ROME—The founder of Italy’s populist 5 Star Movement showed off his growing confidence in a video posted ahead of Sunday’s pivotal national referendum.

“An era is going up in flames,” Beppe Grillo said as Donald Trump’s Election Night acceptance speech played in the background. “It’s the risk-takers, the stubborn, the barbarians who will carry the world forward...We will end up in government, and they will be asking, ‘How did they do it?’ ”

Italian voters will decide Sunday on a constitutional change that would effectively strip the Senate of most of its powers. It is a gamble by Prime Minister Matteo Renzi—for Italy and abroad—and a centerpiece of his efforts to more quickly revamp Italy’s sickly economy.

If he loses, Mr. Renzi, 41 years old, has pledged to resign, making the vote a sign of confidence in his nearly three-year-old government, and a possible test of populism’s reach. Mr. Renzi’s popularity is declining, and recent polls suggest a no vote will prevail, though many voters remain undecided.
Such an outcome would be the latest victory for antiestablishment politicians in a year that saw Brexit and a Trump presidential win, and would give a boost to the 5 Star Movement, which has opposed Mr. Renzi’s proposal as not radical enough. In Europe, as in the U.S., voters are angry at political elites and frustrated by slow growth. Elections are set next year in France, Germany and the Netherlands.

“The referendum is a lightning rod for divisions that are much, much deeper in society,” Economy Minister Pier Carlo Padoan said in an interview.

The economy in Italy, a perpetual worry for European policy makers for its high debt and political instability, has since 2007 endured one recession after another; 97% of households saw real income fall or stay flat in the past decade, consulting group McKinsey said, and the economy is 12% smaller.

At the end of 2015, nearly 60% of jobless Italians had been unemployed for at least a year, compared with 19% in the U.S., according to the Organization for Economic Cooperation and Development. One million Italian jobs disappeared in the years after the financial crisis.

Such deep economic malaise has fueled the 5 Star Movement, which was founded in 2009 by Mr. Grillo, a well-known comic who had long included biting social commentary in his routines. The party began as a “cyber utopia” movement that placed deep faith in the power of direct democracy—choosing electoral candidates and platforms through online balloting.

Its popularity was ignited by demands for honesty among officeholders, as well as the group’s harsh criticism of Italy’s establishment parties.

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**Rise of the Populists**

Growing numbers of European voters are supporting populist groups that oppose establishment parties and are skeptical of European integration.

<table>
<thead>
<tr>
<th>Party</th>
<th>Support</th>
<th>Poll date</th>
<th>Polling agency</th>
</tr>
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<tbody>
<tr>
<td>Austrian Freedom Party</td>
<td>35%</td>
<td>Nov. 5</td>
<td>Gallup</td>
</tr>
<tr>
<td>Italy 5 Star Movement</td>
<td>29.8%</td>
<td>Nov. 14-16</td>
<td>Demos &amp; Pi</td>
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<tr>
<td>Podemos (Spain)</td>
<td>23.1%</td>
<td>Nov. 7-10</td>
<td>Metropollia</td>
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<tr>
<td>France National Front</td>
<td>23%</td>
<td>Nov. 1</td>
<td>Kantar TNS</td>
</tr>
<tr>
<td>Dutch Party for Freedom</td>
<td>17%</td>
<td>Nov. 3</td>
<td>Pellingwizier</td>
</tr>
<tr>
<td>Alternative for Germany</td>
<td>13%</td>
<td>Nov. 3</td>
<td>Infratest</td>
</tr>
<tr>
<td>UKIP</td>
<td>11%</td>
<td>Oct. 31-Nov. 1</td>
<td>YouGov PLC</td>
</tr>
</tbody>
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Source: Polling agencies

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The Wall Street Journal
Mr. Grillo contends Mr. Renzi’s constitutional reform falls short of the root-and-branch changes needed. “Amateurs are welcomed if professional politicians have brought the world to what it is now,” he said.

Mr. Grillo has his eye on the office of premier. Luigi Di Maio, age 30, the 5 Star parliamentarian who is deputy chairman of Italy’s lower house, is viewed as a possible candidate to lead a government headed by his group.

Markets have been unnerved at the prospect of a no vote. The 5 Star Movement calls for lower taxes, abrogating European Union fiscal commitments, renegotiating part of Italy’s €2 trillion debt ($2.1 trillion)—even printing money if need be. It supports a nonbinding referendum on Italy’s membership in the euro.

“We could think about two currencies: a national one and one that we use abroad, a sort of two-speed euro,” Mr. Grillo said. He supports keeping Italy in the EU, but wants changes and a rebalancing of power for its members.

Emerging stars

“Whoever is happy with 1% growth should have his head examined, but we’ve turned a corner,” Mr. Renzi told business leaders this fall, seeking support for his economic reforms. “There will be plenty of chances to send me packing, but if your vote is just a vote against the government, you’re throwing away a chance to change things in Italy for the next 30 years.”

Mr. Renzi burst into national prominence in 2013 as the mayor of Florence, taking control of the center-left Democratic Party. A self-described “Demolition Man,” Mr. Renzi was unburdened by ties to traditional centers of political power. Young and media savvy, he touted plans to shake up everything from Italy’s bureaucracy to its sluggish judicial system.
After becoming premier in early 2014, Mr. Renzi leveraged his early popularity to muscle through legislative changes last year that made it easier for businesses to hire and fire employees. The overhaul, coupled with €35 billion ($37.1 billion) in cuts to payroll taxes, helped create 580,000 jobs. Mortgage applications from newly employed Italians surged.

The embers of his economic revival failed to fully ignite. Last year, the economy grew for the first time in four years, but has since slowed to a crawl—opening the door for Mr. Grillo and the 5 Star Movement.

During Sicily’s 2012 local elections, the movement tapped anger over the island’s corruption scandals and soaring unemployment. In a pre-electoral stunt, Mr. Grillo swam the nearly two-mile strait separating the island from the mainland. Polls predicted the group would get 10% of votes; it won 18%.

“Everything changed,” said Giancarlo Cancelleri, member of Sicily’s regional assembly. “We started winning mayoral races everywhere.”

The next year, with anger running high over the inability of traditional parties to cope with a sovereign debt crisis that threatened to drive Italy from the euro, the movement won 26% of votes cast in parliamentary elections, sending 163 5-Star members to parliament.
Polls show nearly 30% of Italian voters would back 5-Star candidates if parliamentary elections were held now, about the same proportion of support held by Europe’s largest populist parties, including France’s National Front.

Manuela Mania, a 29-year-old unemployed marine biologist, likes the 5 Star proposal for a universal income, guaranteed by the government, which could help keep her in Italy. Some 20,000 Italian university graduates now move abroad each year. “Their ideas have no political connotation,” she said. “They're just good ideas.”

Building boom

Italy’s economic pain is particularly acute in the south.

In the early 1990s, the country’s furniture industry prospered by offering top design and quality at moderate prices. The southern regions of Puglia and Basilicata were at the heart of the boom. Their sofa manufacturers exported about 80% of what they made. Hundreds of firms sprang up to supply the industry. Even plumbers left their jobs to join.

Felice Dileo, the youngest of six children of a farmer and a homemaker, was working in a garage when it all started. In 1993, he got a job gluing sofa stuffing into frames for Natuzzi, a large manufacturer in Puglia. That year the company launched a successful public offering in New York.

Mr. Dileo’s previous employers didn’t always pay regularly, so the steady paychecks from Natuzzi were like living in a dream, he said: “It was the best possible job. Everyone applied.” He bought his first car, a Seat Ibiza. Local banks gladly issued mortgages to furniture company employees.

In 2001, Mr. Dileo began to worry. China’s entry into the World Trade Organization meant low-cost Chinese manufacturers were able to flood the market with similar products at lower prices. As a member of the euro, Italy couldn’t devalue its currency to boost exports.

Some German firms moved furniture production to Poland to lower their labor costs. Most Italian firms were too small to afford such a strategy.

Puglia’s poor infrastructure didn’t help. Railway links, for instance, take two hours to ship goods 43 miles from the manufacturing district to the port in Bari.

The government raised taxes and slashed spending in response to the sovereign debt crisis and EU-imposed austerity measures, compounding troubles.
Hundreds of furniture firms have since closed. The number of furniture workers in Puglia and neighboring Basilicata fell by 75% from 2002 to 2015.

Mr. Dileo in 2008 took a 20% cut to his salary of €1,000 ($1,060) a month. Last year, he was laid off. He and his wife, a part-time school psychologist, are expecting their first child. His unemployment benefit of €800 a month expires next year. He said he has lost faith in Mr. Renzi; the labor overhaul has hardly dented Puglia’s unemployment rate of nearly 20%.

Mr. Dileo, 43 years old, said traditional parties can no longer fix problems. “You need to start afresh,” he said, “and the 5 Star Movement can do that.”

Similar sentiments propelled the group in local June elections.

In Ginosa, a small town in the center of Puglia’s furniture district, voters elected a 5 Star mayor in a landslide.

In Turin, the home of car maker Fiat in Italy’s north and long a bastion of the center-left, a 32-year-old 5 Star official won City Hall. The city since 2008 had lost about a quarter of its industrial production in some sectors as Fiat—once Italy’s largest private employer—opened plants in lower-cost countries.

Piero Fassino, Turin’s ousted center-left mayor, helped build tourism and research, but that hasn’t helped firms and workers long tied to auto making.
“The transformation of the city allowed us to hold on,” Mr. Fassino said, “but the working class has suffered a lot.”

In Rome, nearly 70% of voters swept a 5 Star candidate to the mayor’s office. But the five-month tenure of Mayor Virginia Raggi has been marked so far by missteps.

The 5 Star Movement’s political inexperience has jangled the nerves of some investors and policy makers.

Mr. Padoan, the Italian economy minister, compares the group’s economic platforms to the disastrous policies of Argentina that brought the country to default in the early 2000s. “Whenever they start making proposals, it’s a nightmare,” he said.

The free-form nature of the 5 Star Movement, however, doesn’t trouble supporters, who regard the group’s inexperience as a badge of honor.

“It is a party of amateurs,” said Mr. Dileo, the former furniture worker. “But unlike politicians from other parties, they are free.”