WSJE(10/27)European Leaders Won't Accept Changes That Won't Work

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Many of the European governments that sighed with relief when their complex Lisbon Treaty was finally put to bed last year aren't ready for this.

A year later, Germany and France may already at this week's European Union Summit push to reopen the treaty to ink in new steps to prevent a future government-debt crisis like Greece's near-default.

Others in the European Union are warning them off. The treaty that centralized more power to EU institutions took eight years from start to finish. Why invite prolonged haggling and resurrect old demons? More to the point, they also say the sanctions plan won't work.

Germany's Angela Merkel and Nicolas Sarkozy of France seek harsher sanctions against overspending governments that include suspending a country's voting rights on the EU Council, which would require a change to the EU treaty.

Germany also wants a fixed procedure for dealing with countries threatened with default, possibly even including a process of "controlled default." That, too, could require a treaty change.

President Sarkozy agreed to tougher sanctions because Chancellor Merkel, in exchange for French backing, agreed to give national governments more say over imposing sanctions.

Their agreement added another step in the sanctions process: Governments breaking the rules will be given six months to show they are making progress fixing the rules. For the sanctions to go forward, a large majority of governments must vote that the country isn't making progress.

The proposition leaves many of their colleagues puzzled. What some see is a new arsenal of sanctions that will never see a shot fired in a clubby arrangement of mutual exoneration.

One of them is Jean Asselborn, Luxembourg's foreign minister, who doesn't understand why this is happening.

"Absolutely unenforceable," he told an interviewer on Germany's ZDF television channel this week. Rather sensibly, he also observes that the idea of restarting treaty talks to impose steps that would take away voting rights is "politically nonsensical."

In Germany at least, the answer is pure politics.

Ms. Merkel paid a high political price for agreeing to put reluctant German taxpayers behind the facility to rescue Greece from a looming default last spring. Having lost one key regional election since then and now facing another set next year, the German chancellor must honor her promise to lead a crackdown to prevent another Greece.

But EU treaty changes must be ratified by all 27 member states, and in some cases, as in Ireland, by national referendum.

The Ireland factor also looms large today, when the Irish voters who almost voted down the Lisbon Treaty have even less incentive.

Ireland this year has a budget deficit amounting to 32% of its economy, ten times the EU limit, that many doubt can be realistically reduced to the 3% limit by 2014 without killing off the economy.

It's government said Tuesday that spending cuts of 15 billion euros are now warranted over the next four years, double the amount previously expected, in order to cut the deficit.

Why would Irish voters approve a new treaty that has them first on the list for the EU's fiscal Star Chamber? Add voters in Portugal, Spain and Greece for good measure.

With her offensive strategy of crisis prevention already seeming hopeless, Ms. Merkel might now be best advised to steer a coherent defensive strategy of preparing for better crisis management.

That means, for a start, admitting that Europe needs a permanent plan for bailing out euro-zone countries in the last resort.

So far, only a temporary solution exists: the European Financial Stabilization Fund, or EFSF, launched in June to raise funds from euro-zone member states to avert a full-blown default of one of their members. It dissolves in 2013.

For Ms. Merkel and most of her compatriots, that is already far too close to negating the "no bailout" rule that was enshrined at Maastricht in 1991. To be persuaded to agree to anything more formal and permanent, Ms. Merkel will argue for the mechanism to include provisions for an orderly insolvency, making sure that private bondholders take the pain of any future government default before taxpayers.

The European Central Bank warns that the safety net would encourage governments to excess, raising what they call a moral hazard. Creating such permanent crisis resolution facility most likely also would need to be written into a new EU treaty, which again would draw opposition from most of Germany's partners.

The new sanctions are unlikely to be effective even if enacted, but a permanent crisis management facility may prevent another mortal threat to the euro-zone project.

So if the euro zone's top two national leaders are to go down in defeat on their bid to reopen the treaty, they might as well do so in a worthy cause.