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Article 1.

The Financial Times

The drift towards war with Iran

Gideon Rachman

February 20, 2012 -- The question of whether a war will break out over Iran's nuclear programme has been around for so long that it is easy to become almost blasé. In 2006 Benjamin Netanyahu, the Israeli prime minister, was already asserting dramatically: "It's 1938 and Iran is Germany."

This year, however, feels different. The threat of war is much more real. A conflict would begin with an Israeli bombing raid on Iran. But it would be likely swiftly to draw in the US – probably the UK and France, as well, and possibly the Gulf states and Saudi Arabia.

Israeli fears are driving the process. Ehud Barak, the Israeli defence minister, has talked of Iran entering a “zone of immunity” – in which its nuclear programme becomes unstoppable – in the coming months. The Israelis are particularly concerned about plans to put Iran’s uranium-enrichment facilities into hardened underground bunkers. Leon Panetta, the US defence secretary, is said to believe there is a strong possibility of an Israeli attack in April, May or June.

But Israel is not the only factor. Saudi Arabia and the Gulf States are also obsessed with the need to prevent Iran getting nuclear weapons. Barack Obama is still very keen to avoid conflict. But in a presidential election year, it is harder for him to rein in Israel. Britain and France – the two most important European military powers – are also seriously contemplating the prospect of conflict with Iran. Indeed, in marked contrast to the run-up to the Iraq war, the British and the French seem to be more bellicose than the Americans.

One European decision-maker recently laid out the possible cycle of escalation and counter-escalation. Israel would mount a bombing raid on Iran’s nuclear facilities. The US would not condemn the raid, while Europeans would speak out against the attack – but only halfheartedly. When Iran retaliated against Israel, the Europeans and Americans would come to Israel’s aid, with defensive measures: perhaps, initially, in the form of naval

protection. But it is also thought likely that Iranian retaliation would be aimed not just at Israel but also at western interests – and perhaps even at the Gulf states. That would lead to a much wider conflict. US air power would be used to knock out Iranian retaliatory capacity. Any Iranian blockade of the Strait of Hormuz would be swiftly challenged by the US navy, with some token European support. While the Gulf states could never support an Israeli attack on Iran, they might get involved in this second round of military action – if Iran were foolish enough to attack them first. All the discussion, however, is of the use of air and naval power. There is no appetite for sending ground troops.

Among some European decision-makers these steps are discussed with a calm – and even a hint of relish – that is slightly startling. So why the change in mood?

There are several factors. First, while Mr Netanyahu is not liked or trusted by his counterparts in Washington, Paris and London, Israeli and Saudi concerns about the progress of Iran's nuclear programme are, to a significant extent, shared by their US and European counterparts. Second, the success of the Libyan conflict has restored confidence in the effectiveness of air power. Advances in satellite and missile-guidance technology mean that Nato air forces are now much more confident of their ability to hit the right targets, with less risk of civilian casualties. (One striking feature of the Libyan war was that months of bombing did not produce the kind of shocking tragedy, involving scores of civilian deaths, that might swiftly have reduced support for intervention.) Third, events have conspired to reduce the number of easy targets against which Iran can retaliate. The British closed their embassy in Tehran late last year after it was ransacked by demonstrators. US troops have

withdrawn from Iraq.

Fourth, Saudi Arabia has made it clear that if Iran does successfully acquire a bomb, it will swiftly do the same. The Saudis are believed to have a deal with Pakistan, which is already a nuclear weapons state. The threat of a nuclear arms race loomed large in recent comments by William Hague, the British foreign secretary.

Finally, with the Middle East in flux, some argue that it is important to strike a decisive blow against Iranian influence before the country vastly strengthens its position by acquiring nuclear weapons.

If you listen to these arguments long enough, they almost begin to sound reasonable. But before the west slides into yet another armed conflict in the Middle East, the counter-arguments need urgently to be restated.

The Iraq conflict demonstrated the risks of making decisions about war based on “intelligence” about weapons of mass destruction. It also showed that wars often develop in ways that politicians completely fail to anticipate.

Iran may not be able to retaliate effectively in Iraq – but it could hit Nato troops in Afghanistan, perhaps by providing the Taliban with anti-aircraft missiles. The water supplies of the Gulf states are also vulnerable to attacks on desalination plants, as are their oil production facilities. Finally, the delicate politics of the Arab spring are a more powerful argument against attacking Iran than they are for launching an assault. Western military action, in alliance with Israel and against a Muslim country, would be a huge boost to militant Islamists.

None of this means that an attack on Iran's nuclear programme is unthinkable. But there is a dangerous lightness to the current discussion.

Article 2.

Los Angeles Times

Israel's risky option

Dalia Dassa Kaye

February 21, 2012 -- Talk of a military strike on Iranian nuclear facilities is not subsiding. If diplomacy can't head off Iran's nuclear ambitions, advocates for a military strike in Israel and the United States will only gain strength. While proponents may believe that Israel can endure the short-term military and diplomatic fallout of such action, the long-term consequences are likely to be disastrous for Israel's security.

Those believed to favor a military option, such as Israeli Prime Minister Benjamin Netanyahu and Defense Minister Ehud Barak, argue that the Middle East with a nuclear-armed Iran would be far more dangerous than a military attack to prevent it. But their position rests on a faulty assumption that a future, post-attack Middle East would indeed be free of a nuclear-armed Iran. In fact, it may result in the worst of both worlds: a future nuclear-armed Iran more determined than ever to challenge the Jewish state, and with far fewer regional and international impediments to do so.

Let's consider a post-attack Middle East. The risk factors are well known: potential Iranian retaliation in the Levant, the Persian Gulf and perhaps against Israeli and American interests abroad, as well as destabilizing consequences for global oil markets. Those Israelis who favor a strike believe that such retaliation would be limited and in any case less harmful than facing a nuclear-armed Iran.

Those opposed to an attack, such as former Israeli Mossad head Meir Dagan, believe the risks are too uncertain and potentially too costly to justify a strike; in their view, covert actions will be more effective in slowing Iran's program, with fewer repercussions.

The consensus among Western analysts is that a military attack against Iran would at best delay Iran's nuclear development, not stop it. This is because Iran's nuclear facilities are believed to be widely dispersed and deeply buried, and because the nuclear expertise that Iran has developed so far cannot be eradicated through military strikes. On top of that, military attacks could push Iran to weaponize its program.

Thus, what the region's future may hold is not an Iran that has or hasn't acquired nuclear weapons, but rather a nuclear-armed Iran that has or hasn't been attacked by Israel.

Why should Israelis be worried about these alternatives? Because while a nuclear-armed Iran that hasn't been attacked is dangerous, one that has been attacked may be much more likely to brandish its capabilities, to make sure it does not face an attack again. That could lead to escalation between two nuclear adversaries that have no direct lines of communication. Cold

War-style deterrence is not likely to work well under such circumstances.

Absent an attack, there is at least the possibility Iran may seek only a "virtual" capability -- reaping the benefits of deterrence by possessing the technology necessary to build a weapon but not actually doing so. Such a posture would still be worrisome and would require intrusive inspections to maintain, but it would be far less destabilizing than an openly nuclear-armed Iran. It would also decrease the incentives for neighboring countries to consider a nuclear option.

A unilateral attack by Israel would also diminish the determination of the international community to challenge Iranian transgressions of its Nuclear Nonproliferation Treaty commitments, or to continue to support Israel. The Obama administration has left "all options on the table," but it clearly does not want a military strike.

Key players in Europe, not to mention smaller powers in Asia, would view military action as undermining diplomatic and economic options to solve the problem. Russia and China's response would be more hostile, jeopardizing Israel's growing political and economic relations with both countries.

Regional reactions would also be negative, further inflaming anti-Israel sentiment in Arab nations. Iran has been losing ground with Arab populations disillusioned with its repression at home and its support for President Bashar Assad's brutal repression in Syria, but an Israeli strike could allow Iran to bounce back as it plays the victim and fuels popular hatred toward Israel.

Likewise, Israel's relationship with key neighbors Egypt and Jordan, more beholden to popular sentiment in the aftermath of the Arab uprisings, could be severely strained, putting at risk vital peace treaties. Any prospect of shared anti-Iranian sentiment forging quiet common cause between Israel and Arab Persian Gulf states or Israel and Turkey would dissipate.

Israel has never been integrated into the Mideast. But Israel has rarely faced total isolation. When Israel has confronted Arab nationalist adversaries in the past (Egypt and Iraq), it had the non-Arab "periphery" to turn to (Iran and Turkey). When Israel perceived a rising threat from Iran, it turned to peacemaking with its Arab neighbors. Israel has not faced a strategic situation in which it is isolated from Arabs and non-Arabs alike, while at the same time facing growing international isolation.

To many in Israel, nothing could be worse than a future with a nuclear-armed Iran. But a future with a nuclear-armed Iran that has been attacked by Israel could actually be a lot worse.

Dalia Dassa Kaye, a visiting fellow at the UCLA Burke Center for International Relations and a senior political scientist at the Rand Corp., is coauthor of "Israel and Iran: A Dangerous Rivalry."

Article 3.

Wall Street Journal

Containing Israel on Iran

Editorial

February 21, 2012 -- Is the Obama Administration more concerned that Iran may get a nuclear weapon, or that Israel may use military force to prevent Iran from doing so? The answer is the latter, judging from comments on Sunday by Chairman of the Joints Chiefs of Staff Martin Dempsey.

Appearing on CNN, General Dempsey sent precisely the wrong message if the main U.S. strategic goal is convincing Iran to give up its nuclear ambitions. He said the U.S. is urging Israel not to attack Iran—because Iran hasn't decided to build a bomb, because an Israeli attack probably wouldn't set back Iran by more than a couple of years, and because it would invite retaliation and be "destabilizing" throughout the Middle East.

"That's the question with which we all wrestle. And the reason we think that it's not prudent at this point to decide to attack Iran," the General said, referring to a possible Iranian response to an attack. "That's been our counsel to our allies, the Israelis. And we also know or believe we know that the Iranian regime has not decided that they will embark on the capability—or the effort to weaponize their nuclear capability."

In a single sound bite, General Dempsey managed to tell the Iranians they can breathe easier because Israel's main ally is opposed to an attack on Iran, such attack isn't likely to work in any case, and the U.S. fears Iran's retaliation. It's as if General Dempsey wanted to ratify Iran's rhetoric that the regime is a fearsome global military threat. If the U.S. really wanted its diplomacy to work in lieu of force, it would say and do whatever

it can to increase Iran's fear of an attack. It would say publicly that Israel must be able to protect itself and that it has the means to do so. America's top military officer in particular should say that if Iran escalates in response to an Israeli attack, the U.S. would have no choice but to intervene on behalf of its ally. The point of coercive diplomacy is to make an adversary understand that the costs of its bad behavior will be very, very high.

The general is not a free-lancer, so his message was almost certainly guided by the White House. His remarks only make strategic sense if President Obama's real priority is to contain Israel first—especially before the November election.

This might also explain General Dempsey's comments that the U.S. doesn't believe Iran's regime has decided to build an atomic bomb and that it is a "rational" actor, like, say, the Dutch. This would be the same rational Iran that refuses to compromise on its nuclear plans despite increasingly damaging global sanctions, and the same prudent actor that has sent agents around the world to bomb Israeli and Saudi targets, allegedly including in a Washington, D.C. restaurant.

Iran doesn't need to explode a bomb, or even declare that it has one, to win its nuclear standoff. All it needs to do is get to the brink and make everyone believe it can build a bomb when it wants to. Then the costs of deterring Iran go up exponentially, and the regime's leverage multiplies in the Middle East and against American interests. General Dempsey's assurances obscure that military and political reality. Like most of Mr. Obama's Iran policy, General Dempsey's comments will have the effect of making war more likely, not less. They will increase Israel's anxiety about U.S. support, especially if Mr. Obama is re-

elected and he has a freer political hand. This may drive Israel's leadership to strike sooner. Weakness invites war, and General Dempsey has helped the Administration send a message of weakness to Israel and Iran.

Article 4.

Politico

Iran as continual regional menace

Stephen Blank

February 20, 2012 -- As the crisis generated by Iran's nuclear programs intensifies, we are learning more about Iran's regional foreign policy. It demonstrates that Tehran menaces all its neighbors and rivals — not just Israel. We learned late last year about an Iranian plot to hire a hit man from the Mexican cartel to assassinate the Saudi ambassador to Washington and blow up the Saudi and Israeli embassies there. On Jan. 25, Azerbaijan uncovered an Iranian plot to assassinate Israel's ambassador to Baku, Michael Lotem. There were also reportedly plans to blow up a Jewish school near Baku — though these were later denied. This is not the only such plots against Israel in Azerbaijan. In 2008, Azeri security forces seized members of a terrorist cell who planned to blow up Israel's embassy in Baku, in revenge for the killing of Imad Mughniyeh, a notorious terrorist implicated in the 1983 attacks in Beirut that killed 241 Marines, the 1996 Khobar Towers attack that killed 19 Americans and the 1994 bombing of a Jewish Community Center in Argentina. Iran's other neighbors, Iraq and Afghanistan, also confront

Tehran's systematic efforts to use terrorism to subvert its neighbors. Iranians has reportedly trained Iraqi fighters, helping them develop improvised explosive devices and other weapons. It has assisted the Taliban and other terrorist groups; and, through Syria, is a leading supplier for Hamas and Hezbollah. These groups threaten not only Israel but also Lebanon. Meanwhile, Gulf states fear Iranian designs — either on their territories or their regimes. Iran also targets Azerbaijan. In 2001, Iranian forces blew up an Azeri oil exploration ship in the Caspian Sea, claiming it was in Iranian territorial waters. In 2009, Iran's movement of an oil rig toward Azerbaijan's territorial waters in the Caspian Sea led Baku to seek Washington's advice about reacting to this perceived threat of a joint Iranian-Russian encirclement. Throughout the decade 2001-11, Iran often reprimanded Azerbaijan for being pro-Israeli and pro-American, and warned that if it hosted U.S. military facilities it would face devastating Iranian attacks. More recently, on Jan. 16, Iranian sites launched cyber-strikes against 25 Azeri Internet sites, apparently not for the first time. Since Iran is regularly cited as a leading state sponsor of terrorism, it is hardly surprising that it continues to foment terrorist plots against neighboring governments. Moreover, its policies appear driven both by anti-Semitism and aggressive, perhaps even neo-imperial, designs on the governments (if not the territory) of its neighbors. Tehran is likely to increase these terrorist activities, based on the belief that nuclear weapons could provide an umbrella and that its regional enemies are weak and irresolute

Tehran's behavior undermines its own argument that Iran with a bomb could be deterred — since it Iran is not deterred even now from threatening its neighbors. U.S. history, with its Southern

“fire-eaters” in the 1850s, driven by racism and chauvinism, as well as the rise of European dictators in the 1930s, tell us that states driven by deep ethno-racial hatreds do not necessarily know when to stop.

This is not an issue of the clinical diagnosis of Iran’s leaders. Iran might be deterred from striking at the U.S., but it is not deterred from trying to conduct acts of war against Israel, Saudi Arabia and possibly others. The necessity of thwarting Iranian nuclear weapons should, therefore, be evident since it threatens its entire region.

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Article 5.

The Diplomat

India Lets U.S. Down on Iran

R. Nicholas Burns

February 20, 2012 -- The Indian government’s ill-advised statement last week that it will continue to purchase oil from Iran is a major setback for the U.S. attempt to isolate the Iranian government over the nuclear issue.

The New York Times reported recently that Indian authorities

are actively aiding Indian firms to avoid current sanctions by advising them to pay for Iranian oil in Indian rupees. It may go even further by agreeing to barter deals with Iran – all to circumvent the sanctions regime carefully constructed by the U.S. and its friends and allies. According to the Times, India now has the dubious distinction of being the leading importer of Iranian oil.

This is bitterly disappointing news for those of us who have championed a close relationship with India. And, it represents a real setback in the attempt by the last three American Presidents to establish a close and strategic partnership with successive Indian governments.

The Indian government's defense is that it relies on Iran for 12 percent of its oil imports and can't afford to break those trade ties. But India has had years to adjust and make alternative arrangements. Ironically, the United States has had considerable success on the sanctions front in recent months. The EU has decided to implement an oil embargo on Iran, the U.S. is introducing Central Bank sanctions and even the East Asian countries, such as China, have imported less Iranian oil in recent months. That makes India's recent pronouncements seem extremely out of step and out of touch with the new global determination to isolate and pressure Iran to negotiate in order to avoid a catastrophic war.

There's a larger point here about India's role in the world. For all the talk about India rising to become a global power, its government doesn't always act like one. It is all too often focused on its own region but not much beyond it. And, it very seldom provides the kind of concrete leadership on tough issues

that is necessary for the smooth functioning of the international system.

The Indian government has supported the four U.N. Security Council resolutions passed since 2006. It says Iran should give up its nuclear ambitions. But India hasn't stepped up to a leadership role in the negotiations and has resisted the option of being a bridge between the Iranian government and the West. It has, instead, been largely passive and even invisible on this critical issue.

I wrote a Boston Globe column recently arguing that the U.S. should commit to an ambitious, long-term strategic partnership with India. I remain convinced of its value to both countries and to the new global balance of power being created in this century.

With its unhelpfulness on Iran and stonewalling on implementation of the landmark U.S.-India Civil Nuclear Agreement, however, the Indian government is now actively impeding the construction of the strategic relationship it says it wants with the United States.

Presidents Obama and Bush have met India more than halfway in offering concrete and highly visible commitments on issues India cares about. On his state visit to India in November 2010, for example, President Obama committed the U.S. for the very first time to support India's candidacy for permanent membership on the U.N. Security Council. Like many others who wish to see India become a close strategic partner of the U.S., I supported the president's announcement.

Unfortunately, India has made no corresponding gesture in return for the big vision that Obama and Bush have offered the

Indian leadership. It's time that India speaks much more clearly about the priority it places on its future with the United States. Most importantly, India must begin to provide the kind of visible leadership on difficult issues such as Iran that its many friends in the United States and around the world had expected to see by now.

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Article 6.

The Atlantic Monthly

The Two Indias: Astounding Poverty in the Backyard of Amazing Growth

Kentaro Toyama

Feb 20 2012 -- "Incredible India" is the brand this country's Ministry of Tourism has been pushing in a global marketing

campaign launched in 2002, and it couldn't be more fitting. Over the last decade, India has witnessed a stunning acceleration of rapid changes, both good and bad, that it began in the 1990s.

The most widely noticed metamorphosis is economic. Over the last ten years, India's GDP has grown between 7-9% per year, second only to China's sustained growth rates. In 2011, Forbes counted 57 Indian billionaires, up from only four a decade before. The same period saw Indian corporations vaulting onto the international stage. Tata Motors shocked the automobile industry with an acquisition of the British Jaguar Land Rover business in 2008. India's famed business-process outsourcing industry has expanded beyond call centers and software development to medicine, law, tax preparation, animation, and even music-video production. And, several IT giants have turned the tables on offshoring: No longer are jobs only "Bangalored." Today, Indian companies employ thousands of Americans on U.S. soil.

All of this is striking for an economy that languished for decades. From 1947, when India won its independence, through the 1980s, annual per-capita income grew at 1.3% per year, a snail's pace oft-derided by the Indian elite as the "Hindu rate of growth." Today, though, any social theorists walking the bustling streets of Mumbai might be tempted to revise Max Weber's classic treatise: *The Hindu Ethic and the Spirit of Capitalism*.

Economic change has been accompanied by a less noted, but no less significant, political inflection point. Alongside the enthralling Arab Spring and China's stillborn Jasmine Revolution, something that might be called the "Turmeric

Revolution" has been bubbling over in India.

Though theoretically a democracy, India's governance has resembled something of a feudal system in practice. Politicians and bureaucrats often act like dukes and barons with term limits. They routinely apply a corrupt layer of graft for their personal benefit.

A self-confident educated class, however, has risen up to say "No more!" Last year, hundreds of thousands of protesters rallied around a series of hunger strikes by social activist Anna Hazare. The movement shined a spotlight on the terms of an anti-corruption bill that many criticize as being too weak. In West Bengal, May elections saw an end to the 34-year reign of the communist Left Front alliance. It lost to the Trinamool Congress party, which made corruption-free governance the pillar of its campaign.

Meanwhile, the bar for being above the law appears to be rising, as high-profile culprits in corruption cases are brought to account. Karnataka Chief Minister B. S. Yeddyurappa was arrested over accusations of illicit land and iron mining deals that benefited his family. And, the headline-dominating "2G scam" was partially resolved this month with a Supreme Court decision to nullify all 122 2G wireless spectrum licenses issued under the tenure of former Telecommunications Minister A. Raja. Raja, who is believed to have personally pocketed \$600 million at a cost to the government treasury of \$39 billion, has been arrested and charged, along with several others implicated in the scandal.

HALF A BILLION ON \$2 A DAY

These successes are far from being universally shared, however. Though rates of poverty are declining, in 2005 the World Bank estimated that 42% of India's population still lived at under \$1.25 a day (PPP), and nearly twice as many under \$2. Thus, 800-900 million Indians live in conditions that most developed-world citizens would consider destitution.

The challenges for this vast, voiceless majority are multidimensional and stark. Discrimination by caste, religion, and gender remains pervasive. Low literacy blocks meaningful social mobility. India's rate of child malnutrition is greater than in any other country in the world. In many communities, the sick and the elderly are left to die for lack of means to support them, and bonded slavery is not unheard of.

What's worse, there is some evidence that conditions for the least privileged are deteriorating. A paper by public policy researchers Anirudh Krishna and Devendra Bajpai points out that rural incomes are declining in absolute terms, likely due to systemic stresses to agriculture and differential access to markets and education. It is common to speak of "two Indias," and the widening canyon between them is the greatest threat to the nation's well-being.

What does the future hold? Much depends on how energetically the fruits of the country's success are applied towards greater equality of opportunity. The government's rural employment guarantee act is a start, despite its flaws. Healthcare, agriculture extension, and other government services that accrue to poorer communities deserve far greater resources and attention. Outdated constraints on industries that employ low-skill labor must be relaxed. The country's vibrant civil society should

continue to give voice to the marginalized. Most importantly, public education could use a budgetary boost and a management miracle.

The next ten years may hold a lesson for developed countries, as well. With the world's largest democracy in the embrace of a freer-than-free market capitalism, India may prove a bellwether for liberal societies everywhere.

*Kentaro Toyama is a visiting scholar at the School of Information, University of California, Berkeley. He is working on a book tentatively titled *Wisdom in Global Development: A Different Kind of Growth*.*

Article 7.

SPIEGEL

'Germany Has Been the Winner in the Globalization Process'

Interview with US Economist Kenneth Rogoff

02/20/2012 -- **SPIEGEL:** Mr. Rogoff, the eurozone finance ministers are likely to soon provide Greece with new loans totalling €130 billion (\$171 billion), with the aim of stabilizing the country for the next few years. Will that save the euro?

Rogoff: It is hardly the final word, even for Greece. The mountain of debt in Greece is simply too big and the country is

not competitive. Indeed, it's going to be very difficult to keep Greece in the euro zone.

SPIEGEL: But the government has announced tough austerity measures. Pensions are being cut, wages frozen. Those kinds of measures are almost unheard of in Europe.

Rogoff: But they're still not enough. To make Greece competitive, wages would have to be halved. That is impossible to implement politically, but without a steep wage cut, the economy will continue to stagnate. Greece urgently needs the prospect of growth. It is currently experiencing its fifth consecutive year of recession. This is a failure of historic dimensions.

SPIEGEL: But surely it can't get any worse? Many economists are saying that the crisis in Greece has bottomed out and the worst is over.

Rogoff: I would be more cautious. The problem in Greece is not an ordinary recession but a full-blown financial crisis, something which countries usually take a lot longer to recover from. This kind of economic collapse goes much deeper than a normal slowdown. The longer the economy continues to shrink, the more restless the trade unions get, and the more pressure builds up on politicians to put an end to the misery.

SPIEGEL: What cure would you prescribe?

Rogoff: The government in Athens should be granted a kind of sabbatical from the euro, while otherwise remaining a full member of the European Union. The country would leave the monetary union and reintroduce the drachma, for example. The

drachma would immediately trade at deep discount to the euro, making Greece's export and tourism sectors competitive again. Once the country had achieved a higher level of social, political and economic development, it could return to the euro zone.

SPIEGEL: Most European politicians seem to dismiss that as unviable. They see a Greek exit as the beginning of the end for the euro zone.

Rogoff: I don't see it that way. Of course, Europe would have to assure Greece that it would not be punished in any way for taking such a step. And there would have to be a credible road map for Greece's eventual return.

SPIEGEL: If Greece were to leave the euro zone, a wave of panic might engulf other countries struggling with debt, such as Portugal. How can we prevent the contagion from spreading?

Rogoff: If Greece leaves the euro, the markets will demand sensible answers to two questions. First, which countries should definitely keep the euro? And second, what price is Europe prepared to pay for that? The problem is that the Europeans don't have convincing answers to those questions.

SPIEGEL: What advice would you give Merkel and her counterparts? Should they tear the euro zone apart?

Rogoff: No, certainly not. We are talking about bending not breaking, with one or more periphery countries allowed to leave temporarily in order to enjoy greater flexibility. There is currently no simple solution for this unparalleled crisis. The big mistakes were made in the 1990s.

SPIEGEL: Does that mean the whole idea of the euro was a

mistake?

Rogoff: No, a common currency for countries like Germany and France was a reasonable risk, given the political dividends. But it was a grave mistake to bring all the south European states into the euro zone purely for reasons of political union. Most of them were not ready for it economically.

SPIEGEL: That may well be, but the fact is that now they are part of the monetary union, and that can't simply be unravelled.

Rogoff: Which is why there is only one alternative: Either the euro completely collapses -- with all the catastrophic consequences that would entail -- or the core members of the currency union manage to turn the euro zone into a genuine political union.

SPIEGEL: Europe has recently agreed on a fiscal compact committing all members to better budgetary discipline. Is that a step in the right direction?

Rogoff: Yes, but it will by no means suffice. All this treaty does is give the markets the temporary illusion that the problems have been solved for now. It has achieved nothing more than that.

SPIEGEL: What is needed instead?

Rogoff: What the monetary union needs more than anything is a central government, including a finance minister, with significant tax and spending authority. The individual countries should also stop insisting on national control of banking regulation. That is a matter that should be dealt with exclusively at European level.

SPIEGEL: Do you honestly believe that the countries in the euro zone can bring themselves to hand over that much more power to Brussels?

Rogoff: The terrible thing is that few countries in Europe seem genuinely prepared for that. Those politicians who know what is needed keep quiet, fearing opposition from the voters. But the pressure of this crisis will create a momentum whose scope and impact we cannot yet imagine. At the end of the day, the United States of Europe may well come about a lot quicker than many would have thought.

SPIEGEL: With all respect to your optimism, the Europeans are unlikely to play along with that. The popular opinion in most member states is that Europe has far too much power, not too little.

Rogoff: Europe is in an interim stage, quite similar to that in late 18th century America. The ratification of the United States constitution in 1788 was preceded by 12 years of a loose confederation, which sometimes worked but usually didn't. Europe is in a similar situation today. States are like people, it is difficult to sustain a stable half-marriage; either you go for it or you forget it.

SPIEGEL: Many politicians in Europe think that the introduction of euro bonds would pave the way for a marriage later. Do you share that opinion?

Rogoff: No. In the current situation euro bonds would be absolutely the wrong solution. How could Germany protect itself if the French minister of finance makes a few bad decisions? The subject of euro bonds will only become relevant once the

political union has been established.

SPIEGEL: Economic imbalances within the euro zone are regarded as one of the main reasons behind the current mess. The southern European states accuse the Germans of exporting too much. Do they have a point?

Rogoff: That is absurd. Portugal's and Spain's problem isn't Germany, it's China. The south Europeans have to understand that they cannot maintain their current standard of living in the context of globalization without significant economic reform. There are great opportunities for those who can adapt to the new realities.

SPIEGEL: That's not really music to Spanish or Italian ears.

Rogoff: Perhaps, but I think most Italians and Spaniards will understand the challenges.

SPIEGEL: What reforms do the governments need to implement?

Rogoff: Wages in southern Europe have risen sharply over the past few years, but these countries traditionally produce relatively simple goods like textiles. They are no longer competitive in a global context, which is why production has shifted to Asia. The Federal Republic of Germany, by contrast, has an innovative industrial sector whose high-quality products are very much in demand in emerging economies. That is why Germany has been the winner in the globalization process, while Portugal, Spain, Italy and others are among the losers.

SPIEGEL: That is why some economists have suggested that Germany should increase wages to strengthen demand in

Europe. Would you agree with that?

Rogoff: No, because Germany faces many competitors outside Europe, who would jump at the chance of seeing a less competitive Germany. There are only two options. First, the south European states have to invest a lot more money in education and aim to produce better-quality goods. At the same time, they also have to lower wages in some industries to keep up with the competition from emerging economies like China, India or Brazil.

SPIEGEL: Do you think the euro zone will have the same members in 2015 as it does now?

Rogoff: It may well be the case that all current members remain in the euro zone, and that Germany keeps on shouldering the ever-increasing debts of other countries. But the price of such a scenario is very high for all involved: southern Europe would become embroiled in permanent stagnation and the German economy would eventually be dragged down to a slower growth trajectory.