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Germany (Schauble) starts to say the right things – but will Merkel also say them? H

BERLIN—Germany may be willing to move sooner than expected to accept shared liability of euro-zone debt and would support short-term measures to deal with the acute financing problems facing some of the region's governments, German Finance Minister Wolfgang Schäuble said in an interview with The Wall Street Journal ahead of today's European summit.

Mr. Schäuble said Germany could agree to some form of debt mutualization as soon as Berlin is convinced that the path toward establishing centralized European controls over national fiscal policy is irreversible. That could happen before full implementation of treaty changes.

"We have to be sure that a common fiscal policy would be irreversible and well coordinated. There will be no jointly guaranteed bonds without a common fiscal policy."

Such a fundamental change—in effect, a grand European bargain between Germany and other euro members—would require countries to give up a large degree of sovereignty over their budgets. Many European policy makers are asking how far Berlin is willing to go in return to putting its financial strength at the disposal of the euro zone.

"We are willing to go as far as we need to in order to get a sustainable agreement in Europe," Mr. Schäuble, speaking in his spartan Berlin office, said.

His comments indicate that Germany is more flexible than many observers in Europe think after Chancellor Angela Merkel told German lawmakers early this week that there would not be full mutualization of European debt in her lifetime. German lawmakers who were present have said that Ms. Merkel's comment was made in jest and that media have exaggerated its significance. Mr. Schäuble's comments seem to support this view.

While Berlin continues to insist that European leaders take concrete steps toward a fiscal union, Mr. Schäuble signaled that Germany could agree to some form of common debt issuance before the full treaty implementation of a new euro-zone framework is achieved.

"We cannot separate liability (for public debt) from the competence to decide on fiscal policy. This would be to ignore the most basic lessons of the crisis. As soon as we have a joint EU fiscal policy, we can consider joint liability—the sequencing is key," Mr. Schäuble said.

In addition, Mr. Schäuble acknowledged that Europe might have to take short-term action to stop the exodus of private-sector capital from the region's bond markets and said there were a number of instruments that could be used, including direct purchases of government debt by euro-zone bailout funds—the European Financial Stability Facility and the European Stability Mechanism.

Mr. Schäuble's comments on the timing of common debt issuance are significant because senior German officials have previously insisted that they would only be willing to mutualize any part of the region's debt once European treaties had been changed to repair the structural flaws in Europe's monetary union, a process that could take several years.

The shift suggests that Berlin is willing to go further than anticipated to reach a compromise with France and other euro-zone countries on a new regulatory structure for the euro zone, although no final agreement is expected at today's summit in Brussels.

Countries that are implementing economic and fiscal reforms but still face pressure on bond yields could formally request that the bailout funds intervene, Mr. Schäuble said. He added that he opposes recent proposals for automatic intervention by the funds without a formal government request.

Investors have retreated from the debt of Spain and Italy in recent months, driving up the countries' borrowing costs and stoking fears they could soon lose the ability to raise fresh funds in capital markets. Europe's bailout funds have the power to intervene directly in euro-zone bond markets by purchasing debt either directly at government auctions alongside private investors or in the open market. Such moves could help renew investor confidence in countries' debt sustainability and bring yields down, Mr. Schäuble suggested.

"We can do whatever is possible within the framework of the EU treaties," said Mr. Schäuble, speaking in English in an hour-long interview late Wednesday.

He said Germany does not believe in the efficacy of throwing more money into a firewall to fight financial contagion. Europe and the International Monetary Fund now have some $2 trillion in resources as a global firewall against financial contagion, said Mr. Schäuble, as he called for ending the discussion over building an even higher firewall.

"It does not make sense to open this discussion over and over again," he said. "In the end the firewall can only be the vehicle to give the countries in focus the time to do the necessary reforms and that is what we must aim for."

Germany's price for accepting common debt issuance is a euro-zone wide agreement to transfer control of budgets to the European Commission. Mr. Schäuble repeated a call to establish a fiscal policy commissioner, or budget czar, in Brussels with broad power over countries' finances.

Under the German proposal, the new commissioner could strike down national budgets if they were not in line with monetary union rules and sanction profligate member states with fines and other measures. Until such controls are agreed, European states cannot be made liable for each other's debts, Mr. Schäuble said.

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