Taking a Different View: The Case of the Eurozone Macroeconomic Policies as a Case of Incompetence

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Abstract: This paper aims at shedding a new and different light over a very big problem that actually is being felt by the European Society and by the world at large: namely the difficulties the EU is having, since adopting the EURO as a currency in 2002, with its own management of macroeconomic policies, and with its own forecasts over growth. We follow Sveiby (2012) analysis as a methodology. According to that author, radical innovation generates incompetence due to inability in adjusting to the environment. The incompetence materializes itself in wrong predictions by otherwise and formerly competent and acknowledged experts. Sveiby 2012, dissects the case of the financial crisis of 2007-8, as a case in which radical innovation in the financial markets produced massive managerial incompetence with huge economic and social consequences. By the same token we assume that the Eurozone became a case of incompetence at the level of macroeconomic management. We show evidence of that incompetence because we compare the predictions before the Euro and with the Euro and analyze the impact the Euro entrance add in the correctness of the experts' predictions. Furthermore we say that experts should take into account that macroeconomic restrictions posed by the Eurozone regulations deeply affect the economy of the more divergent Eurozone Member States. Moreover, the effect of the regulations has not been rightly accounted. The miscalculation generates mistakes in prediction of policy impacts. Those mistakes have major negative effects in the life of ordinary citizens. Therefore we believe that if ones assumes, as we do, and prove, that the Eurozone has currently a problem of managerial incompetence, the finding might have huge economic, social, and political effects The paper is original because we sincerely don't know (and believe it is not our fault) of any study that analyzes the problem of the current Macroeconomic crisis in the EU as a problem of incompetence. Finally we believe the study could and should developed in a multidisciplinary and multi-country book.

Keywords: Innovation, Competence, KM, Eurozone, Economic crisis, Macroeconomic Management

1. Introduction:

At the time of writing this paper (December 2013) the European Union (EU) is facing massive economic problems. Those problems are related to the difficulty of generating growth in the EU and also with the realization that some EU regions (namely the Southern part, ie Greece, Cyprus, Spain, and Portugal) are enduring massive economic problems and face a very hazardous future.

Moreover, in order to solve the problems related to those lagging regions the EU built Support and Rescue Programs" (SRP), for each one of the five countries with the exception of Spain. Ireland was also submitted to a SRP which just come to an end. Those SRPs are meant to solve the massive debt problems the four countries involved face. Quite crucially they imply a set of macroeconomic and microeconomic policies that should be put in place. And even more importantly, those programs usually forecast a period of recession followed by a recovery; that recovery means that the country was "healed" from the "economic disease" and that its future is now safe. It is also important to note that those SRPs are a new form of the Stabilization Programs (SPs) which have been for long advocated by the International Monetary Fund (IMF) in order to solve the same type of debt crisis (Krueger, Fischer and Sachs, 2003). Those SPs programs have had very mixed fortunes, and in some Latin American countries they originated massive social turmoil (Mac Ewan, 2013). However, regarding Europe, the few stabilization packages that were put in operation since the seventies proved to work, and the relation between the forecast and the reality proved to be close. But, the problem that exists now, and that we want to address in this study is the following: in the last decade, the forecasts made on the EU, and particularly for the 4 Southern Countries plus Ireland have gone terribly wrong, and particularly when the SRP went in operation. Many explanations for the countries failure have been put forward (see below). In this paper however we examine those economic difficulties and above all those mistakes in predictions, through the lenses of the "Theory of Excess of Innovation" defined by Sveiby 2012. Our hypothesis therefore is the following: the Eurozone meant a change in environment which implied that experts became incompetent to

Reference this paper as: Eduardo T, "Taking a Different View: The Case of the Eurozone Macroeconomic Policies as a Case of Incompetence" *The Electronic Journal of Knowledge Management* Volume 12 Issue 1 (pp 56-66) available online at www.ejkm.com

predict the macroeconomic evolution of the EU member states; that incompetence was more felt in the SRP countries, which were the ones that had the direst economic outlook.

In order to test the mentioned hypothesis, we present a paper with five sections. Namely, in the first section we expose the main concepts, we use, ie innovation and macroeconomic stabilization; in the second section we expose the aforementioned Sveiby 2012 model; in the third section we analyze the EU macroeconomic evolution using the Sveiby 2012 model and compare our case with the case of the financial crisis used by Sveiby 2012 as incompetence cases (see Table 1 below), We also present data to demonstrate the growing incompetence of the Eurozone macroeconomic policies (see Tables 2 to 4, below). In the fourth section we discuss our results, Finally in the fifth and final section we present the paper's conclusions, linking them with the limitations of the study, its practical implications and the suggestions for further research. Regarding this last topic, we expose the idea of a book on the subject.

2. Concepts

2.1 Innovation

Innovation is not a new concept in the Economic and Management analysis. In fact, all the big Economist of the 18th, 19th and early 20th centuries had some thoughts about the topic; and since Taylor (1911) almost all the management gurus of the early stages of management science also dealt with the subject and underlined its importance. But the first big thinker that put Innovation at the forefront of economic prosperity and development was Schumpeter, (1911). And for what matters in this paper we define innovation as the capability of changing the production function of a given company or organization (Stam, 2007). In this context, innovation may be incremental, if the organization begins to make things better, improving the production function of the products and services that are already provided or produced. But the innovation can also be radical, when the organization starts the production of new goods and services, that were inexistent and that it did not produce until that moment; this type of change in fact requires the definition and implementation of a new production function.

So far so good, but reality is not black and white. At least five important qualifications must be made to this definition:

First innovation can be technical or social, meaning that it can require the introduction of news techniques or the readjustment of routines in the organization, or both (Suurs, 2009, European Commission, 2013).

Second, in principle innovation should be beneficial for companies, organizations, workers, the government and the society as a whole (Stam, 2007). Incremental innovation should mean a better utilization of the same resources, and more quality, quantity or both derived from the same production function. Radical innovation should give society new products, services, or ways of organizing which would be welcomed by the public. The benefits from innovation should and might be big and are difficult to summarize and enumerate. In fact we can only enumerate a very approximated list of benefits from innovation: higher satisfaction for consumers and clients; wages and better employment for workers; productivity, market shares, profits, for organization; income and employment for societies; taxes for the government.

Thirdly, innovation is first and foremost about change. And for human societies and human beings, change is a big issue. Some philosophies like Buddhism are based in the consideration of change. Popular wisdom states that change is permanent. Change has been a topic in social sciences since their beginnings – in fact all the great thinkers (Smith, Marx, Keynes, Friedman, Samuelson, etc,) dealt with change and wanted to understand change. Change might be appealing, and fashionable However change is complex and difficult (it takes time, money) and might be painful. We don't need to be Luddites to resist change (Bailey, 1998). Resistance to change has roots and is a natural human form of acting.

Fourth, we must never forget the old sporting adage "you don't change a winning team". Therefore, it is not clear cut that innovation is definitively all good, and that more innovation is always better. in fact in every society there are some people that may be harmed by change and the social responsible behavior is to help them and even compensate them. In the economic world of this century, a fact that has created much change and some would say very harmful, is globalization. The problems of preparing the opening of economies to trade have for long been debated in the field of International Economics (Krugman and al, 2011). The Eurozone is another phenomenon which increases globalization and there is some evidence that the experience caused troubles in some areas in which it was applied (see below). In order for change to be embraced it should be prepared, monitored and its rewards should be distributed by the maximum number of people.

Fifth, in the Knowledge Management (KM) field, change has always received attention. We may consider that Nonaka's Knowledge cycle is about change between categories of knowledge and between the stages of the cycle (Nonaka and Takeuchi, 1995).More recently Knowledge dynamics, and intangible assets dynamics received much attention, starting from the point of view of knowledge creation (Kainto, 2008). Also the Knowledge Based Economy (KBE) innovation requires extensive and deep learning (Edwards, 2010) and unlearning (Cegarra Navarro and al, 2005) processes to take place. Sveiby 2012 presented a very interesting model on the excess of innovation related to thr KM field, which we will detail in the next section.

2.2 Macroeconomic Stability

Economics may be divided in two big subsections: Macroeconomics and Microeconomics (Samuelson and Nordhaus, 2007). Microeconomics studies the behavior of each type of economic agent like the consumers, the producers, the government, the unions, the rest of the world, the banking system and also analyses each type of market: free competition, monopoly, oligopoly, markets of production factors etc. Macroeconomics on the other hand studies the behavior of all those economics agents at the same time and in the same space. Somehow, microeconomics is interested in the trees, and macro in the forest.

It is also common knowledge that the public intervention in the economy may achieve one of three functions (Musgrave 1959): allocation, redistribution and stabilization. Allocation refers to helping production factors being used by the organizations. Redistribution relates to balancing the society through taxes and subsidies. And stabilization aims at keeping the economy balanced: unbalances may exist in the internal accounts, when the public deficits are over a certain limit, but the worse unbalances exist at the external level when the Current Accounts Balance or the external debt are so huge that the country begins to face insolvency problems. In fact the two unbalances tend to be related nonetheless because governments tend to use public deficits as an extreme way to implement policies that would solve the external unbalance.

The science of macroeconomic stabilization is a well-known field, following the work of Hicks (1937 and 1981) for closed economies and Mundell (1963) for open ones. In fact every graduate in Economics is sensed to know that the goals of macroeconomic stabilization may be achieved using several main instruments: exchange rate policy, monetary policy (using interest rates and emission of money), budgetary policy (using taxes, subsidies and public policies) and also prices and income policies and even sectorial policies. By and large, when a country is facing unbalances, the stabilization policy requires a contrationary budgetary policy (increase in taxes, reduction in subsidies and other public expenses), and also a tight monetary policy (increase in interest rates) in order to reduce demand (consumption, investment and public spending) which would reduce imports. But at the same time the country should also devaluate the currency, in order to increase its exports, and compensate in the labor market for the recessive effects of the monetary and budgetary policies. Prices would soar, real wages decline sharply, but at the end of the stabilization period, the country would find a new equilibrium and would be able to start growing again. The cycle of stabilization (and recession) and recovery (and expansion) became known in the literature as "Stop and Go" (Bannock and al, 2011).

Stabilization programs used to be defined by the International Monetary Fund (IMF) and some were implemented and became known as "success stories (Krueger and al, 2000). It is worth mention however that for the Go phase required usually some other form of support, like the one provided by the World Bank (World Bank, 2013) or by the European Structural Funds (European Commission, 2013). That is, the Go phase required structural changes and the Stop change only managed essentially conjuncture transformations. This difference between the Go phase and the Stop phase, regarding structural and conjuncture policies will also be important when analyzing the Eurozone (see Discussion).

3. Model

We follow the analysis presented by Sveiby in 2012.

First, competence is defined as the ability to act in a professional context (Polanyi, 1962). But competence is contextual – when the context changes, some competent may become incompetent. For instance, competence is dependent of technology – a carriage driver from the 19th century could not be competent driving a car in the 20th century (Tushman and al, 1986).

Second, competence is decisively related with predictions. Competent people know how to make correct predictions over time. Following Polanyi, 1962, we may say that professional predictions might be wrong, but unprofessional predictions only can be right by chance. However, a professional expert may do wrong predictions, and become temporarily incompetent, if he/she "*unwittingly does prediction errors due to unnoticed change in the professional context".*

Third, in his paper, Sveiby details the application of this idea to the financial crisis of 2007-8 and onwards. Allan Greenspan, who in 2005 said that *"Recent regulatory reform, coupled with innovative technologies, has stimulated the development of financial products, such as asset-backed securities, collateral loan obligations, and credit default swaps, that facilitate the dispersion of risk* (Greenspan, 2005). *"* had to recognize in 2009 that he had become temporarily incompetent: *"Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity (myself especially) are in a state of shocked disbelief".* And also *"I made a mistake in presuming that the self-interest of organizations, specifically banks, is such that they were best capable of protecting shareholders and equity in the firms ... I discovered a flaw in the model that I perceived is the critical functioning structure that defines how the world works*. (Greenspan, 2009)"

Fourth, according to Sveiby, Greenspan, among others, had become incompetent, because a massive change occurred. The new products based on future speculation and issued massively and increasingly during the first decade of the 21st century were an "excessive innovation". This means that they were not fully understood and also that they disrupted previously established and well organized and good working equilibria. Warnings existed since early hours and by reputed voices as The Economist in 1987, Robert Rubin in 1994, Li in 1997, and Merton in 2005 (Sveiby, 2012). But those warning bells were not enough for a reverse of tide in the financial industry to take place: instead, the biggest banks of the world began to sell Credit Default Options (CDOs), betting in the future markets and effectively changing the scope of the financial markets. That change led to the aforementioned temporary incompetence.

Fifth, temporary incompetence generated wrong predictions. Those predictions originated trillions of dollars in losses for the biggest world banks.

Sixth. Sveiby 2012, then points out six flaws in the reasoning of incompetent experts: 1) the new situation was measured with instruments of the old; 2) the predictions were built in the products; 3) some herding behavior in the financial industry, led to a push in the wrong direction; 4) a pro-innovation bias was dominant, guided by the belief that more and faster innovation is always better; also, no learning occurred from mistakes; 5) experts and legislators were effectively blinded by an ideology that defended the CDOs; critique was dismissed as political opposition from extreme quarters !; 6) legislation was carried out that facilitated the existence of the CDOs and generated a grave and long path dependence.

Finally, and seventh, from this case, Sveiby 2012 derives four myths on Innovation: 1) Innovation is always good; 2) The innovation firm is the risk taker (in fact it is the society who pays the bill); 3) more innovation is better; 4) the acceleration of innovation is vital for survival.

We believe Sveiby's analysis is outstandingly lucid and insightful. Lucidity comes from the authors' ability to detach himself from the object of analysis and to persist in a very original and intelligent point of view. Insights from the shrewd methodology used, which we believe can be transposed to other important economic problems such as the Eurozone crisis. It is that transposition we perform in the next section and discuss in the one following the next.

4. Cases

4.1 Description: summary

In this section we will discuss the case of the Eurozone as a type of excessive innovation. For that we use an analogy with Sveiby's analysis of the financial markets. The description of the case will be made in several steps: a) Previous situation; b) Radical Innovation c) New context; d) Evolution over the new context; e) Ideological setting in the new situation; f) Incompetence in the new context; g) Social consequences of the incompetence. Those steps derive from Sveiby's model as presented in the last section. A summary of the analysis, concerning the Financial Crisis, and the Eurozone, is presented in Table 1.

Table 1: Two processes of Temporary Incompetence compared

	Financial Crisis 2000-2010	**Eurozone Crisis 2002-2013 and counting**
Previous situation	Hundreds of years of sound financial governance by banks with a few disastrous exceptions	Hundreds of years of different currencies in different countries
Radical	Credit Default Operations. Future Markets.	Single currency installed circulating in 1.1.2002

	Financial Crisis 2000-2010	Eurozone Crisis 2002-2013 and counting
Innovation		first in 12 countries now in 17.
New context	From 1993 onwards, with a peak in 2007-8 the market is flooded with new instruments the effectively begin to dominate it. The prediction is in the product.	No possibility of devaluation or monetary policy between each one of the Eurozone members. Connected budgetary policies.
Evolution over the new context	First it is a surprise, then an extraordinary backlash with trillions of losses, bankruptcies and nationalization of banks.	First a good feeling, then increasing financial stress, after divergence, followed by recession, plus unemployment amid programs of support by the so-called "Troika".
Ideological setting in the new situation	Criticism dismissed as political opposition.	Criticism dismissed as political opposition.
Incompetence in the new context	Almost nobody foresaw the crisis and predictions went absolutely wrong.	Expectations of growth and unemployment rates made by the Troika experts that should rescue the countries fail more and more.
Social consequences of the incompetence	Trillions of dollars of losses and subsequent problems with employment and unemployment	Increasing and unexpected unemployment, poverty, organizational failures, social dismay, loss of political credibility.
Reference	Sveiby, 2012	Our own analysis

4.2 Description: details on the Euro case.

a) Previous situation

Since the Middle Ages, Europe had seen several currencies circulating. Only the Roman Empire succeeded unifying the European space under a single currency, After World War II more than thirty countries divided the European space. Each country had its own macroeconomic policy, and of course its currency. When the USA abandoned the gold standard, in 1971 the fluctuation between currencies began. In 1979 the European Economic Community created the European Currency Unit (ECU) which was a basket of currencies, with a central rate and a margin of evolution which however never circulated (UBSSSB, 2011). Even if coordination existed, until 1.1.2002 each Eurozone member had all the macroeconomic policies available: budgetary, monetary, and exchange rate. Prior to 2002 in each Eurozone Member the Economic policies were basically defined by the Ministry of Economy and Finance (on the Budget side) and by the Central Bank (on the Monetary side). It was also possible to devaluate the currency even if, in the 3 years before 2002, 11 countries had already fixed rates between them Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. Those 11 countries, plus Greece were the founders of the Eurozone in 2002.

b) Radical Innovation

The Euro began to be the currency of 12 European Union (EU) Member States (MSs) in 1.1.2002 (Eurozone, 2013). Those 12 MSs were the following: Austria, Belgium, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. Since then, in the last 11 years the Euro extended its influence to 5 more countries: Cyprus, Estonia, Malta, Slovenia and Slovakia. At the time of writing (December 2013) the following EU members don't have the Euro as a currency: Bulgaria, Croatia, Czech Republic, Denmark, Lithuania, Latvia, Hungary, Poland, Romania, Sweden, and UK.

We don't consider the Euro to be only an incremental innovation, even if the EU bodies tried to implement it by steps, with the phases of construction of the Economic and Monetary Union (EMU) (European Commission, 2013b). We think that the Euro, in 1.1.2002 was radical innovation because it meant a big, drastic and more than long lasting, may be definitive, change in the context and governance of the countries that entered the Eurozone. That radical innovation is described as follows: a) from autonomous to common exchange rate policy which in fact results in the impossibility of devaluating the currency and obtaining some support for exports; b) from autonomous to common monetary policy which results in the impossibility of printing money or reducing the interest rates. The common exchange and monetary policies within the Eurozone result in increased economic competition between the members. Even if the participation in such a monetary zone is without question beneficial, the macroeconomic management of the situation might become problematic, and incompetence may follow.

c) New context

The Eurozone effectively meant that, for good, and forever, all the Eurozone members began to have the same monetary policy, the same exchange rate in relation with the external world and the same currency within the Eurozone with no possibility of devaluating within the Eurozone. This meant that the independent economic policy of those MSs who adhered to the Eurozone began to be done only by the Budget and that the Monetary policy and exchange rate policy began to be defined by the European Central Bank (ECB) (European Central Bank, 2013). That also meant that the competition between the companies of the Eurozone began to reside in pure microeconomic aspects, like organization, skills, knowledge.

As a known indicator on the knowledge economy (KEI) demonstrates there are big differences between the Eurozone members when dealing with the knowledge resource (World Bank, 2013) as shown in Table 2 above.

Table 2: Knowledge economy indicator in Eurozone members - 2012

Country	Rank	KEI	Country	Rank	KEI	Country	Rank	KEI
Finland	2	9.33	Estonia	19	8.4	Malta	31	7.88
Netherlands	4	9.11	Luxembourg	20	8.37	Slovakia	33	7.64
Germany	8	8.90	Spain	21	835	Portugal	34	7.61
Ireland	11	8.86	France	24	8.21	Cyprus	35	7.56
Belgium	15	8.67	Slovenia	29	8	Greece	36	7.51
Austria	17	8.61	Italy	30	7.89			

Source: World Bank, 2013b

Moreover, in the new context the role of the ECB is fundamental – the ECB is the main ruler and the center of the Eurozone. Specifically, the ECB is the center of the European System of Central Banks, and it is ruled by the Lisbon Treaty, according to which the ECB was the obligation of keeping the inflation rate in the EU and particularly in the Eurozone lower than 2 percentage point per year (European Commission, 2012). This dictum is the center of the EU economic policy and effectively subordinates all the economic policies to the monetary policy objective of price stability; price stability is an economic objective which, in recent years has been defended has the most important of all (Fieldstein, 1999); stability would be beneficial because it would reduce uncertainty and would foster the investment, contributing to growth and reducing unemployment (European Central Bank, 2013b).

d) Evolution in the new context

The Eurozone represents a block of 330 million people with an average GDP per capita of almost 30000 dollars, and a total GDP of around 9 trillion dollars that puts the block has the second major world economy in the world, only behind the USA (15 trillion) but in front of China (8.5 trillion). The importance and weight of the Eurozone in the world was the same almost from the start: the 5 countries that joined the Eurozone since 2002 only account for 15 million people, and a combined GDP of 200 Billion (Eurostat, 2013).

Since 2002 growth has been weak in the Eurozone has a whole: only 1.3% on average, a figure that compares badly with the world average of 3%, with the USA (2%) and particularly with the emergent countries (China 8%, India 6%, Brasil 5% and Russia 4% (World Bank, 2013b). This slow growth was also market by a recession in 2009 after the financial crisis, when the Eurozone economy contracted by o.4%. (Eurostat, 2013). Slow growth was reflected in higher levels of unemployment and from 2002 to 2012 the jobless rate increased from 8% to 12% (Eurostat, 2013). Again the numbers are not good, particularly when compared with those of the other big OECD countries like the UK (from 4 to 8%), the USA (from 5 to 8%), Japan (from 6 to 4%) or Canada (from 4 to 7%) (World Bank, 2013).

However the real problem regarding the Eurozone since the instauration of the Euro has been related to the appearance of growing discrepancies within the zone itself. Some countries began to have problems as soon as 2005, problems that were accrued during the financial crisis and the became almost unbearable since 2010. Those countries are above all Greece and Portugal, and also Cyprus, Ireland and Spain. Those countries effectively diverged from the Eurozone average, since 2002, and the process of divergence did not yet end. Greece began at 90% of the EU average in 2002, caught up with the EU average following the Olympic Games but diverged substantially since 2007 and as a whole went from 95% of the Eurozone average to 80% (Eurostat, 2013). Portugal was at 80% in 2002 and is with 75% now (Eurostat, 2013b). For Spain the figures are 100%, 1005 in 2007 and 98% nowadays. Ireland started with 138%, arrived at 147% before falling back to 129%. Cyprus was a success story going from 88 to 100% of the EU until the monetary problems that occurred this year, and a reduction of the GDP in 20% is forecasted (Wall Street Journal, 2013).

Moreover, in general, for these countries, the divergence was coupled with recession, increase in unemployment, youth unemployment, long run unemployment and foreign debts (see Table 3):

Table 3: Evolution in the new context (%)

	Foreign Debts	GDP	Unemployment	Youth unemployment	Long run unemployment
Greece	+70	-10	+20	+40	+10
Portugal	+70	-5	+15	+30	+5
Spain	+60	0	+15	+40	+8
Ireland		-20	+8	+20	+8
Cyprus	´+30	-20% (*)	+10	+20	+3

Source: Eurostat (*) Forecast

The problems became so acute that four of those countries had to be supported by rescues packages, issued by the so-called Troika (International Monetary Fund, European Central Bank and European Commission). The "Troika Agreement" was in fact a new form of the "Stabilization Agreements" usually done by the IMF (see Concepts section / Macroeconomic stability) in which the "Letter of Intentions" was replaced by a "Memorandum". The signature of the Memorandum effectively had binding force, and obliged the national Government to implement some policies, as a counterpart of receiving funds that would ensure the solvency of the country (European Commission, 2012).

e) Incompetence in the new context

The introduction of the Euro in so different economies was always a matter of discussion. The theory states that "Optimal Currency Zones (OCZs) should have the same currency". (Mundel, 1961). But there was a debate over if the Euro was an OCZ (Furruter, 2012). Many interests related to party politics (some parties were in favor, some against in several countries), or business (managers welcomed the idea with different degrees of enthusiasm or caution) where in place (Goodhart, 2012). At the EU level the change that the Euro was somehow prepared, because the Euro should be the final and third step of the European Monetary Union (European Commission, 2013b). Also some studies were very clear pointing out that the consequences from the Euro would be complex and not equal to all the countries (De Grauwe, 1993). It was at that point in time that the Financial Times famously defined the notion of PIIGS (The Economist, 2008) for Portugal, Italy, Greece, Ireland, Italy and Spain, as the countries which would have more problems in the Eurozone; even if the insult was palpable, indeed the history showed that some of those countries would be in big trouble. This means that, people and organizations have been warned, and some strategies of defense had been put in place, but reality was much worse than it was expected.

Before 2007, the evolution was already worse than expected but anyway, as the economy was still growing there was a feeling that things would get better (Eurostat, line 2 Table 4).

Then the crisis erupted, apparently from nowhere. As Queen Elizabeth famously pointed out (Daily Telegraph, 2008), big and bad surprises happened and surprisingly even if they were so big, nobody saw them coming (Eurostat, line 3 Table 4). But, again, in this case, the mistakes about growth forecasts are not so bad, because the incompetence was caused by the influence of the mechanisms described by Sveiby (2012) in the economy.

Where and when incompetence began to show was at the time of the reaction to the crisis. In a word, the reaction foressen by the EU bodies did not happen, and the EU went from a crisis (based in the financial market) to another (based on its internal structures) (Eurostar). The discrepancy between reality and expectation is described in line 4 of Table 4.

It was however when the rescue policies began to be put in place in the PIIGS that things really got worse. Since 2011, the Troika and the ECB have been making the wrong predictions time after time (see line 5, of Table 4). Nobody predicted such recession and such an immense volume of unemployment as those that have been verified recently in those PIIGS countries. The mistakes have to be considered as a clear sign of policy incompetence. In fact, the since 2011 the predcitions went wrong for the EU, the Eurozone and for the PIIGS as a whole. But the fact that the wrong predictions affect more than other countries those that were subject to support, is shocking. But we consider that the explanation to that increased failure lies in the fact that those countries were the ones that needed more than others the Macro policies they left behind with the Euro (see c) for a description of these policies).

Table 4: Eurozone: evolution – from forecasts to reality – GDP growth rates

	Forecasts	Actual data	Assessment
Between 2002 and 2006	2%	2%	Correct
2007 and 2008	2%	1.5	Weak
After the crisis: 2009 and 2010	-3%	-4	Poor
With the Troika: 2011 onwards	1.5%	0%	Bad

Source: (European Central Bank, 2013 and Eurostat)

Finally, the comparison between what happened when those countries received the support from the IMF before joining the Eurozone, and what has been happening within the Eurozone, only reinforces the idea that a case of incompetence began to exist based on the Euro setting of radical innovation (see Table 5).

Table 5: From success to failure: stability packages before the Euro and with the Euro compared

	Prediction	**Reality**	**Assessment**	**Source**
UK 1976	Labor Party Government ask for 2.6 Billion loan to solve external debt problems	Economy stands the schock recession would happen in 1979-1981,	Success	Rodgers, 2013
Portugal 1978-9	Solving the Budget and external deficits.	Achieved even if with raise in unemployment (2%) and recession (-2%).	Success	Nunes, 2010
Portugal 1983-4	Identical	More unemployment (3%) and recession (-3%) but the problems were solved	Success	Nunes, 2010
Greece 2011-4	First bayout of 110 Billion Euros in 2010, to solve otherwise unsolvable debt crisis.	Second bailout needed in 2011 of more 109 Billion Euros. GDP falling sharply (10%) and unemployment reaching 25%.	Failure	Eurozone 2013
Portugal 2011-4	78 Billion Euros bailout agreement reached in 2012.	Initial forecast of recovery in two years, wrong. Expected recession of at least 7%. Unemployment at 17% level (previous record of 8%).	Failure	PEP (2013)
Spain 2012-4	100 billion Euros needed for the financial sector	Banks were rescued by unemployment is over 20% and youth unemployment in 55%. The end of the crisis is not in sight.	Neutral	European Commission 2012
Cyprus	Bailout of 10,5 Billion Euros in 2013	Freezing the bank system could endanger all the European economy.	Prospects are gloomy.	BBC, 2013
Ireland	After two decades of a booming economy Ireland endured a recession in 2007 due to troubles in the financial sector. The bailout of 113 billion Euros was agreed in 2010.	Recession was been mild since 2010, and the economy is growing slowly. Unemployment rose from 6 to 14%	Neutral	BBC, 2013

In the seventies and eighties the stabilization packages worked – within the Eurozone they failed and this can't be a coincidence.

f) Ideological setting in the new situation

Two very distinguished American economists, both Nobel Laureates, have been criticizing the logic of the Troika Agreements and the general idea that austerity is the way forward to the EU and the Eurozone (Inman, 2013; Stiglitz, 2013). The idea that one of more PIIGS countries should leave the Euro has been also defended (The Economist, 2011). And both Krugman and Stiglitz have made it clear that they don't consider the EU governing bodies as competent in the way they have been managing the EU economy. However, when made by Europeans, the criticism over the Troika Agreements and the European Macroeconomic governance have been seen as ideologically motivated (Traynor and al, 2013). Even in the UK, policy concerns took over economic arguments (New York Times, 2013).

g) Social consequences of the incompetence.

At the present moment, the Eurozone is left with a stagnant economy in which the young have huge difficulties finding jobs and the middle aged fear for their pensions. Particularly in the countries that were more supported, unemployment (young, long lasting and overall) is reaching record levels, poverty rising, and emigration to the North of qualified people seems to be the only way of ensuring a decent survival.

5. Discussion: what went wrong ?

We have two explanations for the temporary incompetence which is swallowing up the Eurozone. The first one is that the instauration of the Euro effectively disrupted the equilibrium that existed between the economic forces of the Common Market and the social forces of Social Cohesion (European Commission, 2013c) by giving too much strength to the Economic side. As that balance is essential to guarantee the dynamic between Integration and Development / Convergence takes place (Tomé 2004), the Eurozone appears as to be an explanation for divergence. The second explanation relates to the differences between conjunctural adjustment and structural adjustment; conjuntural adjustments may be made using macroeconomic policies in the short and medium run; structural adjustments require micro policies in the medium and long run. The IMF agreements used all the conjunctural instruments to solve a conjuntural crisis and only after the structural changes occurred; within the Eurozone, the number of conjunctural policy instruments is much less reduced and the Troika effectively is trying to achieve conjunctural goals using structural instruments.

6. Conclusions

The main conclusions of the paper are the following:

According to Sveiby (2012) incompetence is generated by a change in the environment and is manifested by mistakes in predictions.

The Eurozone was a change in the environment, which generated expert incompetence and increasingly wrong predictions.

The Eurozone is a radical innovation which followed centuries of monetary independence in Europe.

The new context is characterized by the same interest rate, money supply and exchange rate in relation to the external world and also a fixed exchange rate within the Eurozone for the Eurozone members; even the budget policies are constrained by the Stability pact. The result is poor growth rates, more debts and increasing unemployment (total, long run and young) and particularly bad results for some countries (Portugal, Ireland, Spain, Greece, and Cyprus) which effectively diverged from the European Union average. Those divergent countries were among the ones with weaker KEI values.

Those countries began to be supported by the so called "Troika Agreements" and when it happened, more than ever the discrepancy between the forecasts and reality became evident, a clear sign of experts' incompetence.

Worse than that, when some voices (as Nobel Prize winners Krugman and Stiglitz) tried to initiate a debate they were somehow dismissed as lone rangers: the Eurozone has an ideologic background and has been debated ideologically and not technically.

The social consequences of the incompetence have been huge: massive emigration and increasing poverty.

However we assume that this is a small paper made by only one person, and that, given the complexity and importance of the topic, one book could be envisaged. That book would be made by a multidisciplinary team, (putting together specialists from different fields such as knowledge management, innovation, macroeconomics, economic history and the European Union) and also from different countries, such as the PIIGS, but also the UK, Germany, France and the US. As a final word we do not venture ourselves saying that we found the clue for the Eurozone crisis, economic reality is too complex to have a single remedy, but we hope to have pointed out in a new and worth pursuing direction of study.

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