

## Italy's referendum: A specter haunting Europe?

Italians head to the polls Sunday in a referendum on constitutional reform which could foreshadow a European crisis

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File photo

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On Dec. 4, Italians are voting in a referendum on the reform of the Constitution. The goal of the reform is to modernize the Italian state by changing significant parts of its functioning and organization. The reform touches on many matters. The pillars are the abandonment of the parliamentary system where the Chamber of the Deputies and the Senate have equal powers – the so-called “perfect bicameralism” – and the recentralization at the state level of a number of regional legislative powers.

Since 1948 both chambers have passed laws by voting on exactly the same text, and both have had the prerogative to hold confidence votes on the executive. The 2016 reform introduces a differentiated form of bicameralism where the Senate loses most of its powers. Laws would be approved only by Chamber of Deputies, and the Senate could only input the lawmaking in various forms. Perfect bicameralism would be maintained only in a few, well-defined cases (e.g., constitutional reforms, electoral laws, the implementation of EU law and policies, fundamental functions, and the organization of local governments).

The Senate would also lose the prerogative to hold confidence votes, so that the government would be accountable only to the Chamber of Deputies. The new Senate would represent territorial institutions (regions and local governments) at the state level, not citizens. Regions would elect the members of the Senate in conformity with the choices expressed by the people voting for the election of the regional organs. This verbose formula is a compromise between those who supported direct election and those who preferred its abandonment. The concrete modalities for the election of the Senate are still under discussion, but in the last few days the government has reassured that people will be able to vote for the Senate in the regional elections. Membership of the Senate would be reduced from 315 to around 100 senators. Although senators would be covered by parliamentary immunity and other benefits, they would not receive parliamentary indemnity, a measure championed as a useful means to save public money.



The vocation of the new Senate, however, is ambiguous. It would have no institutional obligation to represent the interests of the regions, and political membership would seem to continue to frame its organization. Senators would also remain members of their territorial institutions. This "part-time" nature of the Senate has raised doubts about the organization of its agenda and its effective capability to commit to institutional responsibilities.

The participation of territorial autonomies in the Senate would not aim at federalism. It would coexist with a significant reduction of the legislative powers of the regions, in favor of the exclusive competence of the state. The acknowledged reason for this revision is to rationalize the distribution of competencies also in the light of the huge case law of the Constitutional Court, which for years has been called on to arbitrate the conflicts of attribution between the state and the regions. The new text of the Constitution, however, does not rule out the opening of a new season of conflicts, due to the formal suppression of cooperative instruments in the design of relations between the state and the regions and the restoration of the supremacy of the state.

The reform aims to promote the efficiency of the institutional system and to favor political stability. The drastic reduction of the lawmaking powers of the Senate should help a faster adoption of laws. The deprivation of the Senate's vote of confidence should make governments less dependent upon unstable majorities. However, the stability of government is strictly connected to the nature of the electoral system. It has been claimed that instability is only marginally connected to the bicameral system, as it derives from the fragmentation of the political party system. Its abandonment cannot ensure by itself lasting executives, but its coinciding with a new electoral law system for the Chamber conferring a large majority to the executive – now at the exam of the Constitutional Court – might favor this outcome.

The many problematic legal aspects of the reform and the intense political conflict that characterized its adoption – as it is perceived as a creature of the government – suggest that we should expect delays and uncertainty in its implementation. Yet, the reform would not solve by itself Italian problems, which are deeply rooted in the poor enforcement of laws and in maladministration, and not in the (still-byzantine) lawmaking process. The key challenges that Italy should face are the inefficiencies of public administration, the average long length of judicial proceedings, and the poor fiscal fidelity, which favor corruption.

The incapability of the political class to respond to widespread unemployment and to support effective economic growth makes things worse. The banking system and the recapitalization of Monte dei Paschi di Siena (MPS), one of the biggest Italian banks, are particularly problematic. The bail-in of retail investors has been frozen until the referendum in order not to affect the political situation. The government has supported a rescue plan to be carried out with private funding. It has been observed that the outcome of the referendum may affect the implementation of this plan, as the future of the government is linked to it. Whatever the results of the referendum, however, the bail-in procedure is not definitely excluded and the systemic dimension of the bank cannot rule out a further public rescue either.

At the beginning of the electoral campaign the prime minister wagered his job on the outcome of the referendum. Most of the referendum campaign has been exacerbated by the endorsement or the opposition to the government of Matteo Renzi, with the consequence that factors of political opportunity rather than of constitutional merit have dominated the Italian political debate. A negative outcome of the referendum would probably involve the resignation of Renzi, even if he kept a majority in Parliament. New elections, however, are not a short-term option as long as the electoral law for the Senate still needs revision after a 2014 ruling of the Constitutional Court declared some parts unconstitutional.

Considering the delicate position of Italy in Europe, this political instability might affect the credibility of Italy in the markets, and a wave of financial speculation with an increase of the spread cannot be ruled out. This context explains why, despite his clash with Renzi on austerity policies, the German minister of the economy, Wolfgang Schäuble, recently endorsed the reform. In addition, the Movimento 5 Stelle (Five-Star Movement), the main force of opposition, has an ambiguous approach to European economic integration. Although a consultative referendum on the euro is not feasible under the current constitutional framework and its admissibility should be seen under the reform, their sneaky opposition to the euro is perceived as another possible threat to European stability. Similar considerations of stability might also have persuaded other institutional observers, like outgoing U.S. President Barack Obama, of the promise of this reform.

The Italian referendum has therefore become the specter of a major European crisis. The paradox is that the specter haunting Europe, if any, is not the Italian Constitution or its reform. Political and economic concerns are haunting Europe. The problem is that these different issues have inadvisably inflamed the debate on the constitutional reform. Whatever the outcome, we should expect a hot political year.

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