Public Debt, Guarantees and Local Elites in the Papal States (XVI-XVIII Centuries)

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This article investigates the original contribution to the financial revolution of the Papal States at both the central and local level, with special reference to the evolution of the public debt of the Legazione Bolognese. It is argued that from the standpoint of public finance the contractual character of Papal power was a mixed blessing. On the one hand Papal authorities proved remarkably apt both at winning the trust of local investors and at mastering the art of public borrowing, on the other hand the close alliance with provincial oligarchies acted as a powerful barrier to the modernization of the state and the widening of the fiscal base.

1. Historians agree that state competition during the sixteenth century triggered a creative moment in the history of public credit, paving the way to what has been labelled a financial revolution[1]. Not only did forms and techniques of credit change, but dramatic mutations occurred in the scale of the resources that were mobilised and in the political geography of the credit market. Firstly, governments were able to contract loans,

[1] The term 'financial revolution' was introduced by Dickson in his masterful study *The Financial Revolution in England: a Study in the Development of Public Credit, 1688-1756*, (London, 1967), 285-286. In the last twenty years historians have taken the British financial revolution out of its original isolation, turning it into a stage of a much wider and longer European process reaching back to the Renaissance. Among the most exciting contributions and collections: J. Tracy, *The Financial Revolution in the Habsburg Netherlands. Renten and Renteniers in the Country of Holland, 1515-1565*, (Berkeley 1985); A. Calabria, *The Cost of Empire. The Finances of the Kingdom of Naples in the Time of Spanish Rule*, (Cambridge, 1991); M. 't Hart, *The Making of a Bourgeois State. War, Politics and Finance during the Dutch Revolt*, (Manchester 1993); R.J. Bonney (ed.), *Economic Systems and State Finance*, (Oxford 1995).

surpassing anything encountered in the Middle Ages. Secondly, until the fifteenth century, public debts had developed strongly at the municipal level and had been the almost exclusive preserve of republican regimes. It is only in the sixteenth century that we can really begin to speak of the funded debts of territorial states. Thirdly, governments began to structure their borrowing in ways that supported the development of the financial system. Voluntary subscriptions became the norm and bonds were sold on the open market, competing with other means of investment. A 'modern' public debt grew unbound from forced purchases by lenders-taxpayers and became characterised by voluntary subscriptions and full marketability of bonds.

Recent scholarship has clearly identified the Papal States and their larger communities as creative participants both in the state-building process and in the financial revolution of the early modern period[2]. In establishing firmer control over territories in Central Italy, the Papacy was able to bank on the tradition of Italian city republics, a tradition which the Popes managed to update and recast in the context of a territorial state. The impersonal character attributed to the state by

[2] Starting with a seminal and highly provocative essay published by Peter Partner in 1980, Papal finances have enjoyed a fresh wave of scholarly attention. The following list is just a selection of recent and innovative works: P. Partner, 'Papal Financial Policy in the Renaissance and the Counter-Reformation', *Past and Present*, 88 (1980), pp. 17-62; W. Reinhardt, 'Finanza pontificia e Stato della Chiesa nel XVI e XVII secolo', in A. De Maddalena and H. Kellenbenz (eds.), *Finanza e ragion di Stato in Italia e Germania nella prima Età moderna*, (Bologna 1984); E. Stumpo, *Il capitale finanziario a Roma fra Cinque e Seicento*, (Milano 1985); F. Piola Caselli, 'Crisi economica e finanza pubblica nello Stato Pontificio tra XVI e XVII secolo', in A. Di Vittorio (ed.), *La finanza pubblica in età di crisi*, (Bari 1993), 141-179; F. Piola Caselli, 'Innovazione e finanza pubblica. Lo Stato Pontificio nel Seicento', in *Innovazione e sviluppo. Tecnologia e organizzazione fra teoria economica e ricerca storica (secoli XVI-XX)*, (Bologna 1996), 449-463; 99; D. Strangio, *Il debito pubblico pontificio. Cambiamento e continuità nella finanza pontificia dal periodo francese alla restaurazione romana (1798-1820)*, (Padova 2001); M.C. Giannini, *L'oro e la tiara. La costruzione dello spazio fiscale italiano della Santa Sede (1560-1620)*, (Bologna 2003); R. Masini, *Il debito pubblico pontificio a fine Seicento. I Monti camerali*, (Roma 2005). For the public debt of the city of Rome cf: F. Colzi, *Il debito pubblico del Campidoglio*, (Napoli 1999); for the municipal debt system of Bologna cf: M. Carboni, *Il debito della città. Mercato del credito, fisco e società a Bologna fra Cinque e Seicento*, (Bologna 1995).

republican regimes was much better suited to the Papacy, as an electoral monarchy, than the personal and dynastic features of princely rule. The near independence most communities subject to Papal overlordship had long enjoyed during the Middle Ages, the bewildering variety of administrative arrangements to which Popes had agreed, and the constant change of political direction brought about by the frequent succession of pontiffs slowed and mollified the centralising drive of sixteenth-century Popes. Despite claims to the contrary, Papal rule remained inherently contractual. From a financial viewpoint, this seeming liability was turned into an asset. As debtors, Popes were more ready than other monarchs to adopt policies conducive to trust: providing binding sets of guarantees, limiting discretion and accepting responsibility for financial obligations incurred by their predecessors. The contractual limits to Papal power were reassuring to perspective creditors and enhanced rather than hindered the Popes' ability to borrow. As a matter of fact, the Apostolic Chamber was able to raise spectacular sums of money on better terms than most early-modern rulers well into the eighteenth century.

The Papal States can be regarded as an excellent example of that blend of conservatism and innovation which characterised the building process of European states in the early-modern period. Throughout the fifteenth century the Papacy was engaged in two difficult intertwined struggles: to consolidate its Italian domains – threatened by external aggression as well as by internal anarchy – and to shore up its finances, sapped by involvement in costly wars and the drying up of the flow of "spiritual" revenues from all over Catholic Europe. The Protestant storm in the first half of the sixteenth century added dramatic urgency to an already critical situation. Papal finances emerged from this crisis largely transformed: although "spiritual" revenues continued to provide a significant contribution to the Treasury, they barely kept up with inflation. It was from the domains in Central Italy that the Papacy drew an ever larger share of the resources it needed. Fiscal income from Papal territories increased over three times during the sixteenth century, rising from about 330,000 silver *scudi* in 1526 to 1,045,000 *scudi* in 1599. Fiscal receipts more than doubled again in the first half

of the seventeenth century, reaching 2.2 million silver *scudi* in 1657, to stabilise afterwards around that figure[3].

This increase was the result of a remarkable effort to assert fiscal sovereignty and to cast a more effective fiscal net across Papal lands. Acceptance of Papal sovereignty, however, did not lead to uniformity, and a universal system of taxation upon territories, economic activities and social groups failed to emerge. Instead, growth of fiscal pressure went hand in hand with the Papal ability to forge alliances with local elites. The traditional mosaic pattern of immunities and privileges was not eroded; on the contrary, it actually thrived. The well-known *sussidio triennale* (1543), commonly heralded by historians of Papal finance as the most significant attempt to introduce a new and uniform tribute across the land, fell considerably short of that aim. Although conceived as a centrally controlled direct tax, its application was subject to lengthy negotiations with local authorities, who managed to reduce its weight and, more importantly, won the right to assess and levy the tribute as they saw fit. Not surprisingly, fiscal power could be manipulated for private gains and fiscal geography continued to mirror power relations existing within the state, among and within communities. These are not, however, to be taken just as plain signs of weakness and impending failure. They underscored the contractual nature of relations that could and did establish strong mutual bonds as well.

Popes recognised the composite nature of the realm over which they presided and the limits of coercive options. In the main, they preferred to advance their sovereignty by consent and cooperation through the signing of pacts and agreements rather than by the exercise of dictatorial power. Acceptance of Papal sovereignty did not lead to the dismantling of local governing practices but rather to their confirmation. Boundless in theory, in practice Papal absolutism was "limited" and left considerable liberties to subject communities. Resort to coercive measures was rare, and limited to instances of open

[3] L. Pezzolo, 'Government Debts and Trust. French Kings and Roman Popes as Borrowers', *Rivista di Storia Economica*, XV (1999), p. 244.

defiance. The military campaign against rebellious Perugia in 1540 was a most remarkable event. And even then, centralised control was exceptional and shortlived, municipal councils and most of the city rights were, in fact, restored by 1553[4].

In their quest to extract ever more resources from its provinces, the Papacy was content to leave actual implementation to local boards and to call upon the cooperation of provincial elites. The contractual nature of the relations between Popes and the various components of the state is evident from the ability of communities on assuming responsibilities for the assessment and collection of taxes by whatever means they thought fit. Nowhere is this pattern more obvious than in Bologna, the second largest city of the Papal States[5]. Annexed in 1506, Bologna's sweeping liberties had been secured by a set of pacts signed in 1447, which granted civic authorities considerable latitude for independent action and guaranteed that Papal will would be mediated through city offices, which were Bolognese in membership and autonomous in operation. Despite occasional conflicts, the Bolognese ruling elite bound the stubborn defence of municipal prerogatives to deference and loyalty to the Pope/monarch. On the one hand, the urban elite managed to limit Papal intrusion into local political life, securing sweeping fiscal rights and maintaining control of the city's financial machinery. On the other hand, the Bolognese Chamber raised vast amounts of money at Rome's request[6].

2. Despite the significance of the Church's financial system during the Middle Ages and its contribution to the development of credit transaction on a large scale, the Papal States lagged far behind the main

[4] C. Black, 'Perugia and Papal Absolutism in the Sixteenth Century', *The English Historical Review*, 96 (1981), pp. 509-539.

[5] For a thorough review of contractual politics in early modern Italy see A. De Benedictis, *Repubblica per contratto. Bologna: una città europea nello Stato della Chiesa*, (Bologna 1995).

[6] G. Orlandelli, 'I Monti di pubbliche prestanze di Bologna', *Acta Italica*, 14 (1969), pp. ix-xvi; M. Carboni, *Il debito della città*; M. Carboni, *La Finanza pubblica a Bologna in età moderna*, in A. Prosperi (ed.), *Bologna nell'età moderna. Istituzioni, forme del potere, economia e società*, (Bologna, 2008), 733-748.

Italian city states in the development of a funded public debt. Following separate paths, Genoa and Venice pioneered early forms of state debt as early as the twelfth century. To finance extraordinary expenditures Genoa resorted to voluntary loans: the Commune formed a syndicate (*compera*) of investors to provide the capital. Debt service and repayment was guaranteed by a specific tax, or portion thereof, which was clearly earmarked for the purpose and entrusted to the syndicate. To finance major expenditures, Venice followed a different route, resorting to forced loans (*imprestiti*), which were in theory repayable taxes. Forced loans were an ingenious and ambiguous fiscal tool: on the one hand, citizens were not given a choice and their actual contributions were determined by city officials on the basis of *estimi*, on the other, they were given a share of the public coffer and could expect a return from their payment[7].

The Venetian model was imitated by Florence and Siena, which introduced their own versions of *prestanze* in the fourteenth century. This system proved effective and affluent citizens had little to complain about: with characteristic sharpness, Lauro Martines noted that the imposition of public loans amounted to the imposition of a profit on the propertied classes[8]. However, the endless military expenses of the late fourteenth and early fifteenth century proved too much to bear and the system began to crumble. As levies multiplied, interest was cut and paid irregularly, if at all, and forced loans fell out of favour. Bond prices on the secondary market dropped and citizens became wary of the fiction of loans which, in fact, were merely taxes in disguise.

The fifteenth and sixteenth centuries can be regarded as the creative period in Papal finance. To offset recurrent budget deficits in the second half of the fifteenth century, Popes tried to find alternatives to

[7] G. Luzzatto, *Il debito pubblico della repubblica di Venezia dagli ultimi decenni del XII secolo alla fine del XV secolo*, (Milano 1963); D. Gioffrè, *Il debito pubblico genovese*, (Milano 1967); W. Bowski, *The Finances of the Commune of Siena*, (Oxford 1970); B. Barbadoro, *Le finanze della repubblica fiorentina*, (Firenze 1929); A. Molho, *Florentine Public Finance in the Early Renaissance*, (Cambridge Mass. 1971); L. Martines, *Power and Imagination. City-States in Renaissance Italy*, (Baltimore, 1988), pp. 175-184.

[8] L. Martines, *Power and Imagination*, pp. 177.

the expensive short-term loans provided by bankers and advances from tax farmers. Pope Sixtus IV (1471-84) expanded on his predecessor's recourse to the sale of curial offices by marketing a new set of 'do-nothing' offices. Buyers paid a fee (the principal), received a life salary (interest) but had no administrative duties. This most peculiar category of offices became very popular among investors, who even formed companies – *Societas officiorum* – which allowed small investors to pool resources together.

The sale of offices proved inadequate to solve the financial difficulties of the Papacy. It was with the issue of the *Monte Fede* for 200,000 gold ducats in 1526 that an effective and innovative financial device was found and the permanent funded debt of the Papal States began[9]. Although first issued by a Florentine Pope (Clement VII), Rome's *monte* mirrored Genoese *compere* rather than Florence's *monte*. This was the first of a series of freely marketable bonds, which after 1550 came to form the backbone of Papal long-term debt. Each *monte* was based on the pledging of specific revenues, which provided regular returns to bondholders, while excess yield by the mortgaged tax could be accumulated to discharge the principal in due time. This was, however, a rare occurrence.

The new system of Papal debt proved to be remarkably efficient. It generated an ever larger number of issues which were run separately. In little more than a century and a half the Treasury had authorised 187 separate issues: 71 to provide funds to the Treasury itself; 55 to bail out the Roman nobility; 23 to benefit the capital city; and 38 to underwrite the debts the communities had accumulated with the Apostolic Chamber. The overall debt increased rapidly throughout the sixteenth and seventeenth centuries. From 1526 to 1599 Papal funded debt more than tripled, jumping from 3.3 to 11.6 million silver *scudi*. It more than tripled again during the seventeenth century, reaching 39.7 million silver *scudi* in 1678. By that date nearly all Papal funded debt had been

[9] M. Monaco, 'Il primo debito pubblico pontificio: il Monte della Fede' (1526), *Studi Romani*, VIII (1960), pp.553-569.

concentrated in *Monti* (36.8 million *scudi*), whereas venal offices (2.9 million *scudi*) made up just 7.3%. Papal debt further expanded to top 51 million *scudi* in 1744 and remained about that figure for the rest of the century (*Table 1*)[10].

Establishing credibility meant winning and maintaining the trust of lenders. And the issue of Papal *monti* was tailored carefully to that end: it was the full force of a Papal *Breve* that authorised the issue, which was futher guaranteed by the collective backing of the College of Cardinals and of the Apostolic Chamber. The purpose, the amount to be raised and the rate of interest to be paid were spelled out clearly. Each issue was divided into nominal shares (*luoghi*) worth 100 *scudi*. A specific fiscal receipt was assigned to fund the loan and to guarantee its regular servicing. Since the purchase of bonds was free, these specifications responded to realistic assessments. There had to be confidence, too, not only in the Apostolic Chamber's ability to keep up with interest payments, but also in its willingness to do so. Consequently, the issuer was keen to reassure perspective lenders by means of sweeping rights and privileges. The diversion of funds was prohibited and creditors were granted considerable power of control: shareholders had the right to form boards to look after their interest. In addition *luoghi* could neither be taxed nor confiscated.

Investors' trust in Papal debt is illustrated by the Apostolic Chamber's ability to borrow very large sums of money at sharply declining interest rates. Between the mid-sixteenth century and the mid-seventeenth century, nominal interest paid on redeemable bonds fell by half from 8% to 4%. Returns were further cut to a mere 3% with a large concentration of a jumble of different issues in the St. Peter bonds between 1684 and 1686. Considering that bonds traded regularly above par on the secondary market, the rate of returns investors were willing to accept was even lower, a clear indication that the Papal government had fully succeeded in asserting itself as one of the most reliable borrowers in Europe. Indeed, in the second half of the

[10] R. Masini, *Il debito pubblico pontificio a fine Seicento. I Monti camerali*, (Roma, 2005), pp. 34-60.

seventeenth century the Papacy was able to raise money at less than half the cost shouldered by French and English monarchs. For instance, the £ 1.2 million loan that the Bank of England furnished in 1694 to secure the monopoly charter was at 8%[11].

As Papal debt continued to expand, techniques were refined and the cost of borrowing dropped considerably. Despite such savings, interest payments took an ever larger share of revenues. Following the fourfold expansion of Papal debt, interest payments on bonds more than tripled between 1526 and 1599 (from 211,207 *scudi* to 762,095 *scudi*). By 1672 the cost of debt service had more than doubled again to 1.58 million *scudi*. Meanwhile actual borrowing had quadrupled, jumping from about 10 million to just over 40 million *scudi*. Piloting a lowering of interest rates, over the next seven decades the Papacy managed to raise a further 11 million *scudi* without incurring additional servicing costs: in 1744 interest payment stood, in fact, at 1.6 million *scudi*[12].

In the long run, Papal ability to borrow was not matched by a greater ability to raise revenues. Overall Papal receipts (temporal and spiritual) more than quadrupled their yield from 1526 to 1657 (from just under 600,000 *scudi* to 2.7 million *scudi*). And although during the sixteenth century growth proceeded at a pace that was not much faster than inflation (about 250% increase in revenues compared to a 200% price rise), in the deflationary first half of the seventeenth century, Papal taxation did much better and was able to almost double its income. But the performance was not to be repeated: the system had reached its upper limits and came to a halt afterwards. In 1706 fiscal income was actually down to less than 2.5 million, and in 1744 was still no more than 2.6 million *scudi*.

From the middle of seventeenth century, debt service charges regularly absorbed almost – and at times more than – 60% of the total tax income collected. The combination of static revenues squeezed ever more tightly by debt service led to a progressive paralysis. Despite

[11] L. Pezzolo, 'Government Debts and Trust', pp. 251-252.
[12] R. Masini, *Il debito pubblico*, p. 49; L. Pezzolo, 'Government Debts and Trust', pp. 238, 244; D. Strangio, *Il debito pubblico*, pp. 67-68.

considerable efforts, successive Popes proved unable to change the baseline ratio. The close alliance with local elites, which had been convenient for purposes of borrowing and increasing the initial flow of revenues, started to operate in reverse, acting as a powerful brake to reform and change. Papal attempts to widen the state's fiscal base, to introduce central supervision over tax assessment and collection, and to introduce more equitable forms of taxation made little headway throughout the entire eighteenth century, due to strenuous and widespread local 'apathy'.

The Papal Chamber continued to call upon the services of international banking firms (mainly from Florence and Genoa), which acted as intermediaries in selling bonds to the public. In addition, bankers frequently acted as managers of the *Monti*. The reliance on the assistance of powerful lenders not only made it easier to raise money quickly, but it also encouraged other would-be lenders, and made sure returns would be paid regularly. Recent research by Piola Caselli, Colzi and Masini has made it plain that, while some bankers chose to hold on to their bonds, reselling on the secondary market was easy and lucrative[13].

At least during the central decades of the sixteenth century, Papal securities were a favourite investment for Roman rentiers. Although an accurate picture of the holders of Papal debt is difficult to gauge for the sixteenth century, there is no doubt that large portions of state debt were held by prominent citizens and agencies. This was, in itself, a measure of government trustworthiness and made bankruptcy less likely. The very closeness of rulers and creditors provided a sound base and attracted others.

The identity of investors in securities is also important in appreciating the role played by state debt in orienting the allocation of

[13] F. Piola Caselli, 'Banchi privati e debito pubblico pontificio a Roma tra Cinquecento e Seicento', in *Banchi pubblici, banchi privati e monti di pietà nell'Europa preindustriale. Amministrazione, tecniche operative e ruoli economici*, (Genova 1991), pp. 481-486; F. Colzi, *Il debito pubblico del Campidoglio*, pp. 191-215; R. Masini, *Il debito pubblico*, pp. 165-187.

fiscal resources. Thanks to the recent painstaking analysis carried out by Roberta Masini, it is possible to identify a pool of about 2,500 investors who purchased shares of the St. Peter issues between 1680 and 1685. Individuals formed the largest block of investors (80%), and Roman residents held the lion's share. Romans represented almost one fourth of creditors and held about one third of securities. Religious and charitable agencies based in Rome made up another 10% of lenders and owned an equal share of the overall investment. Together, investors from Rome and other provinces of the Papal domains managed to acquire nearly 55% of Papal bonds[14].

A disproportionately large share of bonds was in the hands of a limited number of wealthy investors – mostly aristocrats and international financiers. Papal securities offered an attractive investment venue, not just to subjects of the Papal States but also to foreigners. Investors from other Italian cities amassed considerable holdings as well. Most foreign purchases were in the hands of the Genoese, who had replaced Florentine money-dealers since the end of the sixteenth century. The top 1% held over one fourth of all shares. Since the distribution of wealth in early-modern societies tended to be highly oblique it is not surprising to find that a small cohort of well-to-do nobles and professional money-dealers dominated the market. Yet, at the same time, investors flocked to securities from all walks of life: as a matter of fact, Papal bonds also attracted the savings of a sizeable pool of local investors of small or moderate financial means. Investors from the middle and lower rungs of the social ladder displayed a remarkable attitude to saving, which is highlighted by a high number of tiny purchases of just one share or even a fraction of a share.

3. The development of a vast and complex state debt was complemented by the peculiar formation of parallel debt systems at the municipal level in the main urban centres. While the city of Rome's debt came to be incorporated into state debt during the seventeenth century,

[14] R. Masini, *Il debito pubblico*, pp. 165-175.

Bologna and Ferrara set up and retained until the end of the eighteenth century autonomous debt systems, fully geared to tap the local money market. The structure of these provincial debts mirrored state debt and their size was far from negligible. About the mid-eighteenth century, Bologna's accumulated debt amounted to over 20 million *lire* (i.e. ca. 4 million *scudi*), while Ferrara's was about 1.5 million *scudi*. Together, they added an extra 11% to overall Papal financial commitments.

The institution of the *Monti* in Bologna allowed Popes to use the city as a sort of coffer from which to draw resources whenever they needed to do so. This, however, came at the cost of surrendering a great deal of state power to Bolognese policy-makers, who were eager to avoid the "civic humiliation" of being subject to ordinary Papal legislation and taxation. The solution that was to be worked out in the central decades of the sixteenth century allowed the city to negotiate permanent exemptions from state tributes through the payment of sizeable lump sums. These large sums of ready cash were then raised by floating securities on the local market. On the whole, the compromise proved remarkably successful: it left municipal boards in charge of taxation, and it allowed the Apostolic Chamber to extract considerable financial contributions without stirring up dangerous local resistance. Indeed, contributions to the financing of Papal States building took in fact forms that were acceptable to, and probably contributed to, the wealth of the local elite.

Anticipating to some extent financial developments in Rome, Bologna had pioneered municipal *Monti* before 1526. Each issue was authorised by a Papal *Breve* which specified the amount to be raised, the tax receipts pledged, and spelled out additional guarantees offered *in solido* by the Bolognese chamber. Unlike in Rome, where issues were underwritten by bankers who then proceeded to sell bonds on the market, in Bologna most bonds were sold directly to the public by municipal clerks. This was clearly designed to encourage, as well as to give an edge to, local investors. Sales were advertised and would-be lenders were required to leave their names and the number of shares they wished to purchase with the city secretary.

The administration of each issue was carefully regulated by statutes

and entrusted to the board of bondholders themselves. The main governing body was the *corporale* (assembly of shareholders), to be summoned at least once a year. Ownership of shares was required for membership. Admission and voting rights were granted per account, regardless of the number of shares owned. Minors, women and foreigners were excluded but could name a representative to look after their interests. The *corporale* would elect the officials of the *Monte*: a *collegio* (board of trustees), a *depositario* (bailiff) and a *campioniere* (bookkeeper). *Depositario* and *campioniere* were the key officials and were elected by secret ballot. The *depositario*, often a banker, was responsible for the collection of instalments of the *monte's* endowment from the city's tax-officials, and for the authorisation of timely interest payments to bondholders. The *campioniere* had to be a notary and was in charge of the bookkeeping. He kept and updated the ledgers of creditors, compiled the orders of payment and issued the receipts certifying the trading of shares[15].

In many ways the evolution of Bologna's debt system mirrored Rome's. It began to evolve more rapidly during the central decades of the sixteenth century, booming at an almost exponential rate between the mid-sixteenth and mid-seventeenth centuries. The number of issues increased from 5 to 27, and the total capital borrowed moved rapidly upward from just over 1 million silver lire in 1550 to over 9 million in 1656. In addition to Papal demands for financial assistance, the debt was used to accommodate local needs as well, turning expensive short-term loans into cheaper permanent ones. In the closing decades of the seventeenth century, the debt system was restructured and issues were concentrated: the number of debt issues decreased to 8 in 1705 and was further reduced to just 5 in the 1740s. Restructuring meant lower costs but did not mean reduced indebtedness. In fact the public debt of the

[15] M. Carboni, *Il debito della città*, pp. 82-85.

[16] M. Carboni, *Il debito della città*, pp. 131-137; ASB, Monti di pubbliche prestanze, *Monte Benedettino*, taglioli 1765. Additional elaboration based on ASB, Ambasciata Bolognese a Roma, *Posizioni*, p. 307, Francazioni di Monti di Bologna; ASB, Assunteria di Camera, *Miscellanea antica*, p.11.

Legazione kept expanding: it grew to 11.8 million in 1705, and reached 22.5 million lire in 1765[16].

Plotting the index of Bologna's indebtedness (1550 = 100), we find that the accumulated debt stood at a value of 490 in 1596, grew to 824 in 1660, reached 1,037 in 1700, and climbed to 2,029 in 1765. Looking at the expansion of tax revenues, we find that fiscal income expanded at roughly the same pace only during the second half of the sixteenth century: between 1550 and 1596 tax receipts tripled. It slowed down in the first half of the seventeenth century (the index stood at 410 in 1660), but then contracted to a value of 346 in 1700 (Fig. 2). The ratio fiscal income/debt moved dangerously upward from 1/4 in the mid-sixteenth century to 1/10 in 1660, and to 1/17 in 1765. At the same time, the share of taxable income reserved for purposes of debt service increased: it was 33% in 1550, it grew to 42% at the end of the sixteenth century, and it reached 50% in the late seventeenth century (*Table 2*).

Bolognese *Monti* presented throughout the sixteenth century two features: a multitude of issues and high returns. Investors flocked to purchase Bolognese bonds, lured by attractive interest rates ranging mainly from 6,5% to 8% (but with lows of 5% and highs of 10%). Seventeenth-century debt restructuring was not limited to simplifying the structure and to making management more efficient; it worked to stabilise the financial situation, to reduce the cost of servicing the debt and to provide at no extra cost the additional financial means local authorities desperately needed. To achieve long-term debt sustainability – and afraid of having to review long-standing fiscal arrangements – Bolognese authorities chose to implement a policy of aggressive debt-restructuring and interest-rate reduction – carefully negotiated with investors – that allowed them to contain the amount of revenues tied to debt servicing. Government efforts continued in the eighteenth century with the issue of new *Monti* that cut the cost of city borrowing to 3%[17] (*Figure 3*).

Although less remunerative bonds remained popular, the successful restructuring of Bolognese debt and the ability of the civic authorities to float additional securities at much reduced rates reflected the fact that

[17] *Ibid.*

luoghi continued to provide a safe and reliable outlet for people with capital.

One of the more interesting features of the Bolognese bond market concerns the the social make-up of the debt. Although sources provide limited information on the identity of individual investors, it is possible to group people according to some important social and geographical categories and to follow the pattern of investment over two centuries. First of all, there is a crucial element of continuity: most of the capital invested came from domestic sources. Secondly, the structure of bond ownership shows a relatively large mass of investors and a limited number of large proprietors.

The market exhibited a great deal of dynamism during the last decades of the sixteenth century: between 1550 and 1595 the debt quadrupled and the number of documented investors grew by almost two thirds, from 735 to 1,197. By the mid-eighteenth century, Bolognese debt had more than quadrupled again in size, but the community of investors stalled, increasing by a mere 2.5% to 1,227 (*Table 3*). By contrast, the most dynamic market in public securities, Britain, saw a sixfold increase – from about 10,000 to over 60,000 – in the number of investors between the reign of Queen Anne and the accession of George III[18].

The stability of the overall number of investors conceals two interesting variations within the body of Bolognese holders: a trend away from individual ownership and towards corporate ownership, and an increasingly distorted distribution of shares. Securities in sixteenth-century Bologna were held predominantly by individual persons. From the early decades of the seventeenth century, a variety of agencies – monasteries, churches, hospitals and confraternities – came to acquire a large percentage of securities. A steady reduction in interest rates probably contributed to the overall trend. A number of private investors were probably lured back to more lucrative long-term private credit (offering 4-5% returns and guaranteed by real estate)[19].

[18] P.G.M. Dickson, *The Financial Revolution in England*, pp. 285-286.
[19] *Ibid.*

Although Bolognese individuals remained a very large block of bond-holders their relative weight declined: from 84.3% in the mid-sixteenth century, to 65.7% in 1595, to 51.5% in the mid-seventeenth century, and to 43% in 1765. As was to be expected, members of the local patriciate held constantly more than two thirds of the accounts registered in the name of individuals. This concentration of ownership was mirrored in an even greater concentration of stock. Patricians dominated the pyramid of investors, claiming nearly all the top accounts. In addition, patrician portfolios displayed a remarkable genealogical stability. Bonds could be pawned or mortgaged, but rarely left the family chest.

The drying up of investment from individuals and families was replaced by an ever larger flow of financial resources from the city's religious and charitable agencies. About the mid-sixteenth century, corporate investment was modest: agencies were few in number (7.4%) and had small holdings (5.1%). Already by the end of the sixteenth century, corporate investment had progressed markedly: agencies made up 13.3% of investors and owned 15.7% of bonds. By the mid-seventeenth century, they represented 29.5% of proprietors and their investment leapt to 35.2%. In 1765, agencies dominated the market: they made up 43.4% of investors and owned 47% of bonds (*Figure 5*).

Despite the participation of a relatively large pool of investors and contrary to the traditional *medietas* attributed to Bolognese society, obligations tended to be concentrated in a few hands, and increasingly so. The structure of ownership reveals a trend toward a sharper inverse correlation between investors and investment, with a thin veneer of grand accounts dominating the market. In 1555 top holders – those netting annual returns of more than 1,000 lire – made up less than 1% of the community of investors and claimed 13% of income. By the mid-seventeenth century, this group represented 8.6% of investors and pocketed nearly two thirds of Bolognese bonds' annual dividend. At the opposite end of the spectrum, the pool of small investors plunged to insignificance: in 1555 shareholders claiming less than 100 lire in annual returns made up three fourths of investors and collected one fifth of the dividend. By 1765, small investors represented over half the

pool of state creditors, but they received less than one twentieth of the dividend. In other words, as the debt expanded, the pool of investors did not, while the social make-up became more fragile.

The stupendous expansion of a modern state debt in the Papal States at the central as well as at the provincial level may serve as a commentary on the multi-faceted character of early modern debt systems. While no government could possibly hope to create a long-term debt without providing a set of adequate warranties to perspective creditors, in the Papal States the task of creating a funded debt was shared with local boards and the wishes of investors were accommodated to a degree which had few parallels in early-modern Europe. Politically, the debt promoted stability, working as a powerful cement for internal cohesion and contributing to binding quarrelsome urban patriciates to the cause of the Papal States. By enlisting the collaboration of local elites the government not only secured greater financial means, but greater loyalty. In a sense, public borrowing was a manifestation of both increasing state authority, and increasing trust and commitment on the part of the affluent elite.

Borrowing was the focal point of a mobilisation and reallocation of resources as well. The process was hardly neutral: the crescendo of issues and the new taxes and surtaxes instituted to service the debt became the tools of a massive transfer of wealth, by means of taxation but hardly to the sole advantage of the treasury. Since most bonds were held by the wealthy and the revenues pledged to pay interest came from regressive indirect taxes, such as gabelles, tolls and duties, the debt tended to pump resources upwards, from the lower rungs of the social ladder to the top. It would be, however, incomplete to consider the debt just as a tool of social exploitation. As charitable agencies entered *en masse* the credit market in the seventeenth century, the upward flow of resources eased and the debt's income contributed to shore up the social structure by supporting confraternities' "welfare" policies.

The Papal predicament was that during the seventeenth century the state and its main provinces approached the limits of their fiscal capacity. The fiscal and financial system did not break down, but debt-servicing

obligations began to constrain and weaken the Popes' room for manoeuvre. Central as well as local authorities managed their borrowing operations with responsibility, increasing efficiency and at lower cost, but they could do little to alleviate the accumulated burden. In other words, current taxation and debt had exhausted their potential, while the persisting contractual character of Papal power proved an insuperable barrier which blocked the way to an effective widening of the fiscal base.

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Appendix

Public Debt, Guarantees and Local Elites
in the Papal States
(XVI-XVIII Centuries)

TABLE 1: Fiscal Income, Public Debt and Debt Servicing in the Papal States (1526-1744)

Year	Fiscal Income	Public Debt			Debt servicing	
		Venal Offices	Monti	Total Debt		Debt/ Income
	scudi	scudi	scudi	scudi	scudi	%
1526	594,986	2,54,6210	250,000	2,796,210	211,207	35.5
1576	945,315	3,500,000	3,540,650	7,040,650	404,227	42.8
1599	1,440,842	4,549,170	7,116,053	11,665,223	762,095	52.9
1619	1,790,520	6,111,323	9,864,300	15,975,623	826,801	46.2
1657	2,684,515	2,341,290	28,382,049	30,723,339	1,313,062	48.9
1678	2,541,039	2,828,260	36,846,937	39,675,197	1,643,573	64.7
1706	2,469,000	2,800,000	39,409,000	42,209,000	1,424,164	57.7
1744	2,600,000	3,500,000	47,526,033	51,026,033	1,600,781	61.5

Source: Masini, Partner, Pezzolo, Piola Caselli, Strangio

FIGURE 1: Taxes and debt in the Papal States (1526-1744)

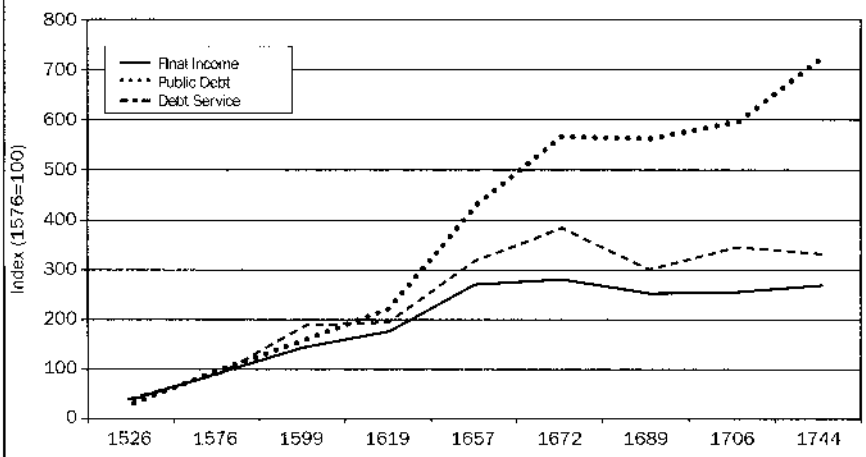


TABLE 2: Fiscal Income, Municipal Debt and Debt Servicing in Bologna, 1550-1765 (Bolognese silver lire)

	1550	1596	1627	1660	1689	1700	1723	1765
Fiscal income	243,740	785,394	841,230	1,012,663	940,950	843,053	1,043,173	1,279,823
Municipal debt	1,108,101	5,424,437	4,744,658	9,131,508	9,577,448	11,491,992	14,589,299	22,487,444
Debt servicing	81,056	333,000	305,158	488,130	453,400	419,827	573,490	674,624
Debt servicing/revenues	33.3	42.4	36.3	48.2	48.2	49.8	55.0	52.7

Source: Carboni

FIGURE 2: Debt and taxes in Bologna (1550-1765)

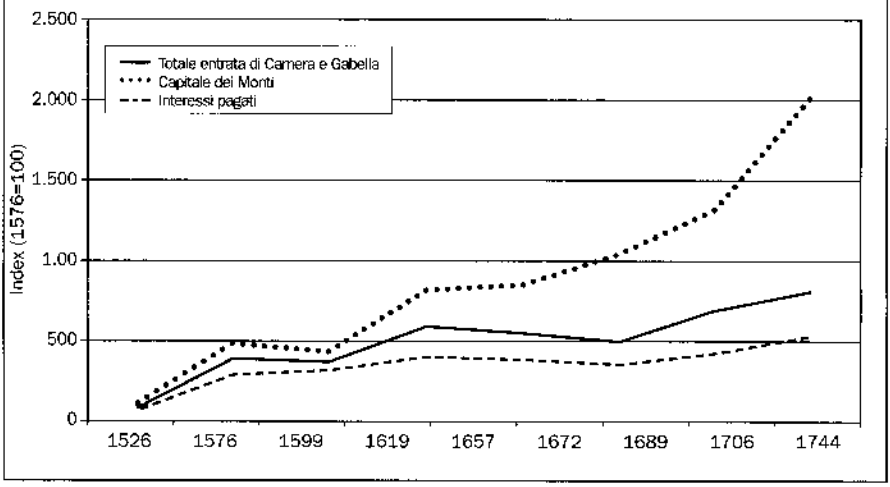


FIGURE 3: Nominal interest rates on Bolognese bonds (1550-1765)

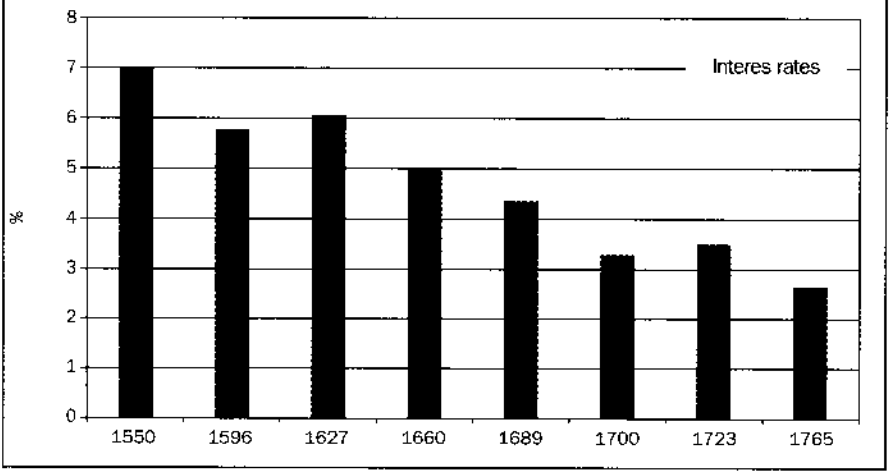


TABLE 3: Holders of City-issued bonds (Bologna)

Year	Documented creditors	Bolognese private creditors		Foreign creditors		Bolognese Agencies	
		% investors	% bonds	% investors	% bonds	% investors	% bonds
1555	735	89.2	84.3	3.2	10.6	7.6	5.1
1595	1,197	81.6	65.7	5.0	18.6	13,4	15.7
1655	1,024	64.6	51.5	6.0	13.3	29.4	35.2
1765	1,227	51.6	43.0	5.0	10.0	43.4	47.0

Source: Carboni

FIGURE 4: Holders of Bolognese bonds (1555-1765)

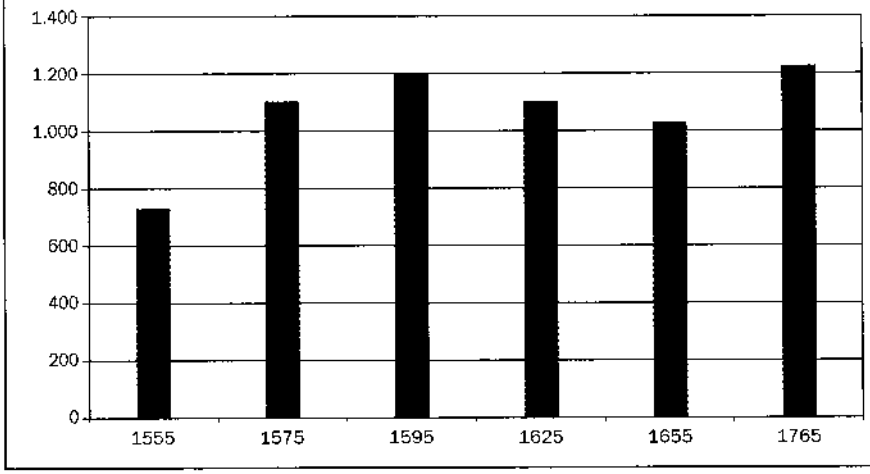
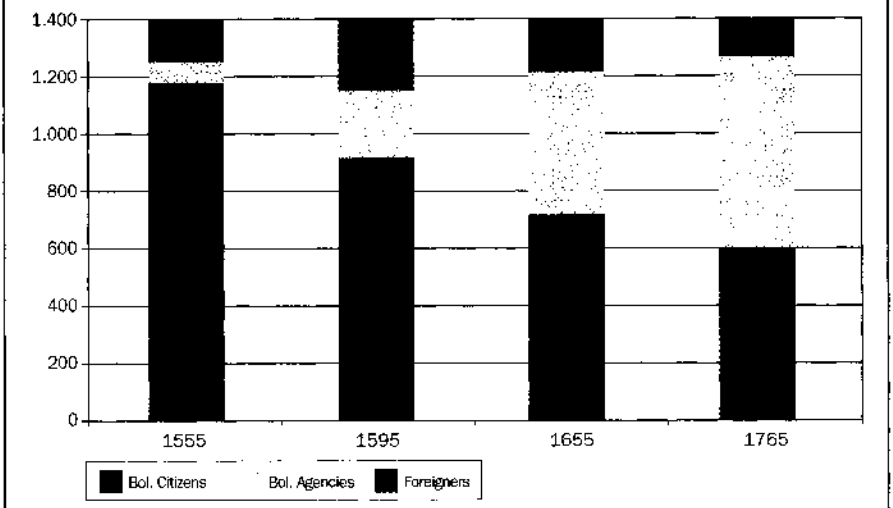


FIGURE 5: Holders of Bolognese bonds (1555-1765)



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