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Italy politics

Six charts that are key to understanding Italy's referendum

Dissatisfaction hampers support for reform of odd parliamentary system

FT Data



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NOVEMBER 25, 2016 by: **Valentina Romei**

Italy's referendum on proposed constitutional changes on December 4 is unnerving markets and could prematurely end the premiership of Matteo Renzi, who has staked his term in office on the outcome.

Following the UK's Brexit vote in June and the election of Donald Trump in the US, the Italian referendum (https://www.ft.com/topics/themes/Italy_politics) has gained significance as the next potential opportunity for an anti-establishment vote. So what is it all about?

How the parliament could change

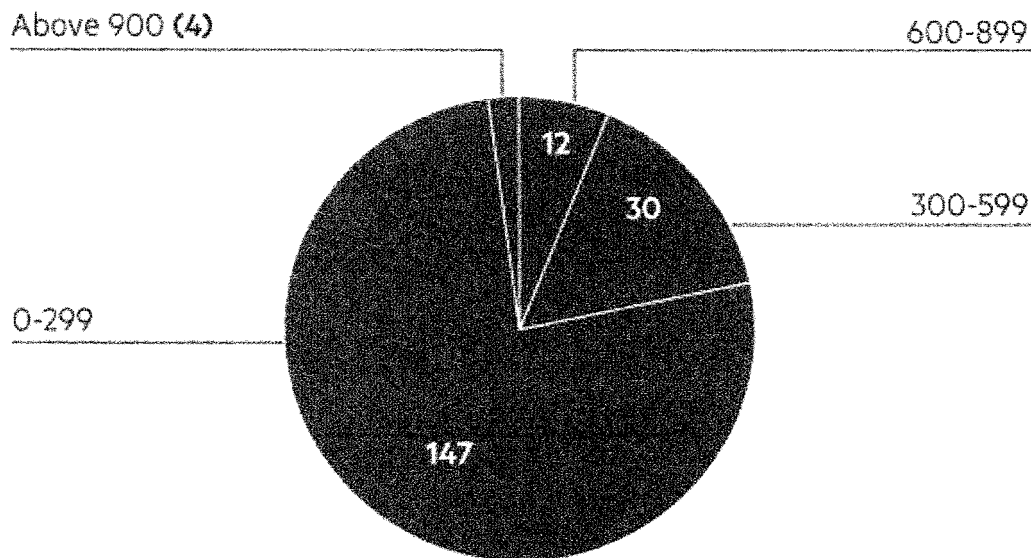
Currently two chambers, the Senate and the chamber of deputies, are both elected in the same way and in effect hold the same powers: both must approve a law in identical form. More often than not this leads to protracted negotiations,

numerous amendments, and overly complicated legislation.

If Yes wins the referendum, the Lower House will become the primary legislative body, while the Senate will become a “House of Regions and Municipalities” with no veto and limited and specific legislative powers. If Yes wins, the number of senators will be cut from 315 to 100.

The Italian parliamentary system is currently one of the most burdensome in the world. Across both chambers, Italy has 952 members of parliament, the third-largest number in the world after China and the UK and one of the only four countries globally to have more than 900 MPs.

Distribution of countries by number of seats in parliament

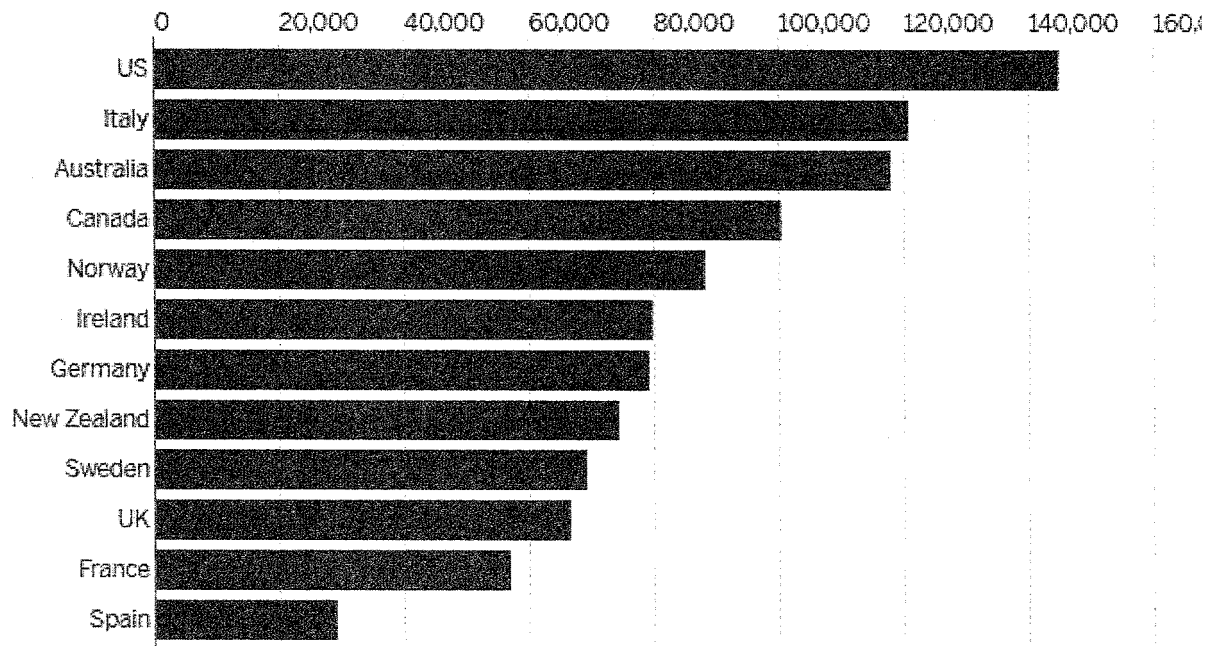


Source: IPU Parline

Although members of the UK's House of Lords can claim expenses of up to £300 for each sitting day, they do not receive a salary. Italian senators are currently salaried but if the reform passes that will no longer be the case.

How much legislators are paid

Gross annual salary, £ terms, as per July 2013



Excluding expenses and allowances

Source: Independent Parliamentary Standards Authority

The cut in Senator numbers is even more critical in light of how much they get paid

According to the UK's Independent Parliamentary Standards Authority, the gross salary of an Italian parliamentarian is the second-highest of major advanced countries after the US. It is higher than any other major European country, and nearly double what UK MPs receive. And this is without accounting for expenses and allowances.

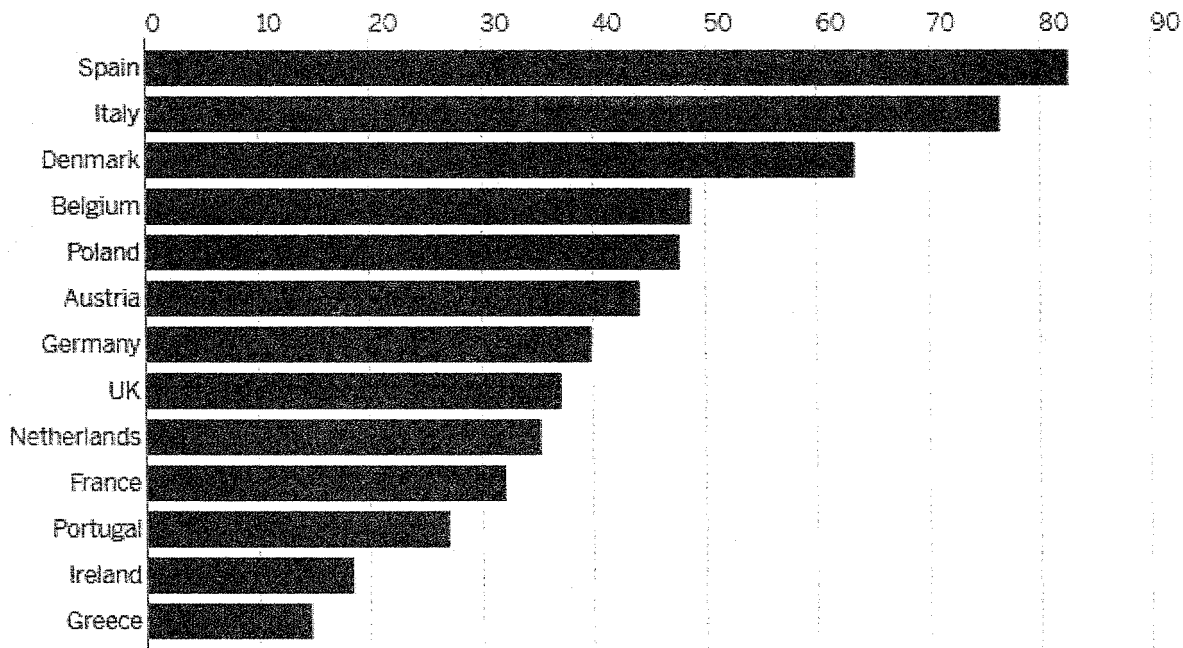
Another core element of the reform: re-centralising power

If the reform goes through, regions would lose oversight of energy, strategic infrastructure and civil protection. The responsibility would instead go to the central government.

"Italy has become a quite decentralised country," the OECD noted in its 2013 country report. Indeed, regional government accounts for over three-fourths of national procurement. That is around double the share in the UK and above most European countries.

Italy is a quite decentralised country

Sub-central government procurement as a percentage of general government procurement, 2015 %



Source: OECD, Valentina Romei

According to the same report “for some policy areas the decentralisation to regions does not make much sense”. It highlights energy policy, where “current arrangements require every region to have its own strategic energy plan”.

Many economists support the redesign

“Once in place, the reform should permit more efficient policymaking, reduce ambiguity about who is responsible for what, avoid implementation delays due to subnational government not following through on national legislation,” writes the OECD.

The reform “would allow the government to regain certain key responsibilities, which would make the public administration more effective, while allowing simultaneous devolution and control on other areas”, Lorenzo Codogno, a former chief economist at the country's Treasury department, has said.

Critics claim democracy will be impoverished

The main argument of critics (<http://next.ft.com/content/821da752-b172-11e6-a37c-f4a01f1b0fa1>) is that the Senate's limited legislative powers would undermine the checks and balances of the Italian constitutional system, especially in light of the new electoral reform. The eligibility of some of the regional representatives and how they can function in their double roles of functionaries and Senators also raised concerns (<http://next.ft.com/content/528a1b06-b235-11e6-9c37-5787335499a0>).

They also point out there are many uncertainties over how the new system would actually work.

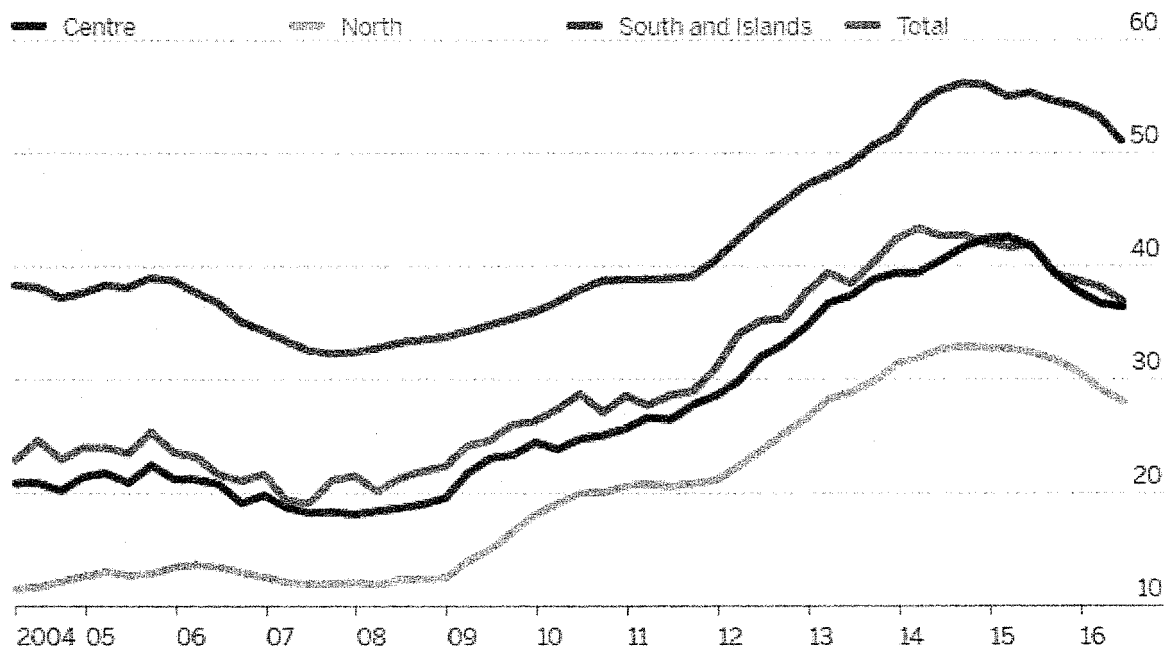
Anti-reform or anti-Renzi?

It is difficult to say whether the Italian public shares these views or whether a No vote would mostly indicate lack of support for Mr Renzi. A recent survey (http://www.termometropolitico.it/1236063_sondaggio-ipsos-referendum-no-vantaggio-dieci-punti.html), for example, showed that only about one-in-10 Italians know the details of the reform, meaning anti-Renzi protest votes are playing an important role.

It is not difficult to understand why Italians are dissatisfied. This, after all, is a country where nearly one-third of the population is at risk of poverty or social exclusion and where youth (<http://next.ft.com/content/e2588c06-9b90-11e6-8f9b-70e3cabccfae>) unemployment is still at 37 per cent, and as high as 50 per cent in the south of the country. Polls (<http://www.ilfattoquotidiano.it/2016/11/15/sondaggi-referendum-il-no-cresce-soprattutto-grazie-ai-giovani-il-si-puo-recuperare-al-sud-e-nel-nord-ovest/3193822/>) appear to show those who live in the south and younger people are more likely to be against the reform.

Italy's youth unemployment rates

Rolling 4-quarter average, 15-24 years old, %



Source: Thomson Reuters Datastream

Low levels of trust in Mr Renzi also do not help build a consensus. The prime minister is currently trusted by 32 per cent (<http://www.istitutoixe.it/category>

[/rai-agera/](#)) of the population, higher than any other party leader but 20 percentage points below the president, Sergio Mattarella.

But votes are harder to predict

It is illegal to publish polls for two weeks before elections in Italy, but the last available figures appeared to show No in the lead. This will not please many top Italian chief executives who almost unanimously expressed support for the reform (<http://www.bloomberg.com/news/articles/2016-11-17/italy-inc-backs-premier-renzi-s-crucial-reform-vote>).

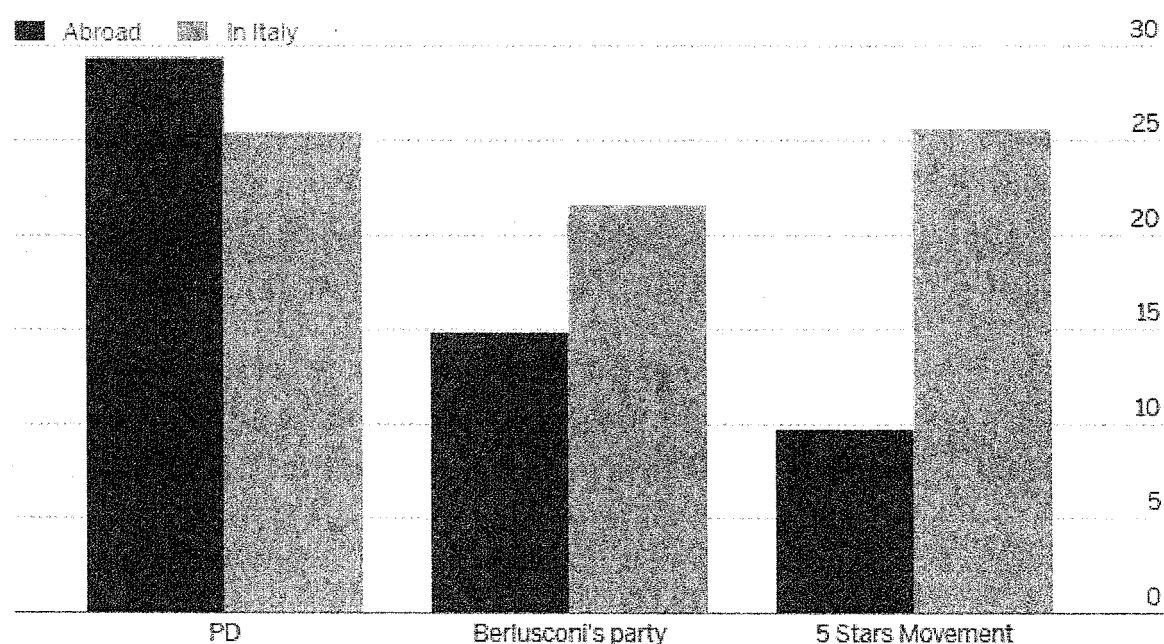
Yet recent electoral results showed that we should treat voting intentions polls with a pinch of salt. The gap between support for Yes and No is fairly narrow and a large proportion of the population has not expressed a view on the vote.

Support is particularly difficult to gauge in Italy because a significant part of the electorate is not surveyed. More than 1m Italian expatriates [took part](http://elezionistorico.interno.it/index.php?tpel=C) (<http://elezionistorico.interno.it/index.php?tpel=C>) in the 2013 general election, more than half living in European countries.

One million expat votes are not a game changer in a country where around 35m people will vote domestically, but they could make a difference in a tight race. In previous elections, Italians abroad have given little support to the Five Star Movement and Silvio Berlusconi's party Forza Italia. Both support the No campaign.

Few Italians living abroad supported the Five Star Movement in 2013

Italy's 2013 election results, %, House of Deputies

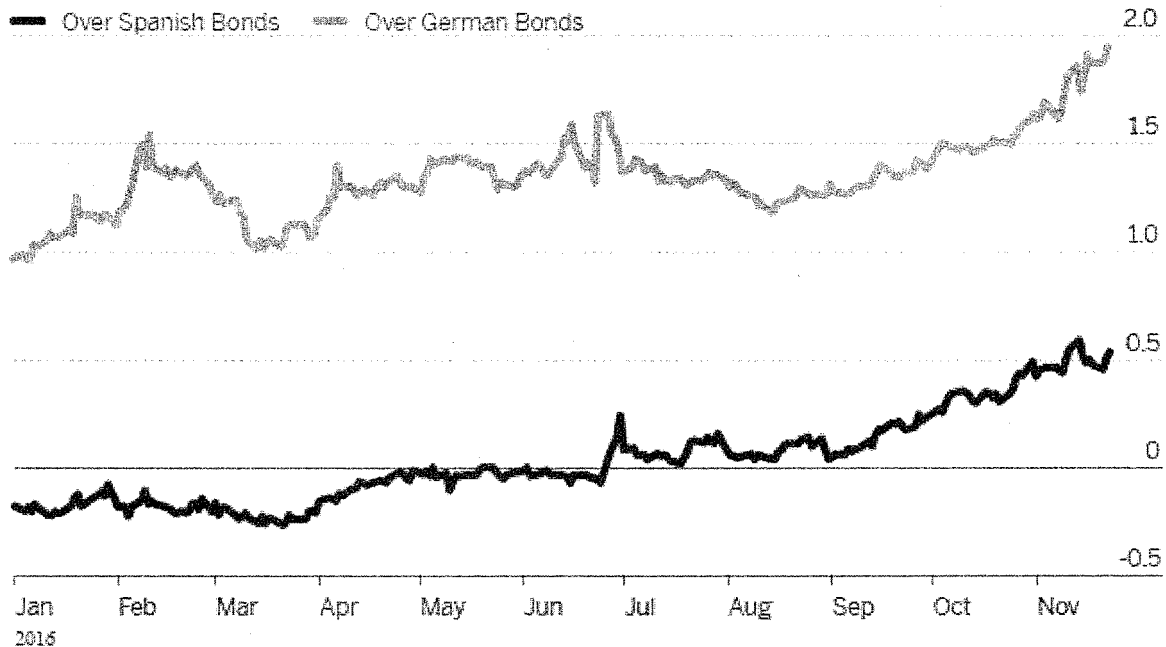


Source: Italy's Ministry of Interior Affairs, Valentina Romei

Whatever the outcome, the market reaction to the No lead and the uncertainty has been decidedly negative (<http://next.ft.com/content/eofae584-d3f3-3258-9c14-edb62ccb91d5>).

Italian 10-years government bonds

Spread over Spanish and German Bonds (% points)



Source: Thomson Reuters Datastream

The Italian government bond yield, a measure of market-perceived risk, has been rising, while the spread with the German and Spanish bonds has been hitting a new record high nearly every day.

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