

In Italy, a Sleeper Crisis for the E.U.



It is a strange development that the greatest alliance of democratic states in modern history, the European Union, has come to fear democratic votes and elections. Yet the plebiscite on a set of constitutional changes in Italy on Sunday may be a momentous day for Europe and the European Union.

Italy was a founding member of the European Economic Community and of the common currency, the euro. If Italy votes no in the referendum and then turns against Brussels and the euro, it might well spell the end of the European Union. It would also be a serious and lasting defeat for a reformist and internationalist social democracy.

Formally, the plebiscite puts to voters a set of constitutional changes that make a lot of sense. Matteo Renzi, Italy's prime minister, proposes to reduce the power of the Senate, the upper house of Parliament. Unlike its American counterpart, the Italian Senate has not just representatives from various regions but also "lifelong" appointees and stakeholders from various lobbies.

The senators have blocked many decisions made by the Parliament in the past; because they tend to be older (minimum age of 40), they are often seen as a symbol of Italy's "gerontocrazia." Reducing the powers of the Senate is a key step to modernizing Italy's political system and meeting economic challenges. In fact, a majority of the senators agreed with Mr. Renzi's reforms, and they seemed likely to be approved in the plebiscite.

But in polls after September (before a blackout was imposed leading up to the vote), public opinion turned against Mr. Renzi and his proposals. That is largely because he has failed to deliver on his main promise to improve the economy. Italy has not yet fully recovered from the 2008 global crisis: For example, unemployment is higher than in most of the European Union, with youth unemployment hovering around 40 percent.

By these economic indicators, "la crisi," as the Italians call it, is as deep as the depression that hit Poland and other Eastern European countries after 1989. Southern Italy now even has a lower gross domestic product per capita than Poland, adjusted for purchasing power.

Mr. Renzi made efforts to change things. He introduced job-market reforms that made it easier to hire young workers and eased some of the protections enjoyed by employees with older contracts. He has raised the retirement age modestly, a necessary step because of rising life expectancy (Italy has one of the highest life expectancies in the Western world) and to relieve the welfare state.

Mr. Renzi has also hired many young ministers instead of the old power brokers like Massimo D'Alema, the former leader of Mr. Renzi's Democratic Party who now recommends a no vote. All in all, Mr. Renzi's policies are reminiscent of Tony Blair's New Labour in the 1990s or Germany's labor-market and pension reforms under Gerhard Schröder after the turn of the millennium.

Mr. Renzi, however, is operating in a much worse global economic context. Italy cannot build on an export-driven growth model like Germany under Mr. Schröder, and it is suffering under a heavy debt burden left by Silvio Berlusconi.

And the tide has turned against reformist social democracy in Italy and elsewhere. The populists on the left and right build on the disenchantment, ire and despair of large parts of the electorate. They promise a real rupture, which Mr. Renzi's party, part of the political establishment, cannot credibly offer.

If he loses the plebiscite and steps down, as he has vowed to do, the European Union would be badly damaged as well. Mr. Renzi is staunchly pro-European, while the populists rally against Brussels and the austerity policies of the Union. Jean-Claude Juncker, the president of the European Commission, understood this and unveiled a 315 billion euro investment plan in 2015. But it is probably too little, too late to help Mr. Renzi, even as Italy could benefit from investments in solar power and urgently needs investment in internet communication.

The union has also become increasingly unpopular because it largely left Italy alone to manage the tide of refugees and migrants from North Africa (more than 170,000 people have arrived in Italy so far in 2016). Hence, even many of Mr. Renzi's adherents feel abandoned by the European Union.

Mr. Renzi's foes – the left-wing populists of the Five Star Movement of Beppe Grillo, and the right-wing populists of the Northern League – fiercely attack the prime minister and the European Union. Mr. Grillo has indicated that if the plebiscite fails, he wants to hold a referendum on dropping the euro.

Brexit has set an example that a nation can vote against the advice offered by economic and political experts. Even without

a plebiscite about the euro, Italy might become almost impossible to govern.

That will certainly frighten the financial markets. If the interest rates for Italy's public debt, which at the moment stands at about 132 percent of gross domestic product, continue to rise (speculation against Italian government bonds has already started in recent weeks), it might be difficult to keep Italy in the eurozone.

If Italy, the fourth-largest economy of the European Union, rejects the euro, the common currency would be finished, and probably the Union as well. But how would the populists, once in power, act? If they have the choice between state bankruptcy and keeping the euro, they might still opt for the common currency.

The founding members of the European Economic Community reacted to the fall of the Berlin Wall and the breakdown of state socialism by establishing the more deeply integrated European Union and the euro. That worked well until the crisis of 2008.

It might be, however, that the union and the common currency were made for good times, not for bad ones.