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Italy's business leaders are clamouring for constitutional reform

But a "yes" vote in the referendum on December 4th will not save corporate Italy

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"THE biggest risk in Europe is the Italian referendum", said Gianfelice Rocca, head of Assolombarda, Milan's chamber of commerce, this summer. For corporate Italy, much is at stake in the vote on constitutional reform, which will be held on December 4th. Victory for Matteo Renzi, the business-friendly prime minister, could mean a big fillip for firms of all sizes, whereas a loss would be "a shock in the system" said Mr Rocca.

The national employers' federation, Confindustria, agrees with him. If those campaigning for a "yes" vote are to be believed, firmer government, easier conditions for investors and generally brighter economic prospects would follow. The two main issues to be decided are reform of the Senate's powers—whether to let the lower chamber pass future laws, even when opposed by the Senate—and whether decision-making powers should be brought back from regional governments to the centre.

Francesco Starace, the chief executive of Enel, a giant European electricity company that is one of Italy's more successful firms, sets out a strong case that the proposed changes would bring important benefits to companies, especially if politicians took it as a signal to push for more reforms that would deregulate the economy and encourage competition. Last year labour laws were eased slightly, and a change this July made it easier and cheaper for startups to register with the authorities. Mr Starace hopes that the momentum will continue. "We have been waiting for these reforms for 25 years and it would be a pity to have to wait any longer", he says.

The public currently seems less convinced of the merits of constitutional change, and opinion polls suggest that the outcome hangs in the balance. But the opportunity would be a shame to miss, businesses believe. A "yes" result would send an unambiguously positive signal to investors in Italy, says the boss of one of the country's biggest industrial firms. It would show that "we can change laws that for decades have held back productivity", he adds.

Bringing more powers to the central government would reduce costly complexity for firms. Today there are different rules in each region of Italy on water use, waste recycling, pollution control, how to run energy installations and other areas where the authorities require permits, points out Mr Starace. It is costly to manage, especially for smaller companies.

A second gain would directly follow a shake up in the Senate. Bosses reckon lawmakers would feel able to pass laws that would cut layers of bureaucracy and speed up judicial reforms, notably to improve legal administrative procedures. In the latest ease-of-doing-business rankings from the World Bank, Italy sits in 50th place, among the worst of any economy in the OECD club of rich countries (and six places worse than last year). Mostly that is the result of firms' misery in dealing with the state, such as in paying tax or getting contracts enforced.

An economist at Intesa Sanpaolo, a bank, estimates that foreclosures on assets take seven years on average to complete in Italy (and as many as ten in the south) compared with two years in Germany or France. The administrative process around construction permits takes an Italian firm an average of 227.5 days to navigate, according to the World Bank, compared with 86 for a British one. A better-run state could improve all this.

If Mr Renzi and other politicians decided they had a mandate to confront incumbent lobbies, such as taxi drivers that have almost choked off Uber and other ride-hailing firms in big cities, including Milan, or which block new entrants to the pharmacy business, then the referendum would mean even greater improvements. The former boss of Uber in Italy, Benedetta Arese Lucini, received violent threats when she started rolling out its services. Without big changes to the status quo, says Ms Arese Lucini, "it would be stupid [for new firms] to be based", in Milan. But the day that Italy understands that competition is good "we can compete with the world", she adds.

If politicians really got the reform bit between their teeth, they might even address tax rules that, effectively, punish investors in companies. One reason why Italian firms have been starved of credit is that tax rates heavily favour buyers of government bonds over investors in private equity, for example. Italy attracts a strangely low share of the money going into private equity in Europe, or less than one-quarter of the funds that France attracts and one-fifth of funds into Britain (as a share of GDP).

Nino Tronchetti Provera, head of Ambienta, a private-equity fund (and a cousin of Marco Tronchetti Provera, boss of Pirelli, a big tyre manufacturer) concurs that the vote matters greatly, chiefly because of the downside risk of a "no". Rejection would mean a return to extreme political uncertainty, since Mr Renzi has talked of resigning if voters spurn him.

Mamma mia

Yet it is also possible to exaggerate the potential gains for business of a "yes" vote in the referendum, or, indeed, the cost if voters reject Mr Renzi's plans for change. Corporate Italy is ailing for many reasons. One of the most intractable problems is a consistently low level of domestic consumption thanks to a rapidly ageing population. A culture of risk aversion discourages entrepreneurs. “Failure means family shame, your mother will be disappointed in you”, explains Ms Arese Lucini.

The shortage of capital for business stems from a troubled banking system and also from a tradition of families funding their own, usually small, businesses. The Italian bourse remains a “stunted” thing, in comparison to markets in Paris or London, points out Claudio Costamagna, chairman of Cassa Depositi e Prestiti, a state-controlled bank that invests Italy’s postal savings. About 70% of its market capitalisation is made up of the shares of banks, insurance firms, utilities or energy companies such as ENI, a state-controlled oil and gas firm. Industrial and manufacturing firms, the backbone of the economy, make up a small part. The referendum will do little to channel more money to the latter kind of company.

And although constitutional reform would help, it will take more to jumpstart the economy, which is barely growing today and remains roughly the size it was over a decade ago. Successful Italian companies are those that export to more vibrant overseas markets, such as businesses selling car parts, food, fashion, pharmaceutical products, car parts or energy.

Often, Italian firms do not help themselves, either. Few have followed the example of Enel and other leading companies, which have rapidly embraced digitisation in the interests of increasing efficiency. Some even lack basic habits of using computers. An investor describes a visit this year to a southern Italian firm which has annual turnover of €50m and which manages its stocks on a whiteboard in a storeroom.

So the benefits of constitutional change, if it comes, could be uncertain and felt unevenly. It has been big business that has been most vocal about the desire for a “yes” vote, but large companies, with their channels to foreign markets, would cope pretty well with a rejection; they are accustomed to coping with the state of things now. It is small, nationally-oriented businesses that are most at risk from backsliding on reforms. And as Mr Rocca admits, “the finale of the movie is highly uncertain.”