Tying Your Hands … and Getting Stuck

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About 35 years ago, the Italian economic and intellectual elites decided that the country's prosperity hinged on tying it tightly to the European mast. The exchange rate regime became inflexible – a process culminating in the single European currency – while the labor market regime became increasingly more flexible. Three and a half decades after, it seems fair to say that the composite of reform has failed. Inflexible exchange rates, combined with an outdated specialization profile, have hindered the expansion of exports, while labor market flexibilization has negatively affected labor productivity. In turn, insufficient growth of nominal income has exacerbated the public debt problem. Both Italy and Europe are in serious need of a rethink.