

## [The economics they teach in Sussex](#) [1]

Written by [Tim Worstall](#) [2] | Sunday 20 May 2012

It pains me to have to admit this but this is from someone who purports to teach economics in a [British university](#) [3]:

And in recent weeks we have heard many economists argue that growth in the eurozone will come from "structural reforms" that will make it easier to collect taxes, reduce red tape, and easier to hire and fire workers.

But growth requires investment. Companies invest to make profits and grow. Evidence shows those which invest more in new technology, human capital and research and development, and are located in countries where public spending in these areas is high, are able to produce more competitive and better value products.

It is the "but" that is painful.

The eurozone will grow only once weaker countries are allowed to make the strategic investments Germany has. There is much talk about the need for internal rebalancing, to increase the competitiveness of the deficit-burdened south relative to the surplus-blessed north, but this is a limited view. What is required is not that wages fall in Portugal, Italy, Greece, and Spain, but that they make investments that increase their productivity ? an impossibility with austerity-driven policies.

And that is even more painful for she seems to have missed that Germany has just spent an entire decade screwing down the wages of the workforce in order to increase productivity. Productivity being a measure of how much production you get out for how much you spend on labour going in.

But the real problem is that she is claiming that there is some either/or calculation going on here. That \*either\* we increase productivity \*or\* we cut red tape. Which is an entire nonsense, of course. Cutting red tape, freeing up labour markets, shooting bureaucrats, these are productivity improvement measures. Just as much as (on the rare occasions they work) are making strategic investments driven by political aims. If you want to improve productivity shouldn't you be doing both of the things that improve it?

[blog comments powered by Disqus](#) [5]

---

**Source URL:** <http://www.adamsmith.org/blog/economics/the-economics-they-teach-in-sussex>

### Links:

[1] <http://www.adamsmith.org/blog/economics/the-economics-they-teach-in-sussex>

[2] <http://www.adamsmith.org/taxonomy/term/5778>

[3] <http://www.guardian.co.uk/commentisfree/2012/may/17/eurozone-growth-rebalance-economy>

[4] [http://disqus.com/?ref\\_noscript](http://disqus.com/?ref_noscript)

[5] <http://disqus.com>