



Italy's referendum: Much ado about little

by Luigi Scazzieri
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On December 4th, Italians will vote in a referendum on constitutional reforms. Despite widespread fears, Italy's political and economic stability is unlikely to be jeopardised even if voters reject the reforms.

Political stability in many European countries is under threat from populism. One exception up to this point has been an unlikely contender: Italy. There is of course an Italian brand of anti-establishment politics embodied in the Lega Nord and the 5 Star Movement. But so far, Italy has resisted the temptations of populism, despite economic hardship and the migration crisis. Policymakers and investors fear the upcoming referendum might change that, and yields on Italian government bonds have risen. Prime Minister Matteo Renzi, who initiated the reform, has repeatedly said that he will resign if he loses the vote. But despite the possibility of him resigning, the constitutional referendum does not pose a major threat to Italy's relative economic and political stability.

The constitutional reform aims to streamline the legislative process and give more powers to the government and the lower house of parliament, the Chamber of Deputies. The main change is turning the Senate from a directly elected upper house into a largely consultative body representing Italian cities and regions. The reform would also increase the powers of central government vis-à-vis regional and local authorities.

The reform is closely connected to the new electoral law for the lower house, approved in 2015. This new electoral procedure gives 55 per cent of seats to the party with the largest number of votes, and is the first part of Renzi's institutional reform package, with the constitutional reform the second.

Supporters of the constitutional changes argue they will lead to a stronger executive based on more stable majorities in parliament, and that this will facilitate the economic reforms needed to boost growth, employment and eventually reduce Italy's public debt.

If Italians approve the reform, Renzi's position would be strengthened and he may be tempted to hold elections before the scheduled end of the parliamentary term in 2018 to cement his majority. He would

then be in a stronger position to pursue Italy's economic agenda at the European level, including a push for fiscal stimulus across the eurozone.

However, current polls suggest voters are likely to reject the reform, with 'No' ahead by 4-5 percentage points. For many, voting No is not a rejection of constitutional reform per se, but a way of expressing discontent with the government. But there are also others, including respected political figures such as former Prime Minister Mario Monti, who oppose the reform on substance. They argue that the executive would be given excessive powers if the Senate is reduced to an advisory chamber, and the largest party is handed a majority in the lower house. Critics also argue that the proposed division of competences between the Senate and the Chamber of Deputies and between the central government and the regions is unclear and could lead to turf wars.

If voters reject the reform and Renzi resigns, some observers inside and outside the country fear a new, and potentially more dangerous, phase of political instability in Italy. Renzi's resignation could lead to new elections, and pave the way for a government led by the populist 5 Star Movement – a party highly critical of the EU, in favour of a referendum on Italy's membership of the eurozone, and opposed to sanctions on Russia. Solving the still unaddressed banking crisis could become a lot harder, and the slow reform process and economic recovery might be choked off entirely.

These fears are understandable but overblown. The impact of a No vote on Italy's political stability is likely to be contained. Renzi's resignation would not automatically trigger new elections. The Italian president, Sergio Mattarella, would first explore options for a new government. He could even give Renzi a fresh mandate to form a new government – or, more likely, give a respected technocratic figure such as economics minister Pier Carlo Padoan the mandate to govern.

The parties currently making up the governing coalition have a strong incentive to keep the legislature going and support the formation of a new government. Former Prime Minister Silvio Berlusconi's Forza Italia, languishing at 10 per cent in the polls, also seems open to joining a broad coalition government (as it has done in the past).

Mainstream parties fear elections because of the prospect of a strong showing by 5 Star – even more so after the Brexit vote and the election of Donald Trump. However, even if early elections were held, it is very unlikely that they would lead to a government led by the 5 Star Movement. The electoral laws for the lower house and the Senate prevent it. If the movement became the largest single party, it would be guaranteed 55 per cent of seats in the lower house but it would only win a third of seats in the Senate (in line with its projected share of the vote), which is elected under a standard proportional system. As a result, it would be unable to form a government, as Italian governments need the confidence of both houses.

If No wins the referendum and there are no early elections, a government led by Renzi or Padoan would steer the country towards elections in late 2017 or 2018. Even these are also unlikely to lead to a 5 Star victory. Whether the reforms go through or not, Italy's constitutional court is due to hear a case on the electoral law for the Chamber of Deputies, and is likely to demand changes to make the system more proportional. Such a system would make it even more difficult for a single party to win an outright majority, and lead to the continuation of coalition governments, which the 5 Star Movement refuses to take part in.

If Italians turn down the constitutional changes, it is not necessarily a repudiation of economic reform. The government has overstated the economic dimension of the reforms, which in themselves do nothing to address Italy's shortcomings, such as its low productivity, rigid labour market, inefficient public administration and lengthy judicial proceedings.

Renzi claims the reform would speed up the law-making process, arguing that it is currently slowed by how the Chamber of Deputies and the Senate repeatedly pass bills back and forth, adding amendments. But the speed of law-making is not the key issue: each year, Italy passes more laws than France and the UK. Nor are multiple readings of bills a major problem: in the legislature between 2008 and 2013, [301 out of 391 laws](#) were approved after a single reading in both the Chamber of Deputies and the Senate. Moreover, governments have increasingly fast-tracked controversial laws by linking them to a vote of confidence and blocking any parliamentary amendments.

The constitutional changes are also unlikely to lead to more ideologically homogenous and reformist governments. Proponents argue that the electoral and constitutional reforms would bring about governments with stable majorities. This is doubtful: the system allows parties to compete together as 'lists' and secure the majority prize, allowing for the possibility of ex-ante coalitions which may break down when in government. Nor are governments with a large majority necessarily reformist. Berlusconi's 2008-2011 government was neither willing nor able to implement far-reaching reforms despite its large majority. By contrast, successive coalition governments since 2011 have been able to adopt a series of controversial measures, such as raising the pension age.

Whatever the outcome, Italy's referendum is not the watershed moment in Italian politics many are making it out to be. After December 4th, the current or new government will continue to pursue the stony path of incremental economic reform and steer the country towards new elections in late 2017 or 2018. At the same time, it will try to change European fiscal rules in its favour, and push for more expansionary fiscal policies at the European level.

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