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Europe's Achille

Mario Monti on the politeness pr

IMF ties Greek aid to bail-out pledges

€12bn tranche blocked only weeks before due

Firm assurances sought from European officials

By Peter Spiegel in Luxembourg

The International Monetary Fund is blocking a critical €12bn aid payment to Greece just weeks before it is due, insisting it cannot go through without concrete assurances from European officials on a new Greek bail-out.

European finance ministers went into a meeting on Sunday believing the two issues had been separated and that the payment would go ahead as planned in early July once a new austerity plan was approved by the Greek parliament. Recent public commitments stating the European Union would ensure Greece remains solvent through next year were thought to be enough to secure the backing of the IMF, due to disburse €3.3bn of the aid payment.

But amid continuing disagreement between eurozone countries over the terms of a new bail-out, IMF officials told the emergency gathering they needed firmer commitments before making the payment, according to three eurozone officials briefed on the meeting.

IMF officials said they had been consistent in their determination that funding must be in place for the next year before they can distribute the next tranche. Both the IMF and EU are also insisting Greece pass new austerity measures.

"That needs to be done before we can move forward and we are hopeful the conditions can be met with alacrity," John Lipsky, the acting head of the IMF, said. Greece must get the €12bn payment before July 15 or it will default on its sovereign debt.

Concern over the Greek crisis has caused mounting alarm in the US. Finance ministers from the Group of Seven economic powers held a half-hour, late-night conference call on Sunday to be updated on European deliberations – a call one EU diplomat described as a sign of US concern. Another G7 call was scheduled for late Monday.

IMF policy prevents it from disbursing aid to a country that cannot pay its bills for the next 12 months. Eurozone finance ministers publicly acknowledged on Monday that under the current €110bn bail-out, Greece will run short in March 2012, when Athens was expected to return to the bond market.

The tensions over a second bail-out centre on the insistence by Germany and its northern allies that substantial costs of the new rescue be borne by private bondholders. But in its formal review of the Greek programme, the IMF called the bondholder debate "unproductive" and warned failure to take decisive action threatened the nascent economic recovery in Europe. A second emergency meeting has been called for July 3 to resolve the impasse.

Additional reporting by Alan Beattie in Washington

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Eurozone woes

Debtors hail change to rescue fund

News analysis

The subtle shift is designed to encourage cautious investors to buy bonds, writes Joshua Chaffin

Tough task: Jean-Claude Trichet, ECB president (left), and Olli Rehn, economic affairs commissioner, at the start of yesterday's talks in Luxembourg AP

Any bonds issued in future by the eurozone's new €500bn rescue fund on behalf of Ireland, Greece or Portugal will not enjoy "preferred creditor status" – an alteration to the fund intended to help those nations return more swiftly to private capital markets.

The amendment to the forthcoming European Stability Mechanism (ESM) was unveiled by eurozone finance ministers at a meeting in Luxembourg on Monday that was dominated by chaotic efforts to contain the Greek debt crisis threatening the single currency.

It marks a subtle – but potentially important – change to the terms of the ESM unveiled by European leaders in March. The hope is that this will eventually encourage investors to buy bonds issued by those governments without fear that they could be trumped by new debt in the event of another bail-out or a restructuring.

"This should make it easier for these countries to come back to the market," Jean-Claude Juncker, the Luxembourg prime minister and eurogroup president, said in Luxembourg.

"It is good news for Greece; it's good news for Ireland; it's good news for Portugal."

Michael Noonan, the Irish finance minister, described it as "very good news for Ireland that this scheme has been amended".

Mr Juncker also outlined changes to the capital structure of the European Financial Stability Facility (EFSF) – the temporary rescue fund cobbled together in the midst of last year's Greece bail-out – in order to make its lending capacity match its €440bn ($630bn) headline figure. That will be achieved by having the 17 eurozone governments that back the fund boost their guarantees from 120 per cent to 165 per cent – thereby increasing its guaranteed capital to €780bn.

The ESM, which will replace the expiring EFSF in mid-2013, is one of the pillars of what eurozone leaders call a "comprehensive" response to the debt crisis. Like its predecessor, the ESM will provide money to stricken governments by issuing triple-A bonds backed by eurozone government guarantees.

A key difference is that the ESM's bonds were supposed to enjoy preferred status to those of all creditors other than the International Monetary Fund. That seniority would effectively put ESM bonds at the head of the queue for repayment. This could be important in the future, since European leaders have pledged to try to force private creditors to bear some of the losses in ESM rescues.

But it created an unexpected obstacle for Greece, Ireland and Portugal – all of whom have received bailouts from the European Union and IMF – as they contemplate a return to private borrowing. Investors have worried that any new bonds they bought would be pushed down the credit ladder if one of those governments were forced to turn to the ESM for fresh help.

For Ireland, the worry is acute since its €85bn rescue package includes a pledge by Dublin to return to private borrowing in late 2012. The situation has also created problems for Lisbon because some of the money it is due to receive from its €78bn package may not be paid until after the ESM has replaced the EFSF.

> 'This should make it easier for these countries to come back to the market'
>
> **Jean-Claude Juncker Eurogroup president**

As finance ministers finetuned the new rescue fund, prospects remained uncertain for the other pillar of eurozone crisis response – a legislative package to force states to rein in excessive debts and make their economies more competitive.

Member states and the European parliament had been hoping to close a deal on this economic governance legislation in time for an EU summit in Brussels on Thursday. Yet the two sides continue to lock horns over how much influence politicians should have on profligate governments when it comes disciplinary measures. While member states want greater flexibility, MEPs are demanding as little political interference as possible – a standoff that diplomats say is further unsettling markets.

With time running short, Olli Rehn, the EU's top economics official, urged the two sides to make a deal.

Additional reporting by John Murray Brown in Dublin

FT debate: What's wrong with Europe, See Comment

IMF says crisis poses threat to growth outlook

Regional view

By Ralph Atkins in Frankfurt

Eurozone political leaders must improve their handling of the region's debt crisis, which threatens to "overwhelm" economic growth prospects, the International Monetary Fund has warned, arguing that "unproductive" debate on a Greek restructuring has to stop.

Casting a further shadow on the European Union's attempts to resolve the crisis over Greece, the IMF report on the eurozone economy, issued on Monday, strikes a gloomier tone than previous documents from the Washington-based institution.

"A broadly sound recovery continues, but the sovereign crisis in the periphery threatens to overwhelm this favourable outlook, and much remains to be done to secure a dynamic and resilient monetary union," the report says.

Failure to take decisive action could result in tensions on the "periphery" spreading rapidly to the core, which would have major global repercussions, the IMF warns.

As recently as last month, the IMF's regional economic outlook for Europe argued that "strong policy responses" had contained the crisis in the eurozone periphery economies of Greece, Ireland and Portugal, although it also warned of "contagion" risks.

Now it argues that a "more cohesive and co-operative" approach is needed to manage the crisis in the periphery.

"It will be essential to bring the unproductive debate on debt reprofiling or restructuring to closure quickly," the IMF says.

In a clear criticism of Germany's government, it warns politicians to avoid giving the impression that bail-outs under the EU's new European Stability Mechanism would be conditional on debt restructuring.

Instead, the fund proposes that expanding EU bail-out funds and giving them powers to buy bonds in financial markets "would send a much-needed signal that member countries 'will do whatever it takes to safeguard the stability of the euro area'".

The IMF also urges faster integration of European mechanisms for financial supervision and crisis management – including setting up a European Resolution Authority to split the costs of bank rescues between countries and provide emergency financial back-up.

The IMF backs the European Central Bank's decision to raise interest rates gradually in order to head off inflation threats across the eurozone.

But it said that non-standard measures taken by the ECB to support eurozone banks – which include providing unlimited liquidity – "should remain in place until financial market tensions have been addressed".

To encourage a return to a healthy financial system, the IMF suggests setting up a special "conditional term funding facility", backed by eurozone governments and possibly operated by the ECB.

This, it says, "would smooth the transition, while protecting the ECB's independence and flexibility and reinforcing incentives to tackling banking problems at their root".

Banks seek rollover incentives

Germany

By James Wilson in Frankfurt

Germany's leading banks say incentives may be needed to galvanise support for a voluntary participation in a "rollover" of Greek sovereign debt.

A voluntary rollover, through which bondholders such as banks and insurers would maintain existing levels of exposure to Greece by replacing maturing debt holdings with purchases of fresh bonds, is a likely cornerstone of any new rescue package for Greece.

But the nature of any such engagement may not be known for weeks as bondholders, governments and rating agencies tread a fine line between trying to ensure participation in a rollover and avoiding coercion that could be viewed as a trigger for a "credit event" – in other words, a Greek default.

The proposal for incentives came from the Association of German Banks, which represents more than 200 commercial institutions including Deutsche Bank and Commerzbank, Germany's two largest by assets. An example would be a guarantee that offered a better rating on any new bond, the association said.

Banks were "aware of their responsibilities and would support a sustainable solution", but a solution had to be voluntary to avoid "a dangerous chain reaction" in markets, said Michael Kemmer, the association's managing director.

Wary of possible legal action by investors and shareholders, banks and other bondholders have privately said they would be concerned at being seen to maintain exposure to Greece if it were obviously against their own commercial interests. But while incentives could create more interest in a voluntary rollover, it remains unclear what kind of structures could be offered.

German banks are, after French banks, those in Europe with most cross-border exposure to Greece.

Laurent Bilke, an analyst at Nomura, said in a note that it would be "very positive" if Greek debt could be rolled over into bonds with better ratings – ideally those issued by the European financial stability facility, a mechanism set up by eurozone leaders to help finance bail-outs, and which has already agreed to borrow on behalf of Portugal and Ireland.

Wolfgang Schäuble, Germany's finance minister, maintained on Monday that the private sector should take part in aid to Greece. "There's no need for additional incentives," he said. "Everybody has a self-interest in the stable development of Greece."

See Markets

Business leaders back euro

A group of business leaders in France and Germany has urged politicians to act quickly to protect the euro, warning of a "fatal reverse for Europe" if the single currency failed, **writes James Wilson.**

The euro was a success that had created wellbeing and made the corporate sector more competitive, says the group of almost 50 business figures in an open letter published in the two countries. There was "no serious alternative" to having the euro as a common currency.

"The return to a stable financial situation will cost many billions of euros but the European Union and our common currency are worth it," the letter says.

But the leaders – representing companies with a combined turnover of €1,500bn ($2,100bn) and 5m employees – stopped short of offering concrete support for Greece or any participation in measures such as privatisations.

Greek power union calls strike action

48-hour stoppages threaten blackouts

By Kerin Hope in Athens

Workers at Greece's state-controlled electricity utility have launched rolling 48-hour strikes, threatening to bring power cuts, as pressure builds ahead of today's parliamentary confidence vote on the new socialist government.

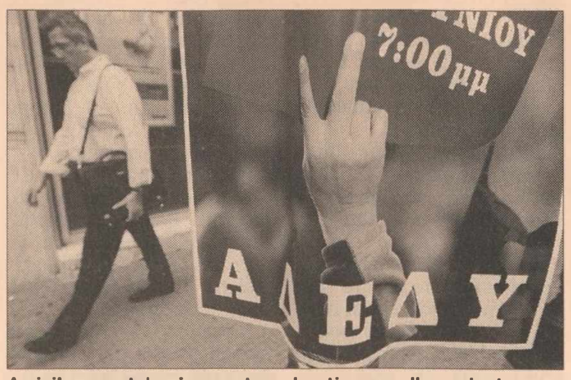
Union leaders at Public Power Corporation, which produces more than 90 per cent of the country's electricity, are protesting against the company's planned privatisation under the terms of a second international bail-out for Greece.

The European Union and the International Monetary Fund are sending another technical team to Athens today to make sure that legislation being drawn up by the Greek government includes the elements in the deal reached earlier this month on fiscal and structural reforms, including an accelerated privatisation programme. The Greek parliament is set to vote on the deal on June 28.

The strike by Genop-Deh, largest and most powerful of Greece's militant public sector unions, highlights the strength of resistance to reform within the socialist party, despite efforts by the new government to build a broad consensus.

Evangelos Venizelos, the new finance minister, and George Papaconstantinou, energy minister, both failed in separate talks to persuade union leaders to call off the strikes ahead of Sunday's eurogroup meeting of eurozone finance ministers.

Mr Venizelos said on Monday: "There is an immediate, urgent need for the country to regain credibility regarding the implementation of the economic programme. In contrast with Ireland and Portugal, which appear to have a high degree of internal consensus, Greece's national unity has become an issue with our partners."



A civil servants' union poster advertises a rally against austerity in Athens yesterday Reuters

Nikos Fotopoulos, who leads the power workers' union, has said the strikes by more than 20,000 workers will continue until parliament votes on the medium-term package.

"Why should the workers pay for austerity measures with salary cuts and job losses? We weren't the ones who enjoyed the excesses that led to Greece's crisis," Mr Fotopoulos told a workers' rally outside a power plant in northern Greece.

The union said 10 power plants had been shut down by the strike and that blackouts loomed.

PPC managers appealed for people to reduce consumption during peak periods, and that efforts would be made to avoid power cuts in tourist areas and densely populated districts.

The government is committed to cutting the state's shareholding in PPC from 51 per cent to 34 per cent through selling a strategic stake to a foreign investor, although it would retain control of management. No sale deadline has been set.

What's wrong with Europe? The FT debates the prospects for the eurozone

The real problem is excessive deference

Mario Monti

The A-List

At the roots of the eurozone crisis lies the past indiscipline of specific member states, primarily Greece. This could not have occurred, however, without two widespread failings of governments sitting at the table of the European Council: unhealthy politeness towards each other, and excessive deference to large member states.

This week will tell us whether this lesson – even more important for the future of the eurozone and European Union than a "solution" to the Greek crisis – has been learnt. The events to watch are the Ecofin meeting of finance ministers on Monday and the European Council meetings of EU leaders on Thursday and Friday.

As for politeness, could Greece for years have run public deficits vastly above its officially published figures – until the excess became known in late 2009 – had Eurostat had powers to conduct serious investigations into the adequacy of nationally produced statistics? Of course not.

Yet, when years ago the European Commission proposed that the European statistics office be given those powers, most member states found the idea improperly intrusive. Led by Germany and France, they blocked it. Each government knew the dangers of sharing a single market and, even more, a single currency with countries that might violate the rules. Nonetheless, they thought allowing objective but indiscreet eyes to probe government accounting would be one step too far. Today they must all, including Greece, regret that the Commission's proposal was blocked.

In addition, member states have often shown an unhealthy degree of politeness when it comes to peer review exercises. The understanding is that if a government is spared the embarrassment of a very negative grade, it is likely to return the favour when it is other governments' turn to be assessed.

As for deference to large member states, it is, in a sense, enshrined in the treaty. A large member state has more votes in Council deliberations and more members of the European parliament than a small member state. Thus, it has more influence on the legislative process, as is perfectly justified on democratic grounds.

However, when it comes to the enforcement of EU laws or decisions, member states should all be treated as equals, and they normally are. There have been exceptions, however. They have done lasting damage to the credibility of two key EU policies over the past decade: the stability and growth pact, and the Lisbon strategy towards greater competitiveness.

The credibility of the stability pact was severely impaired by a decision taken by the Ecofin Council in 2003. The Commission had proposed issuing the prescribed warnings to France and Germany because they were not meeting the requirements of the pact, as it had done for Ireland and Portugal the year before. But the council, under pressure from those two countries and from the Italian government, which held the presidency, did not follow the Commission's proposal, as it had done for the two smaller countries. So it can be no surprise that other countries, already by tradition less keen on the "culture of stability" promoted by Germany, took that almost as a licence to interpret the rules in a more relaxed way. Excessive deference, one could say, led to excessive deficits.

When the Lisbon strategy of 2000 was reviewed five years later, it was proposed that the Commission should regularly publish a scoreboard to put more pressure on member states to meet their commitments. Gerhard Schröeder, then Germany's chancellor, strongly objected and the Commission – wrongly, in my view – decided not to proceed to "name and shame" member states.

It is now recognised that a system to put on explicit pressure is needed. The "Europe 2020" strategy urges explicit, candid monitoring. Earlier this month, the Commission published bold recommendations for each member state, regarding both their stability programmes and their national reform policies.

So now for this crucial week. To enforce the new stability pact, the Ecofin Council should accept two key requests of the European parliament. First, it should extend to the preventative phase the "reversed qualified majority" rule (qualified majority is needed to *block* a proposal). This will give the Commission's proposals greater weight, with fewer opportunities for member states to exchange favours. Second, involving the European parliament as promoter of an open "economic dialogue", including with member states, would, by increasing transparency, make such exchanges and displays of deference less likely. This would boost both the discipline and the credibility of the eurozone.

As to the European Council, it should by no means dilute recommendations addressed to each member state. If their resistance were to erode the Commission's recommendations, Europe 2020 would soon join the Lisbon strategy in a lack of credibility and effectiveness. When he chairs this week's council, President Herman van Rompuy will have to be the guardian of healthy impoliteness – and lack of deference.

The writer is president of Bocconi University and a former European commissioner

The FT's A-List

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● Politics will break apart the euro, **Megan Greene** writes in her response to Mario Monti's A-List column

Political union cannot fix the euro

Gideon Rachman

As the Greek crisis worsens, so voices are being raised demanding new and more radical approaches. Forget the sticking plaster bail-outs and slice-by-slice austerity packages. The ultimate solution to the eurozone debt crisis is "political union".

Last week Nout Wellink, the Dutch central bank governor, became the latest senior figure to float this idea, when he argued that the eurozone needs "an institutional set-up that has characteristics of a political union". According to Mr Wellink, "a European finance ministry would be an important step in the right direction". Jean-Claude Trichet, the head of the European Central Bank, has also backed the creation of a European finance ministry – which in turn implies a much larger central budget and more decisions on spending and taxation taken in Brussels, rather than in national capitals.

Those who argue that "political union" is the solution to the current crisis seem to believe that Europe's problem is institutional. Unlike the US, the eurozone does not have the political institutions to back up a common currency. But if Europe was just equipped with a finance ministry or the facility to issue eurozone bonds or to tax citizens directly, everything could be fixed.

This is a profound misdiagnosis of the crisis. The real problem is political and cultural. There is not a strong enough common political identity in Europe to support the single currency. That is why German, Dutch and Finnish voters are revolting against the idea of bailing out Greece again – while Greeks riot against what they see as a new colonialism imposed from Brussels and Frankfurt.

To argue that even deeper political integration is the solution to this crisis, is like recommending that a man with alcohol poisoning should treat himself with a more powerful brand of vodka.

It is important to understand that the origins of the current crisis lie precisely in the dream of political union in Europe. For the true believers, currency union was always just a means to that greater end. It was a way of "building Europe". If bits of the construction were missing – such as a European finance ministry – they could be added later. Helmut Kohl, the chancellor of Germany in the early 1990s, was so convinced of the need to bind a united Germany into the European Union that he was prepared to press ahead with the euro, in the face of 80 per cent opposition from the German public.

At a seminar in London last week, Joschka Fischer, a former German foreign minister, who is one of the boldest advocates of deeper European unity, was unrepentant in defending this elitist model of politics. He insisted that most important foreign policy decisions in postwar Germany had been made in the teeth of public opposition. "It's called leadership," he explained.

Such leadership is all very well, if it is vindicated by events. However, if elite decisions go wrong, they create a backlash – which is exactly what is happening in Europe now. German voters were told repeatedly that the euro would be a stable currency and that they would not have to bail out southern Europe. They now feel betrayed and angry. Greek, Irish, Spanish and Portuguese voters were told repeatedly that the euro was the route to wealth on a par with that of northern Europe. They now associate the single currency with lost jobs, falling wages and slashed pensions. They too feel betrayed and angry.

As a result, the space for political manoeuvre is narrowing on either side of Europe's creditor-debtor divide. The Greek government can barely muster a majority to force through its latest austerity package. The German government of Angela Merkel is losing support and is facing an increasingly Eurosceptic public. Meanwhile, radical anti-European parties are on the rise in other creditor nations, such as Finland and the Netherlands. Most European leaders still blithely assert that they will do whatever it takes to save the euro. But these leaders operate in democracies. If they take decisions that voters simply cannot accept, they will lose their jobs.

The relations between the peoples of the EU are cracking under the strain of the euro crisis. In Athens, demonstrators wave EU flags with the swastika imposed upon it. In Germany, the euro crisis has made it permissible to denounce profligate and corrupt southern Europeans. A single currency that was meant to bring Europeans together is instead driving them apart.

The politics of fiscal transfer are tricky, even in long-established nation states. Think of the strains between northern and southern Italy; or between Flanders and Wallonia in Belgium. But the tensions are far worse in a newly created eurozone of 17 nations with different histories, cultures and levels of economic development. Simply ignoring this – and trying to press ahead with a deeper political union – would invite an even more dangerous backlash in the future.

But if political union is not the answer to Europe's problems, what is? There are two possible solutions. The eurozone leaders might somehow patch the current system up. Or the weaker members of the currency union – above all, Greece – could leave. That process would be chaotic and dangerous. But Greece, as it stands, is a demoralised country that has lost the sense that it controls its own government. Leaving the euro might just be the beginning of a national regeneration.

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Savour the sweet scent of Germany's success

Steven Rattner

At first glance, Germany's decision not to insist on compulsory participation by private lenders in the latest bail-out of Greece may seem like a defeat for Chancellor Angela Merkel and Europe's largest economy. But appearances can be deceiving. On another, more important level, Germany came out of the latest round of brinkmanship exactly where it may well have wanted to be – with the common currency intact and Germany able to motor forward.

These are heady days for Germany. With its torrid 6.1 per cent first-quarter growth rate, it leads the field among industrialised nations. While Barack Obama has been exhorting the US to boost its exports, Germany – with just 82m inhabitants – has vocally remained the world's second-largest exporter. That has not only generated a huge current account surplus but has contributed two-thirds of Germany's economic growth over the past decade.

For the first time since 1992, fewer than 3m Germans are unemployed, and inflation – the perennial obsession of the descendants of the Weimar Republic – remains muted. Business people buzz with self-confidence and even a subtler version of the arrogance evident before the integration of East Germany drained $2,000bn from the West and gave rise to the phrase "the sick man of Europe".

In her approach to the problems of the eurozone's periphery, Ms Merkel has cleverly triangulated between the antagonism of the populace to bail-outs and the importance to business of doing (almost) whatever it takes to preserve the euro. That the views of the two constituencies diverge should not be a surprise.

For German workers, the current prosperity has come at a price. Beginning in 2003, then-chancellor Gerhard Schröder pushed through a massive "Agenda 2010" reform programme that successfully peeled back the German welfare state (among other things, unemployment benefits were pared to encourage work), relaxed stultifying regulatory practices and created a "grand bargain" with workers.

That complex labour agreement traded lower wage demands for greater job security, achieved in part through "short work", under which lay-offs were avoided by workers reducing their hours. Government subsidies made up part – but not all – of the lost wages. But even for those not on short work, wages were sacrificed on the altar of competitiveness. All told, real incomes dropped by 4.5 per cent in the past decade, reports the International Labour Organization. So Germany has been selling more and keeping its citizens employed without the rising standard of living that capitalism provides.

In that context, the opposition of rank-and-file Germans to the bail-outs should not be surprising. Opinion polls regularly show Germans more strongly against helping Greece than the French or Italians. To accommodate that sentiment, Ms Merkel has stood fast on a second, less controversial bail-out requirement: that Greece intensify its efforts at austerity.

Meanwhile, in private conversation, most German businessmen argue for a pragmatic emphasis on safeguarding the euro. Some even back transfer payments to ease crushing Greek debt loads. That shouldn't be surprising either, given the joyride that German exporters have received from the currency, whose value is held down by the poor performance of weaker members. A dissolution of the eurozone would leave German exporters confronted with a far more expensive currency and a less competitive position.

With the euro intact and its members lashed at the hip to Germany, the prospects for Germany's economy glisten. Over the past decade, German competitiveness (as measured by unit labour costs) has improved by 20 per cent while that of weaker European countries has remained flat. That allows German companies not only to out-compete other eurozone countries in world markets; it also provides German exporters with an advantage when selling into other European markets, where 60 per cent of German exports go.

Like other developed nations, Germany faces tough competition from China and its smaller brethren. But apart from its sensible economic policies, the country benefits from the formidable positioning of its manufacturing sector. It benefits as well from a more intangible factor: underlying discipline and drive for success. With that behind her, Ms Merkel's influence over eurozone policies will continue to be greater than headline writers sometimes like to acknowledge.

The writer contributes a monthly column to the FT and was formerly counsellor to the secretary of the Treasury. A longer version of this appears in Foreign Affairs

Merkel has cleverly triangulated between the popular antagonism to bail-outs and businesses' need to preserve the euro

Beware the perils of a Libya after Gaddafi has gone

Daniel Byman

In recent weeks, Nato has repeatedly bombed Muammer Gaddafi's compounds, deployed attack helicopters and escalated its air campaign. Yet as the military campaign steps up, the potential for blunders rises too – Nato bombs went astray on Sunday. Libya's regime said nine civilians died, including two children.

While military operations to topple Colonel Gaddafi have sped up, the political and diplomatic preparation for his fall plods along. Even if the dictator perished under a pile of rubble, Libya's fate would remain uncertain. He might be replaced by another dictator or a junta, or Libya could slide further into civil war – none of which is a prize worthy of the struggle of ordinary Libyans and their Nato backers. As the world surely learnt in Iraq and Afghanistan, a gap between military operations and political planning is a recipe for disaster.

Nato is divided on its aims in Libya, with some allies focusing on the protection of civilians rather than regime change. US politics has made the diplomacy harder. The Obama administration backed into the war (wanting to "lead from behind", as one official said) and is not making a strong effort to sell it to Americans, who are understandably reluctant to see the US set ambitious goals.

But perhaps soon we will have to face the question of what to do when Col Gaddafi has gone. The first challenge facing Nato after his fall will be to protect civilians. Victorious rebels may take their anger out on the Libyans who participated in atrocities. There are already reports that Gaddafi loyalists are being rounded up in rebel-controlled parts of the country.

As the world learnt in Iraq and Afghanistan, a gap between military operations and political planning heralds disaster

The nature of a post-Gaddafi political system is also open to question. The country has strong tribal identities and no tradition of democracy. Col Gaddafi's divide-and-rule policies further set Libyans against one another. Institutions such as the judiciary, media and civil society are weak or non-existent. Libya's oil wealth is an invitation to corruption. All of this is a recipe for conflict or government collapse, not for a transition to democracy.

The character of the Libyan opposition should also give us pause: a coalition of western-educated technocrats, young Libyans, former (we hope) jihadis, tribal representatives and reformed Gaddafi loyalists. The Transitional National Council, an opposition umbrella group, claims leadership, but it is unclear, perhaps even to those involved, who has real authority and whether the TNC can speak for important areas under Col Gaddafi's control such as Tripoli. Many opposition leaders seem less like true reformers than like a cosy elite determined to maintain its status.

Neither America nor Europe will have much influence in Libya once their bombers go home. If a new regime observes the forms of democracy, western powers will be tempted to hold their noses and work with it. But the allies can do better. We badly need to learn more about the key players. We can provide political and financial support to democratic forces there only if we know who they are. Military training is important, too, not only to help the rebels win but to create a more unified, professional structure, which will help maintain stability once Col Gaddafi has gone.

In working with the TNC, the US and its allies need a clear blueprint for a democratic transition. Western powers control billions in Libyan assets held outside the country, which can be channelled to the opposition in exchange for its developing democratic institutions.

Nato's coalition and its Arab allies have to start speaking with one voice and have an agreed-upon plan in the event of Col Gaddafi's demise. It may be too much to expect Libya to become a democracy overnight. But it would be sad if, a decade on, Libya were simply a gentler dictatorship or, worse, a failed state. In Iraq and Afghanistan, Nato proved better at defeating dictators than developing democracy. By making hard decisions now, the allies can make post-Gaddafi Libya a place worth fighting for.

The writer is a professor in the security studies programme at Georgetown, director of research at the Saban Center at Brookings, and author of A High Price: The Triumphs and Failures of Israeli Counterterrorism