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Are We on the Way to Creating a European Behemoth? A Portuguese Perspective[i]

"We must, indeed, all hang together, or most assuredly we shall all hang separately."
Benjamin Franklin in the Continental Congress just before signing the Declaration of Independence, 1776.

The most apparent sign of the deep crisis in which Europe is currently engulfed is the sheer lack of a comprehensive narrative about what is really happening. Like in other major challenging moments of the past, we are now badly missing an explanatory framework regarding the reasons of the present and fragile state of matters on the Old Continent.

Since at least 2010 there is no other relevant issue in European public sphere besides the discussion about debt, internal devaluation, fiscal discipline, budget deficit, adjustment policies, and all the other categories of a vocabulary, stripped from the core ideas of a true political discourse. The 'crisis' ensnared both, bodies and souls, in a kind of foggy bandwidth, leaving no room for discussion about strategic policies and fundamental values. The European Union and the eurozone seem to have lost the teleological goals that provide a fair democratic ground for public policies: the pursuit of justice, social wellbeing within the limits of a sustainable economy, abiding by uncompromising ecological boundaries. Europe has lost the sense of a common purpose, the thirst for a better future. The current European crisis – replicating other tragic moments in our shared and violent European history – brings Europeans closer to the edge of an abyss of conflict, and away from a relevant role and say in the world sphere. Europe is neglecting the huge challenges raised to its own future existence on a planet shaped by the growing and relentless climate change process, once more confirmed by the recently released 5th IPCC report. Europe is turning a blind eye to the mounting poverty in the periphery countries, amplified by an ideology-driven austerity. Europe is unable to counterattack with concrete public common policies against the general trend of climbing social inequality, as disclosed in a recent ECB conducted study[ii].

1. Is the EU becoming a "many-headed monster"?

The European Union today represents a growing danger, a kind of ticking clock bomb menacing to explode within the heart of the fragile fabric of global economy. Political wisdom seems completely absent from the vision and policies voiced by national governments and European political institutions. We lack the profound connection between past, present and future that was experienced in the European integration process, from Jean Monnet and Robert Schuman to Konrad Adenauer or Altiero Spinelli. The crisis management style followed by contemporary leaders is extremely risky, because it lacks critical sense of memory as well as strategic vision for a common future deemed to be shared by the countries, peoples and citizens whose life is endangered by the erosive follow-up of a crisis without decisive answers.

I feel that the best depiction of what is happening nowadays in Europe is given by the classical Thomas Hobbes distinction between two mythical biblical beasts, he used as political symbols for his understanding of the "state" as a "mortal god". In 1651, during Cromwell's rule, Hobbes published the *Leviathan*. It contained his vision of the ways to build a sound political order, drawing upon his vision of the natural equality of humans and the need of a "social compact" as source of the transition from "natural to civil state". This compact was the path conducive to the end of "the war of all against all" and the dawn of a law abiding society, maintained together by the cohesive authority of a sovereign ("a man or a council") whose powers derived entirely, by a kind of "power transfer" (*translatio imperii*), from the original compact between equal humans, wishing to overcome the permanent risk of violent death prevailing in the state of nature. We know well that the balance between security/safety and freedom, under the rule of the Leviathan, tended to discriminate positively the first over the second. Nevertheless, the guarantee of body and property, under Leviathan's rule, was undoubtedly a strong progress in relation to the relentless fear and anguish prevailing in the state of nature. On the other hand, between 1666 and 1668, Hobbes wrote his *Behemoth*, about the long period of civil war that ravaged England from 1640 to 1660. Contrary to the Leviathan, a well ordered "mortal god" produced by human artifice and compromise, the Behemoth is described as a "many-headed monster". The second great biblical gigantic beast was the symbol of a society divided by opposing interests and violent antagonistic passions. A society stripped of the idea of public welfare, destroyed by the clash of egoistic fractions. A society where the long-run perception of a better future for the whole community has been captured by the myopic sight of vested and sectorial actors, unable to see the global landscape, neither in space nor in time[iii].

The dismal picture of a society that finds in the hubris of the Behemoth its totemic animal, unfortunately, matches quite accurately the set of sombre events experienced by the European Union in the last four years. The shadow of discord and fragmentation is expanding all over Europe. The perilous divide within the eurozone countries and the split between the eurozone countries and the other EU Member States that don't have the euro as their currency are growing. The euro is far from being a driving force in the direction of unity. The existential uncertainty regarding the future prospects of the euro is setting apart the south from the north, the debtor countries from the creditor nations. Poverty is returning to many EU countries, where social welfare policies aren't strong enough to diminish the social suffering caused by the severe impacts of an ongoing unsolved crisis[iv].

The basic questions: "where is now the gravity centre of EU policies and powers, and what are the legal grounds from which those powers draw their actions?" can have only complicated and biased answers:

- The naïve answer would be that the prevailing legal framework is the Treaty of Lisbon (2007), encompassing both the Treaty on the European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU).
- However, a candid perspective how political matters are really being managed in the field will tell us that the legal cornerstone of Europe today is the newly enforced Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (2012), a parallel intergovernmental Treaty, commonly known as the "Fiscal Compact". It works as a truly endless austerity bible for the ruling factions in Brussels, Berlin and Frankfurt. Since it is an intergovernmental Treaty it wasn't submitted to any kind of participatory popular scrutiny.

The basic political question: "who governs the European Union today?" receives an even more bitter response:

- Indeed, today the European institutions are either stuck in their irrelevance, as is the case with the European Parliament, or were derailed from their original mission by sheer *Machtpolitik*.
- The European Commission unable to vindicate and protect the founding Treaties and the pristine spirit of the European building process has chosen, lest it grow irrelevant, to become the attack dog of the new *de facto* European powers.
- Today, the European Central Bank (ECB) is the most important European governing institution in the eurozone, being at the same time the one most alienated from any kind of electoral scrutiny and accountability.
- And, finally, the rule of the game isn't defined by the classical cooperative 'community method', but by the strong return to the rough manners of the old European balance of power, whose meaning today is the following: everybody may discuss issues for a while but, at the end of the day, it is up to the German government to take the final decision.

2. Wrong diagnosis, wrong therapy

There is a sad analogy between the current European turmoil and the First World War. Both historical phenomena may be deemed as structural shifts that found their birth in relatively minor triggering events. The murder of Prince Franz-Ferdinand in the Balkans, in the beginning of one of the most charming European summers ever recorded, seemed impossible to tear down the European political order built in the aftermath of the Napoleonic Wars. That order was first designed by Metternich, and reformed later in the century by Bismarck, who was wise enough to stabilise Europe after the consolidation of Germany as the key Western continental power. Germany rose from Prussia's victories over Denmark (1864), Austria (1866) and France (1870-71) in the three military campaigns that ended up in the Versailles Room of Mirrors, where the new II German Reich was declared on the 18th January 1871, precisely in the 170th birth of the emergence of Prussia as a kingdom.

Similarly, in the current crisis, few understood the powerful and destructive forces that were set in motion with the disclosure of the forged Greek national public accounts, in the winter of 2009. Greece had a known record of unreliable ─ to be generous (or misleading) to be candid ─ economic and financial statistics. It hit the target deficit numbers with the support of international banks like the Goldman Sachs. Nevertheless, Greece represented a very small share of the total Eurozone GDP, and therefore it was hard to anticipate the tragic snowball effect that was about to be unleashed.

In both episodes ─ WW I and the current European crisis ─ the large and complex impacts of the events, have more to do with the profoundly lack of wisdom in the response to those small igniting events, than with the intrinsic harm they caused.

In July-August 1914, governments and rulers behaved in a rather unprofessional and intellectually lazy manner. Austria was unable to see the global picture while exercising its retaliatory hate towards Serbia. Germany, on the other hand, chose to abide by the Schlieffen Plan in an extremely rigid manner. In doing this it forgot the teachings of von Clausewitz, namely on the need of putting politics first, keeping political decision ahead of military strategies and tools. Finally, Great Britain, through its long standing hesitation and pusillanimity, gave the wrong signs both to allies (France) and future foes (Germany).

In 2010, the Greek problem turned into the 'Eurozone sovereign debt crisis', because the political answer increased the scope and gravity of the problem itself immensely.

The German government of Mrs Merkel took the driver's seat in the framing of the answer to the crisis. Unfortunately, the strength in the tone assumed by the political discourse contrasts strongly with the poor wisdom of the solutions imposed both on other EU and eurozone member states, as well on European Institutions like the European Central Bank (ECB) and the European Commission (EC). During several months until May 2010, Germany refused to concur to a Greek rescue programme, always reminding the prohibition of monetary financing of public debt and the authority of the 'no bail-out' clause (articles 123 and 125 of the TFEU).

In doing this, German and EU policy makers implemented an unprecedented policy shift: eurozone member countries quickly moved from a Keynesian focus on demand expansion, towards an almost opposite crisis management 'austeritism' strategy guided by the sole goal of fiscal discipline. This was inspired by a wrong theoretical framework, and stimulated by short-sighted policy perspectives. Consequently in the subsequent years the crisis spread all over the eurozone, with growing intensity and an extremely high social and economic cost.

The major mistakes made by the German government, the EC, the ECB and the IMF in the management of the eurozone turmoil can be summarised as follows:

1. To consider the excess of public spending as the driver of the eurozone crisis is a typical confusion between causes and consequences. Indeed, if in the case of Greece we may identify an irresponsible budget policy, in Ireland the collapse of public finances was the result of the eagerness of bankers who forced the Irish State to the brink of default, in an effort to safeguard a financial system squandered by sheer speculation and mismanagement. Such effort, assumed solely by the Irish budget, prevented the systemic consequences of a financial meltdown of the Irish financial system that would affect the rest of Europe. In Portugal, expansionary budget policies pursued in 2009 according the EU economic recovery programme of 2008 brought the government as well companies and families to a debt trap once contagion by the Greek debt crisis took over the financial markets.
2. The primary root of the eurozone crisis lies in the core shortcomings of the ill designed EMU itself. Far from being a perfect monetary union, the eurozone wasn't equipped with institutions and procedures able to fight asymmetric shocks, like those that emerged in 2008 and afterwards.
3. The EMU was ill-equipped, unfit one should say, to respond decisively to the crisis. The combination of its three elements failed the test of history. A single purpose central bank (the ECB was made with the only worry of fighting inflation), surrounded by a misguided code of fair conduct (the Growth and Stability Pact), and sustained by countries promising eternal good behaviour, proved to be a naïve and counterproductive expedient.
4. The lack of leadership showed by five months of German hesitation regarding the Greek rescue programme triggered the feeling within the financial markets that the eurozone was unable to defend itself, given the dominion of narrow and egoistic national interest. The contagion in the bond market happened very quickly, affecting specially Portugal, Spain and Italy.
5. The reason why the eurozone didn't collapse at the mercy of a credit crunch in 2011 or to a possible disruptive spread of government's insolvency to Spain and Italy, in the summer of 2012, must be found both in the emergency rescue programs setup by the EU and the IMF and in the unconventional monetary policy measures taken by the ECB to respond to the sovereign debt crisis. Both the LTRO (2011), that gave access to three years loans to commercial banks, and the OMT promise of "unlimited" support to countries under siege in the bond market (2012), are good

examples of decisions that, if taken before, could have prevented many of the destructive consequences of austerity on which emergency rescue programs were based. Such programme could be less harmful if better mixed with unconventional monetary policy measures.

6. The German government was never at the forefront of those unconventional measures that only bought more time to fight the crisis. Mrs Merkel understood the positive role of the OMT, but Jens Weidmann, the head of the Bundesbank is the permanent ‘Mr Nein’, regarding the LTRO, the OMT, or even the drop of interest rates that is now bringing down interest rates in sovereign bond markets[v].
7. Germany, however, is the only country in conditions to lead the entire eurozone on the road of economic, financial and political reform. If the German government stubbornly keeps its stance regarding the delayed and urgently needed reforms of the EU, the eurozone will be condemned to fragmentation and the EU project will also suffer a probably mortal blow.

3. Introducing Portugal

There is a sharp contrast between the perception of Portugal as a small-medium contemporary European power and Portugal understood as one of the oldest nations shaping global history. Many Europeans don’t know that the Portuguese language is the third most important ‘imperial language’ (technically, a language spoken in different and discontinuous geographic areas), immediately after the Spanish and the English. Portuguese is the official language of eight States in four different Continents, and the mother language of more than 200 million people.

The birth certificate of Portugal as independent kingdom goes back to its acknowledgment by the Pope in 1143. Since 1297, the European Portuguese borders were established for good (with the exception of a minor quarrel with Spain, on account of the unlawful occupation by Madrid of the small village of Olivença). In its long history the country was able to defend and preserve its independence. The integration in the Spanish Empire (1580-1640) wasn’t a sheer act of force, but above all the result of a dynastic rule regarding the right to fill the void left by King Sebastião I, killed in a great battle in Morocco (1578). Napoleon invaded Portugal three times, suffering three defeats in a row. The victory wasn’t just the result of the Anglo-Portuguese Army’s performance under the command of Wellington, but also the consequence of about 300,000 civilians in weapons, waging guerrilla warfare against the French Army. This happened five years before the German *Befreiungskriege.*

Starting in 1415, with the conquest of Ceuta, a commercial town on the Moroccan coast, and closing up in 1974, with the democratic revolution and the dissolution of its colonial empire, Portugal followed a double strategic track. The creation of the first overseas modern European empire was a key factor to preserve Portugal from the need of a greater involvement in the European entanglements, where its weakness regarding Spain or France would result in a permanent ontological danger. Lisbon played a voluntary low-profile role in the continuous variations within the bloody and almost automatic ‘balance of power’ mechanism that prevailed well into the 20th century as the rule of the game on the Old Continent. Lisbon’s imperial path knew three clearly distinct stages: in Asia; in America (Brazil); lastly in Africa. In each of those phases Portugal tried to find the alliance of a stronger power, in order to preserve its autonomy of action in the overseas and its independence in Europe. Until the end of the I World War, Great Britain was the key ally of Lisbon (there is a treaty, still valid, between both countries dating back the 14th century). After that, the United States took that role, even during the long colonial war (1961-1974), the major event that preceded and triggered the democratic revolution.

Portugal entered the European Community on the 1st January 1986, alongside with its neighbour and oft in the past foe, Spain. In doing so, Portugal was sailing in unchartered waters. For the first time in its long modern history Portugal had no colonial background where to escape to and start the resistance against hegemonic European powers (as was the case of Brazil, where the Portuguese king found in Rio de Janeiro a new capital city during the Napoleonic invasions). Europe as Portuguese destiny was accepted with great enthusiasm and with an optimism almost bordering naiveté by the Portuguese democratic leadership, particularly by its most prominent figure, Mário Soares. Portuguese citizens never were asked to give a direct support, neither to the entry in the Community, nor to any of the treaties reforms. However, every opinion poll showed a positive feeling among voters, especially as the result of the Cohesion and Structural Funds, that helped to build and improve many infrastructures, and to the betterment of the quality of life in broader terms. At least until the outbreak of the 'debt crisis', there was a kind of tacit approval of the European Union's policies and institutions within the majority of social, political and regional sectors and sections of Portuguese society.

4. A Country lost in the European maze

We may identify two periods in the short history of the Portuguese integration in the process of European construction. From 1986 to 2002, Portugal experienced a very positive impact from the integration in the EU. There was an effective process of convergence, as showed by key economic, social and institutional indicators[vi]. Not only was there a growth in GDP per capita, but also an effective improvement in certain core areas of public policy, like the fight against poverty and social exclusion, or in environmental and energy/climate change policies. After 1999 until today Portugal saw a growing negative trend, mirrored in poor economic performances and outcomes, even before the great world finance crash of 2008 and the turmoil of the 'European sovereign debt crisis'.

Among the many explanations of the causes that drove Portugal to its present situation the prevailing doctrine blames the euro: according to this thesis, the euro, as a strong currency, is to be blamed for the growing lack of competitiveness of Portugal's economy, and also for the loss of competitiveness of the economies of other peripheral countries, including Spain and Italy. In contrast, I follow here the line of thought of a keen economic observer, Ricardo Cabral, who questions the dominant orthodoxy[vii].

In attempting to grasp the diversity of complex factors, in a dispassionate manner, we may identify the following explanatory reasons that depict the seriousness of the current Portuguese situation.

If we compare the value of the Portuguese trade deficit in the period between 1974 and 1995, when Portugal still had its own national currency, and the period that goes from 1996 to 2010, there is a slight difference between 9.1% of GDP and 8.5%. Contrary to the expectation, there was a minor improvement in the behaviour of Portuguese exports, in spite of the euro.

1. The Portuguese trade deficit represented, on average, 9.1% of GDP in the period between 1974 and 1995, when Portugal still had its own national currency, and 8.5% of GDP in the period that goes from 1996 to 2010. Thus, contrary to the expectation, Portugal's trade performance relative to GDP improved slightly following the introduction of the euro.
2. Nevertheless, some traditional goods, like textile and shoe industries, suffered a cumulative 1.5% decrease, between 2000 and 2010. The factor

behind this is probably linked to the entering of China as a member of the WTO in 2001. Chinese goods arrived more easily to European markets. The 2004 EU enlargement was also immediately negative to Portugal. The new Member States diverted some of the traditional foreign investment in the Portuguese economy. Contrary to Germany, that was a net winner in these two events, 2001 and 2004, Portugal was a loser. The fact that the Economic and Monetary Union is really only a monetary operation, explains the absence of adequate compensation to Portugal and other countries in similar circumstances.

3. But the most crucial factor wasn't the traditional Portuguese trade deficit, but the impossibility of compensating that deficit with "the automatic stabilisers that helped maintain the levels of net external debt and balance of income deficits in check". Among those stabilisers was the "recurring devaluation of the Portuguese escudo" and "the remittances from Portuguese emigrants".[viii]
4. From a balanced financial position in 1995 to the need of a rescue programme in 2011, Portugal was also victim to the long ideological sleep of the ECB and the ESCB. They were completely blinded by the creed popularised by leading academics and some eurozone central bankers that the balance of payments within the eurozone did not matter, it was, as some put it, a mere "statistical curiosity". They did not see nor want to see the effects of the greed of market speculators as they happened below their noses. Imbalances grew rapidly. Several bubbles (like the housing bubble in Ireland or Spain) were fuelled with money from core European countries. In those shiny euro years, there was the ideological belief that within the eurozone, and despite the no bail-out doctrine enshrined in the treaties, the money could flow freely without worries about the national balance of payments.
5. Last but not least, the increase of both public and private external debt in Portugal is also the result of the opacity and lack of public scrutiny regarding the networks of vested interests linking some finance leaders and politicians, both at domestic as well at European level. A significant part of the national elite, with direct access to the decision-making mechanisms, was eager to satisfy their own immediate and narrow individual desires of power and profit. They turned a blind eye to the public interest and to people's welfare. There was a flood of easy money feeding a fever of ill designed financial projects in the non-tradable sector, ending up with great losses for the national treasury and to individual citizens.

If the Portuguese situation prior to June 2011, when the rescue program was signed by the Portuguese authorities with the troika members, was very difficult, the outlook of the country by the end of 2013 is even worse. The harsh remedies, designed upon the experience of the IMF, suffered from two fundamental shortcomings: they were ideologically driven (see for instance the typically 'neo-liberal' doctrine of 'flexible labour markets') and they weren't fit for countries crippled from the tools of monetary policy. The road of 'internal devaluation' was (and still is) truly a *via dolorosa* in which the positive outcomes are fragile and temporary while the negative impacts are of structural nature and prone to last for a long time in the future.

After 30 months of troika intervention in Portugal the country's trade balance became positive, not from a miraculous increase in exports, but on account of a steep decline in imports. All the macroeconomic indicators became more worrisome than in the worst troika scenarios: unemployment; public debt; budget deficit; the decline in the foreign investment. Hundreds of thousands of young workers, many of them with high academic qualifications, left Portugal in search of work. Thousands stay in Europe, offering their expertise to the economies of the creditor countries. Like a clock counting the time in the reverse direction, Portugal has now become a country whose wealth is being diverted to the richer European countries, in a tragic irony of the famous cohesion and solidarity policies that defined EU strategic vision prior to the current crisis. The stronger Portuguese corporations pay billions of euros in taxes….in the Netherlands. Only the interest paid by Portugal in 2013 to the creditor countries is higher than the health public spending of the entire country. Since the beginning of the crisis, large private capital flows went from Portugal to the bank system of creditor countries given the uncertainty about the continuity of Lisbon as a full member of the eurozone. The best and profitable public assets are being sold by a price very convenient to the buyers, but extremely low and damaging to Portuguese national interest. The small reduction of the government's deficit is being obtained through 'extraordinary measures', like the use of pension funds and the diversion of social security resources to the sovereign bond market, increasing even more the liabilities of the state.

No wonder that in spite of all the efforts made, the rating agencies still look to Portugal with disdain and disbelief concerning the credibility of a sound 'return to markets' after the closing of the troika's programme in June 2014. In the long run, the only hope for Portugal to accommodate the collision route between stronger welfare budgetary demands (driven both by unemployment, the increase of poverty and an aging population) and shorter fiscal resources, would be a radical shift in European policies, precisely what Berlin, Brussels and even the Lisbon government go on telling, stubbornly, will never happen.

5. The European choice: between federalism and collapse

In his *Memoirs*, Jean Monnet offered many wise and acute reflections about the tortuous nature of European political culture. He believed that, in spite of the two world wars coinciding with a great part of his adult and active life, the Europeans would end up finding the narrow path towards a truly federal union. However, he didn't believe that the union would arrive linked to the name of an exceptional man (or an outstanding lady we may add…), but to the sheer and pressing might of "necessity" (*nécessité*).[ix] We will see, in the coming months and years, if the prophecy of Monnet will converge with reality, or if, on the contrary, it will end up becoming another form, although with a sombre lucidity, of delusion about a positive outcome to Europe's destiny.

We may make no mistakes. After almost four years of lost time and badly designed 'solutions', not only the eurozone but also the European Union's project still stands on the brink of an abyss. The German government's leadership, accepted by every country and institution in Europe, is showing itself unable to meet the basic requirements to build a true response to the crisis. Germany refuses to understand that the federal design of its own *Grundgesetz* is a good receipt for the political path the eurozone and the majority of the other EU countries should follow. Insisting on the 'nationalisation' of federalism, Berlin will end up being caught in its own trap. Hegemony, the capacity of having always the last and decisive word in a decision process involving 28 countries and 501 million Europeans, is a huge responsibility. There is still time to shift the course, to share power with partners, to ask the contribution of other schools of thought. Germany's power is more than enough to destroy the EU, but not enough to save itself from the turmoil that will ravage the entire continent if the incompetent and cruel austerity policy is pushed further to the point of no return.

Mrs Merkel is right when she repeats that fixing the European Union and the eurozone malaise will take a long time. That's why Berlin's continuous refusal to put its might on the side of the political reform needed to avoid disaster is so completely outrageous. The remedies used to cure the European illness proved already that we're only able to alleviate symptoms, but unfit to tackle the real causes of the illness. Going further down the one way road of austerity will bring a dwindling Europe to an irreversible collapse.

For the moment not one of the major European problems was solved but merely postponed. Even under an egoistic and morally feeble benefit-cost analysis perspective, the situation on the Old Continent is becoming a game in which all the players (Member States and citizens), in the end, will lose:

1. There is still an imperfect EMU: there is no political union, no economic government and no true fiscal support for European wide policies.
2. In spite of the bold steps of the ECB (LTRO, OMT, the radical cut in interest rates), that allowed the eurozone to survive in 2011, 2012 and 2013, the fragmentation of the eurozone increases and the double risk of public debt default or of a new sudden disarray in a fragile bank system is still looming.
3. The asymmetry between surplus countries and deficit nations is far from being tackled. This results in mounting figures mirroring the spread of unemployment and naked poverty.
4. The crisis is conducive to the current process towards transformation of the EU promise of peace, prosperity and democracy in the political and brief nightmare of the EU as a political Behemoth. The violence of intrusive fiscal powers, unchecked by parliaments, is a toxic ingredient in the popular resentment against not only the national governments but also the European institutions and the idea of a shared European destiny.

I believe there is still a window of opportunity to draw up a new strategy that could save Europe from the huge pains and uncertainties of a new European tragedy.

The path towards an EU, rescued from its self-inflicted hardships, has to combine small steps, but also an ambitious and far-reaching strategic vision:

1. The better use of the ECB, even before and without reform treaty, can bring relief to the countries submitted to the savage *Diktat* of austerity. The ECB, in combination with the ESM (provided with a bank license) and the EIB can provide liquidity both to states and to development programmes that are urgently needed to fight unemployment and to promote sustainable development projects of broader European benefit.
2. The relief in current austerity policy being followed all over Europe, could avoid the risk of default in debtor countries, allowing for levels of growth conducive to a sustained harmonisation of interest rates both in the bond market as well in the access to funding from all other sectors, especially sound SME in the periphery nations, which are being severely damaged by their geographical position.
3. A true federal solution needs to be supported by common citizens, who are the effective source of legitimate power, according to the democratic and republican values that are enshrined in the political culture of every European country. It's time to start a three to five years process of reviewing the Treaties, shifting towards a true European Constitution. Individual Europeans will be at the centre of the process, both as citizens of their national polity and as citizens of the new political European architecture, with a two-chamber parliament as well as a government, checked by popular and legal scrutiny.
4. The historical lessons from the American experience (and other federal polities) clearly show that European integration and prosperity can only survive with a proper Banking Union (rather different from the minimalist ongoing process), with a certain degree of debt sharing, with a budgetary software that keep a sound balance between more and least developed regions and with a ECB prepared to perform a double mission. Exercising not only the control of prices,

but acting also as a truly guardian of broader European economic stability and employment[x].

5. If there is room for Europe as a political actor in the coming great world challenges and tasks, the EU needs to combine a green vision of a fair society and a sustainable economy, with a truly federal polity design. Federalism and green economics are twin sisters in the new social compact that will need to be signed and nourished by European to open hopeful avenues into the future.

Europe has reached a crossroads. Without a federal compact, sooner or later, the fragile and isolated European nations will fall into irrelevance. Not only poverty will spread throughout the continent but also the democratic institutions will be eroded in many countries and regions. In contrast, federalism will pull together the forces of nations and the creativity of individuals. A federal Europe will also save the market economy, abiding by the respect of human rights and the discipline of sustainable development, as a powerful tool promoting investment and ingenuity in the fight against global dangers as climate change or unregulated financial global markets. As Hobbes wrote many centuries ago, political organisation is always an artificial endeavour. Political hardware can be either a "mortal god", helping individuals in their struggle for peace and happiness, or become a "many-headed monster", bringing Europe back to a new dark age. Between a federal Leviathan and a deadly Behemoth it's up to us, Europeans of 28 different countries, to decide.

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[i] I wish to express my gratitude to my colleagues Ricardo Cabral and Sérgio Gonçalves do Cabo for the useful suggestions made to this paper.
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[v] About the fight of Jens Weidmann against both the Long-Term Refinancing Operation (LTRO) and the Outright Monetary Transactions (OMT)see my article: "Weidmann contra a Zona Euro", *Visão,* 16 05 2013, p. 28. The President of the Bundesbank is not alone, as may be seen by the opposition of many prominent German economists to the recent cut in the ECB interest rate: Hans-Werner Sinn, "Why Draghi was Wrong to Cut Interest Rates", *Financial Times*, 13 November 2013.
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