially currency devaluation helped finance the borrowing. After the introduction of the euro, Greece was initially able to borrow due to the lower interest rates government bonds could command. The global financial crisis that began in 2008 had a particularly large effect on Greece. Two of the country's largest industries are tourism and shipping, and both were badly affected by the downturn with revenues falling 15 percent in 2009.[22] Because of government deficits' rising and debt levels together with a wave of downgrading of Greek government debt has created alarm in financial markets.

One of the central concerns prior to the bailout was that the crisis could spread beyond Greece. Ireland, with a government deficit of 14.3 percent of GDP, the U.K. with 12.6 percent, Spain with 11.2 percent, and Portugal at 9.4 percent are most at risk.[23] On 2 May 2010, the Eurozone countries and the International Monetary Fund agreed to a €110 billion loan for Greece, conditional on the implementation of harsh Greek austerity measures.[24] On 9 May 2010, Europe's Finance Ministers approved a comprehensive rescue package. It worth almost a trillion dollars and aimed at ensuring financial stability across Europe by creating the European Financial Stability Facility (EFSF).

In November, as concerns started to resurface about the fiscal health of Ireland, Greece and Portugal, EU President Herman Van Rompuy said " We all have to work together in order to survive with the euro zone, because if we don't survive with the euro zone we will not survive with the European Union." [25]

Ⅳ. EMU's Lack of Penalty Mechanism

Although the cause of the sovereign debts, to some extent, is internal, to the EMU, the creeping of the crisis which forces the all eurozone states to pay for some members internal mistakes can account for the weakness of the institution

Just like the theory mentioned in the first part, the lack of penalties can be regarded as one of the most important factor in this problem. So we should have a general idea of the rules,

[20] "Greece: Foreign Capital Inflows Up, Embassy of Greece in Poland Press and Communication Office", Greeceinfo.wordpress.com 17, September 2009, http://greeceinfo.wordpress.com/2009/09/17/greece-capital-inflows-up/. Retrieved 5. May 2010.

[21] "Back down to Earth with a Bang", Kathimerini (English Edition), 3 March 2010, http://www.ekathimerini.com/4dcgi/_w_articles_columns_1_08/03/2010_115465

[22] "Onze questions-réponses sur la crise grecque – Economie – Nouvelobs.com", http://tempsreel.nouvelobs.com/actualite/economie20100429.OBS3199/onze-questions-repnses-sur-la-crise-grecque-html, Retrieved 2 May 2010

[23] Abigail Moses, Greek Contagion Concern Spurs Sovereign Default Risk to Record", Bloomberg, http://www.bloomberg.com/apps/news?pid=20601087&sid=afovmQhJ0MqY. Retrieved 30, April 2010.

[24] Gabi Thesing and Flavia Krause-Jackson (3 May 2010). "Greece Gets $146 Billion Rescue in EU, IMF Package", Bloomberg, http://www.bloomberg.com/apps/news?pid=20601087&sid=a9f8X9yDMcdI&pos=1. Retrieved 10 May 2010

[25] "President says EU in Survival Crisis" *Business and Leadership*, Nov. 2010, http://www.businessandleadership.com/economy/item/26714-president-says-eu-in-surviv

norms and related penalties of EMU. They are mainly contained in Maastricht Agreement and Stability and Growth Pact.

1, Maastricht Agreement

The Treaty of Maastricht (formally, the Treaty on European Union, (TEU)) was signed on 7 February 1992 by the members of the European Community in Maastricht, Netherlands. [26]After it has been enforcement since 1 November 1993, it created the European Union as well as leading to the creation of the single European currency, the euro. The Maastricht Treaty has been amended by some later treaties (Amsterdam, Nice and Lisbon, see the treaties of the European Union article)

2, Main article: convergence criteria

The Maastricht criteria (also known as the convergence criteria) are the criteria for European Union member states to enter the third stage of European Economic and Monetary Union (EMU) and adopt the euro as their currency. The 4 main criteria are based on Article 121(1) of the European Community Treaty.

1). Inflation rates: No more than 1.5 percentage points higher than the average of the three best performing (lowest inflation) member states of the EU.

2). Government finance:

Annual government deficit:

The ratio of the annual government deficit to gross domestic product (GDP) must not exceed 3 percent at the end of the preceding fiscal year. If not, it is at least required to reach a level close to 3 percent. Only exceptional and temporary excesses would be granted for exceptional cases.

Government debt:

The ratio of gross government debt to GDP must not exceed 60 percent at the end of the preceding fiscal year. Even if the target cannot be achieved due to the specific conditions, the ratio must have sufficiently diminished and must be approaching the reference value at a satisfactory pace.

3). Exchange rate: Applicant countries should have joined the exchange-rate mechanism (ERM II) under the European Monetary System (EMS) for two consecutive years and should not have devalued its currency during the period.

4). Long-term interest rates: The nominal long-term interest rate must not be more than 2 percentage points higher than in the three lowest inflation member states.[27]

The purpose of setting the criteria is to maintain the Eurozone's member states' (with the inclusion of new member states) price stability.

3, Stability and Growth Pact

The Stability and Growth Pact (SGP) is an agreement signed by 16 members of the European Union (EU) who has joined the Eurozone in order to facilitate and maintain the stability of the Economic and Monetary Union. It contains fiscal monitoring of members by the European Commission and the Council of Ministers. After multiples warnings, it will be sanctions against offending members.

The pact was adopted in 1997. SGP and its fiscal discipline function is help to ensures that member states adopting the euro who has meet the Maastricht convergence criteria continue to observe them.

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[26] "1992". The EU at a glance - The History of the European Union. Europa, http://europa.eu/abc/history/1990-1999/1992/index_en.htm. Retrieved 9 April 2010..

[27] "The Masstricht Agreement on Economic and Monetary Union (European Community)" , *World Economic Outlook*, May, 1992.

4, The actual criteria that member states must respect

Heads of state and government agreed at the March 2005 Summit to revise the EU's Stability and Growth Pact reform. Under the revised rules, member states must still keep their public deficits under a 3 percent GDP/deficit ratio and their debts under a 60 percent GDP/debt ratio. [28]

In the mid of 1990s, German finance minister Theo Waigel initially proposed the SGP. Since then Germany had long maintained a low-inflation policy, SGP had become the core part of German strong economic performance from 1950s. So the German government was willing to ensure the continuation of that policy through the SGP. It would limit the ability of governments' exerting inflationary pressures on the European economy. This former finance minister warned that, "The virtually unpardonable mistake was committed of watering down the Pact. In particular Germany, the creator of the Stability and Growth Pact, did not play by the rules under the previous governing coalition," he insisted, rejecting suggestions that economic growth imbalance among euro members was the root cause of the problem.[29]

In March 2005, the EU Council, decided to reform the pact under the pressure of d France and Germany, relaxed the rules, to respond to criticisms of insufficient flexibility and to make the pact more enforceable.

After being reformed the 3 percent for budget deficit and 60 percent for public debt were not changed, but whether declare a country in excessive deficit now rely on certain parameters: the behavior of the cyclically adjusted budget, the level of debt, the duration of the slow growth period and the possibility that the deficit is related to productivity -enhancing procedures.

Ⅴ. The Dilemma in Institutionalization

1, Problems

EU's high speed of Economic integration has been shocked nearly all the world. As a world's most developed regional international organization, it has reached a high level of institutionalization. It has built the system of laws and rule of regularizing member's action on trade, investment, competition and even some common policy on economic field such as agriculture, fisheries, transportation, welfare, regional development and currency. In addition, EU has established several independent institutions such as European Commission; the Council of the European Union; the Court of Justice of the European Union and the European Central Bank. All these institutions have been their independent positions in EU which have become the approach to supervising, regulating and punishing some violators in system.

These institutions and policies not only stipulate the punishment of violators but also provide the benefits for all members to share. In Common Agriculture Policy and Common Fisheries Policy a sound subsidy is provided. The Regional Development Policy has a specialized budget for the development of those the poorest states or regions of EU. The convergence of welfare standards has improved living condition of people who live in some relatively underdeveloped state of EU.

There are plenty of reasons for states to be

[28] "Stability and Growth Pact", *EU Facts,* October 2010, ' *http://www.civitas.org.uk/eufacts/FSECON/EC10.htm*

[29] "Theo Waigel: Greek Crisis Exposed EU Weaknesses", September 2010, http://www.euractiv.com/en/euro/theo-waigel-greek-crisis-exposed-eu-weaknesses-news-497698

inside the system. Euro will require a new level of cooperation among the Euro 12 members, and those outside the system cannot participate in formulating the precedent-setting initial policies.[30]

It seems EU's institutionalization has reached the standard of both elements, but the sovereign debt crisis has become a blasting fuse to uncover the unbalance between the punishments and public goods in this institution.

Both Maastricht Agreement and Stability and Growth Pact lack in penalties. The strict restrict of Maastricht Agreement is useful for keeping the member states from joined the Eurozone so that it will not cause the fluctuation in the system, but it is not valid after they have entered the institution. Stability and Growth Pact, to some extent has made up the defects of Maastricht Agreement, but it has been far beyond perfect.

However, the Pact has been criticized that it is not flexible enough to applied to the economic cycle for every member states and the governments' abilities have been limited which may be the hamper of the economy growth. Other people criticize the Pact too flexible. According to the reform mentioned in the last part, there are some flexible explanations for precise country. In addition, in 2001-2002, Germany failed to reach the criteria standard of the Pact, but Germany is not warned by the EMU. This event reduces the position of the Pact as well as member states' confidence on it. Furthermore, after the Council of Ministers failed to apply sanctions against France and Germany, despite punitive proceedings being started when dealing with Portugal (2002) and Greece (2005), though fines were never applied, criticize has not been stopped.

It also reflects a phenomenon that, the institution cannot penalize big countries such as France and Germany, because they were the biggest promoters of it when it was created as well as the largest investors during the work of the Pact. As a result, even these countries have run "excessive" deficits under the pact definition for some years. No one dares or has any strength to do something. Larger countries have their influence and large number of votes on the Council of Ministers. They can be avoided from being punished because they can let sanctions not be approved.

2, The Dilemma

First, although EU's institution are all independent and seems powerful in dealing with some issues, we can not ignore the way of these institutions acts.[31] The leaders of EU's institution are all elected from the leaders of the member states and in the decision of some big deal, and it demands to guarantee a unanimous vote. Some key issues should be decided by negotiating among all members. In this case, the punishment is a result of compromise, and its binding force is doubtful.

Second is the weakness of the penalties. The weakness can be concluded by two levels----the

[30] The twelve Euro zone members refer to: Belgium, Germany, Spain, Greece, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal Finland. Thomas D. Lairson and David Skidmore, *International Political Economy the Struggle for Power and Wealth*, p.175.

[31]The most important treaties are the Treaty of Rome (1957) which created the then EEC, and the Maastricht Treaty (the Treaty on European Union) which took effect in 1993. Others are the Single European Act (1987), which launched the European single market, and the Treaties of Amsterdam (1999) and Nice (2003). EU countries are currently ratify the Lisbon Treaty, signed by their leaders in December 2007, which will make the enlarged Union more efficient and more democratic. This treaty replaces the draft constitution for the EU which was agreed in 2004, but not ratified by all member countries, See "Gateway to the European Union", http://europa.eu/pol/inst/index_en.htm

content and the implementation. In the case of the sovereign debt crisis, all states have anticipated the possibility of the crisis when they negotiated how to set the rules. So, all member states who are willing to join the eurozone must meet a criterion that the inflation rate, the fluctuation of exchange rate interest rate and deficit must be controlled under a certain range. Once any member who has entered the eurozone, they must maintain it or they will be punished by being imposed a fine. It sounds perfect as a punishment to prevent members to violate rules, but the fine is of weakness. It contains in the range of violator's 0.5 percent of GDP. If breaking rule will gain much more benefit, this kind of punishment has no strain.

On the implementation level, when those violators have been bankrupt, how to force them to pay the fine? On the contrary, to avoid being influenced by the further deterioration, other states in this system have to pay off for violators. Unlike internal affairs, if the violators fail to be punished, there are no other ways to punish them.

To the common interests, it seems enough to attract more and more European states even central and eastern European states to join EU. The enlargement of EU can be seen as a prospect of this organization while it becomes a bomb when it meets with the challenge of crisis. Free Rider can be accepted when the economy goes smoothly in the region but when the crisis breaks out, public good providers cannot even keep themselves safe. The conflicts between public good providers and free riders are more and more obvious. In this case, both Greece and Germany have obtained many benefits from eurozone, but, under crisis their conflicts have been uncovered.

The large gap between the free rider members and public good providers will cause the system becomes an insurance. That is to say, once in the system, individual lost becomes group lost. Then, immorality will appear.

Ⅵ. Recommendations and Conclusions

The problem of the unbalance between the punishment and public goods are not difficult to be found to the EU. They do not fix it because there is a dilemma----the differences among member states. Those differences include the different development status and various policy behaviors.

The first aspect of the problem can be solved by reducing the gap between the rich and poor. The regional development policy, to some extent, is helped to deal with this problem, but the outcome is worse than expected. That is to say, the access criterion is significant. The enlargement of EU should be slow down until some really qualified candidates appear.

The second aspect of the problem refers to the different custom of dealing with affairs. For example, France likes to use expansionary monetary policy while Germany prefers to a prudent monetary policy. It means that states at the same level also have different circle (models) of economic development. In this case, it is difficult to use unified policy in every field. The development of EU's common policy should be improved in depth rather than width.

As a traditional regional institution of international cooperation, how to choose an approach to realize the most benefits is the basic motive for all member states. The life of institution depends on its functions. Certainly, to EU, although some of the problems that existed among the states, it is still the best developed international institution and the cost of withdrawal is much higher than being with it.

We can conclude that EU is still full of dynamics in the future.

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