

Immobility and Change in Public Finance in the Kingdom of Naples, 1694-1806.

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Major institutional transitions from one period to another which may appear to stem from short-lived revolutionary events are often, in reality, the visible conclusion of a much longer and hidden process. This well-known truth is even more applicable to economic change. Indeed, if political and institutional changes are the outcome of a process taking many years, in economic matters the time-scale is longer still. The economy shows greater inertia in responding to stimuli and calls for renewal and the process of change is never straightforward.

The major economic changes in Europe from the twelfth to the thirteenth century, which Roberto Lopez sums up with the term "commercial revolution", the monetary devaluations in Europe in the sixteenth and seventeenth centuries which historians have labelled as the "price revolution", the emergence of a world no longer dominated by human but by mechanical motive power, which was first described as the "industrial revolution" by Arnold Toynbee, and other economic changes, all took a very long time to be completed and perceived by the societies in which they occurred.

Contemporaries had no definite idea of what was going on. Immersed in the process of change they were unaware that the world around them was undergoing transformation which would radically change not only production and trade but also institutions, procedures, mentalities, dominant values and customs.

Such deep-rooted transformations as the ones being described as well as less important changes have usually been examined by historians in different ways. For those who focus on the institutions and structures which most visibly characterise new

economic and social conditions it is sufficient to stop and analyse the starting and finishing points.

These "institutional" historians aim to illustrate the system at the start and at the end and to compare them in order to reveal the nature, size and scale of the change. They focus on breaks with the past rather than continuity and neglect intermediate stages which are many and varied and which are often no less important than the final stage for determining the definitive outcome of the change. The history that they write is very similar to those theatrical works which depict the *comédie humaine* with a series of different pictures, leaving the spectator to imagine what has happened in between the pictures.

While this method may be valid for a theatrical work it can hardly satisfy the scholar of human and social sciences. It ignores the precise circumstances of an event, the driving forces which have set in motion the change, the obstacles which have delayed it, the factors which have either accelerated the process or dictated its pace and duration and have determined its definitive outcome. There is no doubt that this institutionalist approach should be rejected - at least in the eyes of many historians - and that scholars should concentrate on examining more closely the intermediate stages in an attempt to trace the various phases which lead to the final outcome. The American historian Douglas C. North has rightly stated that economic history should illustrate changes in "structure and performance"¹

It is well known that at the heart of any economic change is the state, that is, its role and relationship with other social and political institutions and the way it intervenes in a country's economic and social life. Thus the criteria used by the state in defining its tax system and in decisions regarding public expenditure are very important. Leaving the task of investigating the role of the state in society to others, the purpose of this paper is to find out when and if the Neapolitan state brought into being particular systems during the period under study, foreshadowing the change in public finance which formerly materialised only at the start of the nineteenth

¹ D.C. North, *Structure and Change in Economic History*; (New York-London, W.W. Norton & Co., 1981), p.3.

century. We shall therefore examine the structure of government finance, its internal organisation and dynamism, and several important phases in the evolution of the system, in an attempt to illustrate forces and circumstance underlying the process.

Before we proceed down this path and to understand better the process of change that characterised Neapolitan public finance in the Old Regime it is perhaps useful to reconstruct the system in use at the beginning of the period under discussion.

The period coincided with the start of the radical reform of the farming out of indirect taxes: customs levies, duties on consumption, and various other dues.² Following Masaniello's revolt and in order to placate popular discontent, not only were several hateful and oppressive taxes abolished, together with the contracts which farmed them out, but the revenue and administration of 44 indirect taxes were handed over to creditors³, most of which were levied

² Cf. L. De Rosa, *Studi sugli arrendamenti del Regno di Napoli. Aspetti della distribuzione della ricchezza mobiliare nel Mezzogiorno continentale (1649-1806)*, (Naples, L'Arte Tipografica, 1958), pp.8 *et seq.*

³ That is, the following *Arrendamenti di Corte*: 1) Dogana di Napoli; 2) Nuovo imposto di detta Dogana; 3) Sete di Calabria; 4) Sete e zafferani di Abruzzo; 4) Grana 3 per libra di seta; 5) Sete delle provinciole; 6) Dognana di Puglia; 7) Arrendamento del vino; 8) Sali dei 4 fondaci; 9) Sali d'Otranto; 10) Sali di Monte e di Mare di Calabria; 11) Sali di Puglia; 12) Sali d' Abruzzi; 13) Olio e sapone; 14) Ferri del Regno; 15) Carte da giocare; 16) Piazza maggiore; 17) Zecca di pesi e misure; 18) Uova e capretti. Also the following impositions: 19) Peso del Regno; 20) Due venticinque grana per oncia; 21) Peso dentro la Dogana; 22) Mezzo peso; 23) Secondo carlino a stajo; 24) Terzo carlino a stajo; 25) Calce; 26) Reale del pesce; 27) Sete di Bisignano; 28) Due Cinque grana per libra di seta; 29) ius dello scannaggio del mercato. And the following duties in the city of Naples: 30) Carlini cinque dei nove per botte di vino; 31) Gabella del pane a rotoli; 32) Metà delle due grana a rotolo; 33) Metà del terzo grano a rotolo; 34) Gabella delle neve; 35) Gabella del pesce; 36) Cinque ottavi; 37) Tre ottavi; 38) Metà del primo carlino a stajo; 39) Metà dei carlini tre e mezzo a tomolo di farina; 40) Metà dei secondi carlini tre e mezzo a tomolo di farina. Lastly some duties paid by Neapolitan *casali*: 41) Gabella della farina de'Casali di Napoli venduta ai particolari (Barra e Serino, Casoria, Calvizzano e Soccavo, Frattamaggiore, Mugnano, Miano e Mianello, Nevano, Pianura, Panecocolo, Polleca, Resina, S. Pietro a Patierno, Secondigliano, Arzano); 42) Gabella della farina de'Casali di Napoli che non furono venduti nè si ricomprarono il capitale ed oggi si esige per la R. Corte (Afragola, Melito, Ponticelli, Portici, Torre del Greco, Torre Annunziata); 44) Suggelli, Consiglio, R. Camera, Vicaria, Udienza di Otranto, Udienza di Principato Citra; Capitanata e Contado di Molise, Udienza dell'Esercito). Cf. L. Giustiniani, *Prammatiche del Regno di Napoli*, (Naples 1801), tomo XV, pp. 1126 *et seq.*

throughout the Kingdom with only a few levied on the capital. With their *datione in solutum et pro soluto* it was stipulated that government creditors who received payment of the interest on the aforementioned 44 indirect taxes and duties would be directly responsible for farming out the collection of the taxes and for sharing out the lease decided on with the contractor. For each contract there was only the obligation to give up a part of the lease to the state, amounting to a total of 300 thousand ducats ⁴ per annum from the 44 impositions, which was to be used on military expenditure for the Kingdom's domestic and foreign defences.

As regards the small number of indirect taxes, or taxes not included in the list of the 44 already mentioned⁵, the state was directly responsible for farming them out and collecting the lease paid by the contractor as by agreement. But such taxes included many onerous levies which benefited government creditors.

As a result of the 1649 reform the Kingdom's finances were structured in the following way:

Income	Expenditure
Communal (or fiscal) Taxes Indirect taxes, customs and various dues (or public contracts) not given over to private interests Contribution of 300 thousand ducats for military purposes from alienated contracts Adoe	Defence expenses Spanish Embassies Court Expenses Administration, Justice, Health and University Expenses for Infrastructures
Donations Receipts from repression of smuggling and confiscation of pirate ships and cargoes Deficit	National Debt

⁴ *Ibid.* cf. Also L. De Rosa, *Studi ecc.*, *op. cit.* pp. 14-15.

⁵ Cf. A Di Vittorio, *Gli austriaci e il Regno di Napoli 1707-1734. Le Finanze Pubbliche*, Giannini, Napoli, 1969, pp. 136-137.

The first remark to make about this system of public finance is that, in the hundred years spanning between, 1650 and 1750, expenditure never equalled income. There was always a deficit and to meet it the government was forced to run a very large public debt and consequently to increase taxation..

Most income derived from communal taxes . The Communes were taxed according to a fixed number of households which may or may not have corresponded to the real number of households. There was a difference between taxed households and exempt households; often the former were less numerous than the latter, as a result of privileges granted by the Viceroy or Sovereign or because the number of exempt households could rise through population growth or immigration. However in periods of natural, social and economic crises, especially during epidemics and wars, the number of exempt households could be lower than the number of taxed households. In this case the Communes urged the government to take account of the situation and to lighten their tax burden, making a correct assessment of the number of taxable households. Their requests were not always satisfied as far as the number of concessions was concerned. In the century under study each taxed household was supposed to pay four ducats and twenty *grana*.

The Communes or *Universit * and not individual households were responsible for payment. The Communes in their turn collected money from the inhabitants by imposing a tax on local consumption, exacting a contribution from each exempt household in proportion to the property owned by the household (that is on the basis of an estimate) or through a mixed system, as well as renting out shops and property belonging to the Commune. If a household did not pay its due, the Commune was responsible for its debt towards the government and for finding the means to satisfy payment of the debt.

The ratio between taxed and exempted households was very important. When the Kingdom of Naples came under Spanish rule, in order to ascertain such a ratio it was decided to make a census of the number of households every fifteen years, thereby aiming to avoid

discrepancies between the number of households officially registered and the real number. Yet in the course of the sixteenth century this rule was gradually set aside. The Viceroyalty was content to accept a lump sum in exchange for dropping the census. The last *ostiatim* census, that is, house by house, occurred in 1595 and this census, together with various modifications carried out using book-keeping procedures and on the basis of population growth estimates, was then reproduced in the first half of the seventeenth century. The censuses carried out in 1612 and 1648 (the latter appearing in a publication) offered no guarantees as to their accuracy. Then, as a result of the Great Plague of 1656 and the drastic fall in the population a new census was needed. This was carried out in 1666-67 and recorded 394,721 and a half households among which the tax burden of 1,560,570 ducats had to be shared out.

Not all Communes were able to satisfy the tax demands and several ran into arrears. Yet regardless of the capacity of each Commune to collect taxes, the state gradually came to alienate part of the income yielded by this kind of levy, as it had done with indirect taxes. According to established practice alienation was achieved through a capitalisation of the tax at the market interest rate which in 1650 stood at about 7% for safe loans. Thus, if you purchased 70 ducats of tax revenue you would have had to pay out 1,000 ducats. Yet, as with all other forms of public revenue, when the government was unable to find savers willing to purchase it at such a price, it was obliged to accept less than 1,000 ducats even though it was committed to paying out an interest rate of 7%.

The difference between the aforementioned 1,000 ducats and the actual sum paid out to secure the revenue was called *alaggio*, which could reach very high levels. In the period just before Masaniello's revolt *alaggio* reached as much as 90% for some forms of revenue. This meant that with an expenditure of 100 ducats the buyer was guaranteed an annual revenue of 70 ducats, that is, an interest rate much higher than the 7% indicated. The system of selling government revenue with *alaggio* did not only

apply to the household tax but was used for the sale of any kind of direct or indirect tax.

As regards *adote*, which were the contributions made by the feudal lords in exchange for not having to perform military service for the state, these too were subject to sale to government creditors. The same applied to benevolences (*donativi*) which from 1650 onwards yielded 1,200,000 ducats every two years.

Much less significant was the income from the confiscation of privateers' ships and cargoes and contraband, given the small size of the Neapolitan fleet, at least up till the beginning of the eighteenth century. The situation slightly improved when Charles Bourbon came to the throne of Naples in 1734 and ordered the construction of several warships to protect the Kingdom's coasts.

There is little to comment on the composition of government expenditure involving the central government's operations; these included expenses for the services of Spanish ambassadors abroad, including the Ambassador to the Pope; the maintenance of castles and forts in the Kingdom; the organisation and running of an army and a fleet, albeit small, for the Kingdom's defences; expenses to finance detachments of soldiers employed in the countryside to suppress ever-increasing brigandage; and lastly the cost of building and repairing roads, bridges, ports and of reclaiming marshland.

The aforementioned reform of 1649, which was brought in only after the end of the Thirty Years War, and therefore when the urgency to procure the funds for financing the War was over, did not solve the problem of balancing government accounts. Despite large cuts in spending on infrastructure, it was necessary to levy a new tax in 1650 to meet the deficit. This was the tobacco tax⁶ which took the form of a very profitable monopoly and assured high earnings for private contractors.

However it was not only through taxation that the government sought to finance its system of public spending. Such a system also rested on the cooperation of public banks.

⁶ Cf. L. De Rosa, *Studi ecc.*, *op. cit.*, p. 55.

Almost a century before 1650 paper money had been introduced and been authorised by the government to help to meet financial demands in periods of special need.

We have already stressed elsewhere that, since it did not possess mines containing precious metals, the Kingdom had to import these from abroad for minting coins and for supplying the currency needed for trade and society in general. As a result of the continuous deficit in the balance of payments, from the end of the sixteenth century such imports grew increasingly with negative repercussions for government finances.⁷ To alleviate the burden, the government had authorised various welfare institutions (state pawn-brokers, hospitals, conservatoires, etc.) to issue paper money in exchange for real deposits of metallic money, agreeing to receive such paper for payments on its behalf on condition that it could ask public banks for loans in times of emergency, without the back up of metallic money. The government took advantage of these conditions on various occasions and for various reasons. In other words, when the circumstances and specific needs arose the government replaced gold and silver coins, whose metallic content was of considerable value and which it had to buy abroad, with domestic currency consisting of paper money at no cost at all.

After the contractors for the collection of the duty on flour consumed in Naples had been granted the right to set up their own public bank in 1640, the number of public banks had risen to eight⁸. With their own paper (*fede di credito*) they added greatly to the Kingdom's monetary supply; at the same time, by purchasing government stock consisting of tax revenue, they helped to finance the Kingdom's budget deficit

However, not even the practice of keeping most of the Kingdom's metallic money supply for foreign payments saved the government from having to procure further amounts of metal. In

⁷ L. De Rosa, *Il Mezzogiorno spagnolo tra crescita e decadenza*, (Milan, Il Saggiatore, 1987), pp. 97 *et seq.*

⁸ These were: *Banchi della Pietà, dello Spirito Santo, dei Poveri, del Popolo, di S. Giacomo, dell'Annunziata, S. Eligio, del Salvatore. Ibid.* pp. 92-93.

this respect, the Kingdom was like a bottomless bucket: at one end gold and silver was poured into it and at the other end gold and silver poured out of it, monetised or otherwise.

This system remained basically unaltered until 1676, despite the economic slump following the end of the Thirty Year's War and the brief flurry caused by the Plague of 1656 which decimated the Kingdom's population by two thirds.

This is not to say that the government did not attempt to change the situation, being aware of its inefficiency in the running of the state. Although it underwent no great transformation, modifications or attempts to make modifications in its mechanisms were the first and indisputable signs that a change was necessary. In 1666 the government tried to buy back the tax on tools in the provinces of Otranto, Bari and Basilicata and in 1667 the tax on *manna forzata*⁹. Income from both taxes had in fact exceeded the amounts yielded when they had been farmed out to private interests, that is higher than the 7% we have already referred to. By regaining direct control over them, the government not only cashed in on the increase in income from the tax, but also re-established its authority over the ownership and administration of taxes. However, in both cases, instead of rigorously applying such a principle, the government was satisfied to accept a simple transaction, the payment of a lump sum¹⁰, which did not change the existing situation nor the overall system, including the whole question of state intervention in the economy.

• As a consequence of the Messina War (the causes of which are dealt with in the book by Luis Ribot¹¹) there was a new impetus to modify the Kingdom's public finance system. In fact, during the War, from 1674 to 1678, public finance was geared towards a system of war finance¹². Fresh from the memory of the events that had preceded Masaniello's Revolt, at first the Neapolitan government appeared hesitant at adopting it and in the first two years of war it abstained

⁹ *Ibid.*, pp. 20-21.

¹⁰ L. De Rosa, *Studi ecc.*, *op. cit.*, pp.19-20.

¹¹ L.A. Ribot García, *La revuelta antiespañola de Mesina. Causas y antecedentes (1591-1674)*, (Universidad de Valladolid), 1982.

¹² L. De Rosa, *Studi ecc.*, *op. cit.*, pp. 21, 56 *et seq.*

from levying new taxes, relying on the responsibility and cooperation of its subjects through a voluntary contribution from which it hoped to raise at least 200 thousand ducats. Instead the contribution brought in only 33 thousand¹³ and so in 1676 the government resorted to a forced levy, appropriating half of the income which public contracts, taxes and levies usually brought government representatives on their respective boards. The sum raised, capitalised at 4.5% and not at 7% as had been the case in 1649, had to be paid monthly within ten months.

At the same time, as well as resorting to the usual expedient of benevolences to meet increased military expenditure, the government increased its debt selling stock on income from taxes, *ad hoc* and that portion of indirect taxation assigned to the military¹⁴

The success in selling government securities - which were readily taken up by savers since they were issued at very low prices considering the circumstances, that is with *alaggio* - engendered the belief that the whole sector of indirect taxation, especially taxes on tools, salt etc., had yielded very large profits because of the War and so tax farmers had to pay the government the difference between the market value of the revenue they had purchased and the amount they had actually paid.

But this was not enough. Whilst in 1678 the contractors for the duty on tools had been forced into an agreement with the government in order not to forego such profits, paying another lump sum¹⁵, in 1679 a new government monopoly was created on *acquavite* with capitalisation and sale of the income. Three years later in 1682, a new duty on rope, string and tar tow was levied, whose income was similarly farmed out to private interests.¹⁶

In essence, the system of public finance which emerged from the Messina War was not very different from the system which had been in use until then, although there was a larger tax burden, a widening government debt, a significant increase in the amount of

¹³ *Ibid.*, p. 56.

¹⁴ Cf. I Zilli, *Imposta diretta e debito pubblico nel Regno di Napoli 1669-1737*, (Naples, Esi, 1990), pp.27 *et seq.*

¹⁵ L. De Rosa, *Studi ecc.*, *op. cit.*, p. 21.

¹⁶ *Ibid.*, pp. 57-58.

tax revenue in the hands of bodies and private interests and a new and fairly large reduction in tax income for government finances as well as an increase in military spending and a new and heavy reduction in civil spending and spending on infrastructure. If the failure in the attempt to buy back the taxes alienated by the government was significant, no less important was the failure in the attempt to bring in a voluntary as opposed to forced levy.

A few years later, in 1684, considering the problems with metal currency, with the disappearance and/or the sweating and falsification of silver coins, the Kingdom's public finances underwent further modification which carried it further away from the principle of tax stabilisation that had prevailed immediately after Masaniello's revolt.

In order to purchase the large quantities of silver needed to mint new coins to replace the bronze coins in circulation, not only did the government order Neapolitans and foreigners residing outside the Kingdom to give up income from stock in their possession but new and heavy duties were levied on the consumption of a staple and common foodstuff such as salt.¹⁷ The sacrifice asked of the population, however, was not enough to save the currency which was devalued by about 30% between 1689 and 1691.

The increase in taxation in the last quarter of the seventeenth century had been caused by the Messina War and by the attempt to restore the Kingdom's currency. However the increase in 1701-1702, which brought ruin to the centuries' old *Banco della SS. Annunziata*, was a harsh blow for the city of Naples in particular. Once again, in an attempt to lessen the fiscal burden on the city, indirect taxes were raised and the revenue from taxes allocated for financing the country's defences was farmed out¹⁸.

The fall in defence revenue soon became apparent. In 1707 the consequences of the War of Succession began to make themselves

¹⁷ *Ibid.*, pp. 58-59.

¹⁸ I. Zilli, *Imposta diretta e debito pubblico ecc.*, *op. cit.*, pp. 57, *et seq.*

felt. The Austrian accession to the Neapolitan throne brought with it an even heavier taxation. Finding the Treasury dry due to previous governments' constant resorting to the practice of tax farming, and therefore unable to ensure the country's defences and even routine administration, the Austrians introduced new levies as well as exacting new benevolences¹⁹.

Twice, from 1707 to 1709 and again in 1713, the government increased both direct and indirect taxation in order to finance the new war in Sicily²⁰. In his study Di Vittorio shows that the Austrians managed to almost double the amount of government revenue during their occupation of the Kingdom, sometimes reducing the budget deficit and sometimes increasing it. At the same time they kept spending at the same level and, generally speaking, were able to bring the national debt under control.

Di Vittorio is right to point out that with the Austrians "something had been moved in the Southern economy" and that "the fact that the Kingdom had been subjected to a greater tax burden than it had been during Spanish rule suggest[ed] a greater capacity for taxation which [was] reflected in the very vitality and high number of tax-farming contracts in this period"²¹.

Yet on closer analysis, the increase in revenue, the reduction in the national debt and the stable trend in public spending, did not change the general structure of public finance in the Kingdom of Naples. The positive results achieved were not just due to the greater organisational capacity and far-sightedness of the Austrians in their management of public finance. They were also due to the fact that at the end of the seventeenth century the period of the great epidemics was over, medicine had progressed and sanitary conditions had improved and as a result the population had risen. This trend was borne out by the fall in cereal exports²². The rise in

¹⁹ L. De Rosa, *Studi ecc.*, *op. cit.*, pp. 62 *et seq.*

²⁰ *Ibid.*, pp. 63-64; A. Di Vittorio, *Gli Austriaci ecc.*, *op. cit.*, p. 106 *et seq.*

²¹ A. Di Vittorio, *op. cit.*, p. 296.

²² L. De Rosa, *I cambi esteri del Regno di Napoli del 1591 al 1705* (Banco di Napoli, Napoli, 1955, pp. 60-62).

population increased consumption and thereby revenue from indirect taxation, duties and monopolies, which resulted in the increase in income from tax-farming contracts for most widely-consumed goods.

This trend, which had already affected several indirect taxes in the second half of the seventeenth century and had been clearly grasped by the Spanish Viceroy, became even more evident in subsequent decades and the Austrians soon took stock of the situation. Indeed, they immediately threatened to buy back many of the taxes which the Spaniards had wrongly farmed out to private citizens and to various bodies at 7% when they secured much higher yields in practice, sometimes as much as 21-23%.²³ However the Austrians, too, refrained from regaining direct control over even a portion of the taxes that had been alienated. As had occurred under Spanish rule, they merely imposed transactions which allowed the government to receive the payment of lump sums while leaving the administration of taxes and their profits in private hands. What is interesting to note here is that, as a result of the repeated attempts at threatening to buy back the taxes and the transactions that followed, it soon became evident that without the ownership, control and direct collection of tax revenue, no proper government economic and financial policy would be feasible. The state had to regain control over the taxes which had been alienated; that is to say, it was necessary to change the whole system of public finance.

Convinced of this need, in 1726 the Austrian government decided to set up the *Banco di S. Carlo*²⁴ with the specific task of bringing back all forms of alienated taxation within the direct control of the government²⁵, especially indirect taxes, allocating an

²³ L. De Rosa, *Studi ecc.*, *op. cit.*, pp. 63-64; A. Di Vittorio, *Gli Austriaci ecc.*, *op. cit.*, pp. 22-24.

²⁴ R. Ajello, "Il Banco di S. Carlo. Organi di governo e opinione pubblica nel Regno di Napoli di fronte al problema della ricompra dei diritti fiscali", in *Rivista storica italiana*, vol. LXXXI (1969), pp. 812-881; A. Di Vittorio, "Il Banco di S. Carlo in Napoli ed il riformismo absburgico", in *Rassegna economica*, n. 2, 1969, p. 177, cf. anche Di Vittorio, *Gli Austriaci ecc.*, *op. cit.*, pp. 77 *et. seq.*

²⁵ L. De Rosa, *Studi ecc.*, *cit.*, p. 25.

initial sum of 100 thousand ducats. The history of *Banco di S. Carlo* has been illustrated several times²⁶ and studies point to its scarce or non-existent impact on reforming the system.²⁷ Nonetheless, the attempt showed very clearly that as a government instrument the old system was now considered to be obsolete and not only was it necessary to change it but indeed to overturn it in a radical way, enabling the government to tap resources in the real economy and to redistribute them according to strategies decided upon as the need arose.

In essence the system of public finance which the Austrians handed over to Charles Bourbon was no different from the one they had inherited from the Spanish Viceroy government. Yet apart from the increase in revenue, what distinguished one system from the other was less indebtedness, a reduction in the deficit and the creation of the *Banco di S. Carlo*. By attempting to restore to the government all powers over taxation, the Austrians bequeathed a problem which future governments would inevitably have to grapple with. And indeed, the impetus for a new system came from Charles Bourbon who came to the Neapolitan throne in 1734, and not from the Austrians.

The fact that the Kingdom was now independent, thereby eliminating any outflow of money collected inside the Kingdom, and the fact that all revenue from taxes levied within the Kingdom could be spent inside the Kingdom was undoubtedly novel; to find a precedent we have to go back two centuries to the time of Alfonso and Ferrante d'Aragona. As Ilaria Zilli has skilfully illustrated, the policy pursued by Charles' ministers was to use a large part of tax revenue for the purposes of carrying out major public works. Apart from the royal palaces, these included theatres, roads, ports, the military fleet, the extension of city fortifications, works which stimulated industry and gave employment to a large workforce as well as to a large number of

²⁶ A. Di Vittorio, *Il Banco di S. Carlo ecc. op. cit.*, p. 256

²⁷ Cf. Also L. De Rosa, *Studi ecc., op. cit.*, p. 25.

skilled workers and technical experts, owners of quarries and woods and means of transport etc.²⁸, without forgetting the multiplier effect caused by expenditure for infrastructure which stimulated consumption and investment in other sectors. It is evident that during Charles' reign this fervour of public works helped to raise tax revenue considerably with the result that with few exceptions government accounts nearly always balanced and sometimes even produced a surplus²⁹

This situation was not only determined by economic growth but also by measures such as the census of households in 1739 which after the census of 1666-67 and after the vain attempts by the Austrians,³⁰ gave a precise picture of the number of households in each community in South Italy, allowing for a more rational distribution of taxes in such communities.

When he came to the throne in Naples Charles Bourbon realised that it would be impossible to recover the large debts that the communes had amassed with the government. As a result of the household census it was possible to reduce the tax by more than 100 thousand ducats, fixing it at 1,460,000 ducats and no longer at 1,657,820 ducats as it had been calculated on the basis of the 1667 census. At the same time it emerged that most of the income from the tax on communes had been farmed out³¹ and that its collection was often carried out with wide abuse practised by local authorities to the detriment of inhabitants. Consequently Charles set out to reform the tax and in 1741 a new tax register based on the *oncia* as the unit of value was introduced, the *castato onciario*³²

In this way the old system of public finance, which had already been shaken up by Charles' policy regarding spending with a very large number of public and defence works, was now on the way to

²⁸ I Zilli, *Carlo di Borbone e la rinascita del regno di Napoli. Le finanze pubbliche, 1734-1742*, (E.S.I. Naples, 1990), pp.127 et seq.

²⁹ *Ibid.*, pp.99 et seq.

³⁰ I Zilli, *Imposta diretta ecc.*, *op. cit.*, pp. 69 et seq.

³¹ *Ibid.*, pp. 99 et seq.

³² I Zilli, *Carlo di Borbone ecc.*, *op. cit.*, p. 48.

a radical transformation as far as income was concerned. Despite the limits and contradictions pointed out by both contemporaries and historians, the *castato onciario* was the first government act to change the structure of the tax on Communes.

The rules drawn up for the new register established the principle that each citizen and not the Commune in its entirety had to be taxed on the basis of his possessions and his occupation. The introduction of the personal tax in the tax system was a significant innovation. However, although it aimed to provide a fairer tax system, it ended up by placing those who earned income from agricultural work on the same footing as those whose earnings derived from industrial or mercantile activity.

A long time elapsed before the *castato onciario* was carried into effect and when this did happen its goal was compromised by "inadequacy, corruption and bad faith on the part of the officers" entrusted with the task of defining the type, size and distribution of income within the community³³

The second act by the government to change the existing system of public finance and to rationalise taxation, restoring to the government ownership and administration of taxes, was the creation of a body for buying back taxes, the *Giunta delle Ricompre*, which was set up by the decrees of 10 February and 20 March 1751³⁴

In the wake of the *Banco di S. Carlo* which had been set up by the Austrians and abolished in 1739, the *Giunta* had the task of buying back all government revenue which had been alienated. Charles had taken stock of the grave effects of such an alienation in 1740 at the time of the Velletri War when in order to meet the urgent needs which had arisen as a result of the war he had been forced to resort to a number of financial expedients. These included transactions with farmers of taxes whose income had increased as well as the raising of five benevolences to the value of 4,500,000 ducats and transactions with Genoese financiers who continued to

³³ L. Bianchini, *Storia delle finanze del Regno delle Due Sicilie* edited and with an introduction by Luigi De Rosa, E.S.I. (Naples, 1971), p.373.

³⁴ L. De Rosa, *Studi ecc.*, *op. cit.*, pp. 32 *et seq.*

collect rents and have possessions in the Kingdom although they lived abroad³⁵.

The first priority of the *Giunta delle Ricompre* was to buy back the *fiscali*, that is, the taxes owed by the Communes and especially those which had been farmed out between 1674 and 1678 during the Messina War. The second priority regarded the *adoe*, that is, the tax paid by the feudal lords. Finally there were the indirect taxes which had been alienated.

Connected to the creation of the *Giunta* was the offer to reduce the interest on *fiscali* from 7% to 4%, giving back the capital to those who would not accept the reduction³⁶. The policy of repurchase did not have the same implications for all taxes since the public debt resting on the *fiscali* and the *adoe* had never implied the handing over of their administration, as had occurred with indirect and other taxes. Thus while the policy of reducing the interest on government stock consisting of *fiscali* and *adoe* met with progress, albeit slow, there was much greater opposition to the attempt by the government to buy back the taxes farmed out to private interests. The most authoritative jurists in the Kingdom were against the government's claims as to their repurchase. However the law courts finally decided in favour of the government.

Not all the taxes farmed out were worth buying back. As a result of a fall in the production and/or a decline in the sale of the commodity subject to the tax, some of them were yielding dividends lower than 1%³⁷. Others, however, such as the duty on salt and iron, were still yielding high and growing profits for their possessors.

Opinions were divided as to the best policy the government should adopt in the face of such differences. Some argued that in order to undertake a radical reform it was necessary to buy back all the taxes and not only those whose price had risen. This posed the problem as to the price to be paid which was very low for those taxes whose income had fallen and high for those whose income

³⁵ *Ibid.*, pp. 65 *et seq.*

³⁶ *Ibid.*, pp. 34 *et seq.*

³⁷ *Ibid.*, p. 40n.

had increased. Some argued that they should be bought back at the same price that the government had sold them; others thought they should be bought at the current market price³⁸. It was believed that, since only a few of the taxes farmed out had actually increased in price while many had fallen, the government would be able to buy back all the taxes at a cost which would not be excessive. In the end the government resolved to purchase only those taxes whose dividend had risen more than 7%, that is, the rate at which they had been sold in 1649.

However, despite these purchases and despite the reduction of the interest on repurchased taxes from 5 to 4% , the old system remained intact³⁹. Although private citizens were excluded from the administration of various indirect taxes and levies, the income from all indirect taxes, including a large number of *fiscali* and *adoc*, continued to be sold as government stock for the payment of the national debt and the income from such levies continued to be farmed out to private interests.

The fact that neither the Spanish, nor the Austrians nor Charles had been able to change fundamentally the system of public finance in the Kingdom of Naples is very clear evidence of the difficulties facing every attempt at innovation. The problem was that the sale of public revenue affected a large number of vested interests involving every class in society.

From the studies conducted by those who have written about the farming out of indirect taxes and duties and from those conducted by Illaria Zilli on direct taxes, it emerges that the holders of government stock comprising revenue from both kinds of tax belonged to all social classes. The lists of subscribers included nobles, judges, members of the middle class, ecclesiastics, religious bodies (churches, chapels, congregations, monasteries, etc), and welfare organisations (*monti di maritaggio*, hospitals).⁴⁰

³⁸ C. A. Broggia, *Memoria ad oggetto di varie politiche et economiche ragioni*. (Naples, 1754), pp. XXX-XXXI.

³⁹ L. De Rosa, *Studi ecc.*, *op. cit.*, pp. 40-43.

⁴⁰ *Ibid.*, pp. 103 et seq.; Zilli, *Imposta diretta ecc.*, *op. cit.*, pp. 119 et seq.

The great increase in the number of nobles and ecclesiastics who purchased government stock for the national debt raised considerable problems. Galanti shows that feudal land was divided up with the result that by the end of the eighteenth century only a very small percentage of feudal lords possessed more than ten estates while the great majority possessed only one or two estates. However it needs to be proven if there was a connection between such a trend and the growth in investment in government stock. Should this be the case it is not difficult to draw the conclusion that the transfer of capital from the land to the national debt depended on declining income from agricultural production.

As far as the *fiscali* were concerned, Ilaria Zilli has shown that the proportion of debt which weighed on the Communes increased noticeably from 1669 to 1737⁴¹ due to the Kingdom's involvement in wars. As a result, more than 40% of revenue from the Communes was handed over by the state to private interests. The preference for government stock had certainly made capital less available for investment in production both on account of the inevitable risk that such investment involved and on the lack of opportunities for safe and profitable investment ventures. However the greatest criticism was levelled at those who received government contracts for tax farming, especially after 1740, on account of the number of abuses they committed in carrying out their task.

The interests of those had bought government stock - that is nobles, the middle classes, orphans and widows, clerics etc. - became inextricably linked to those of the government contractors and this fact constituted a serious obstacle to any attempt to restore government ownership, administration and collection of taxes. In other words, it was this bloc of interests which prevented reform of the system of public finance in the Kingdom. It was only with French occupation and rule that such an a web of interests was finally broken down.

Nevertheless, as Benedetto Croce himself pointed out, the work

⁴¹ I Zilli, *Imposta diretta ecc.*, *op. cit.*, pp. 100 *et seq.*

of renewal and modernisation under the French would not have been possible without the criticisms and proposals made in the eighteenth century through the commitment of men like Genovesi, Galiani and Filangieri and after Carlo Antonio Broggia had already shown the kind of financial reform to be carried on and its direction.

While King Charles carried forward the work of rebuilding an independent state and gave to Naples the status of a great European capital, setting up institutions which were indispensable for changing the relationship between government and feudalism and between government and the Church, and setting in train administrative reform, the process of rationalising the system of tax collection and its reappropriation by the government made very slow progress. However, the transition from one system to another was underway and was taking place through continual adjustments which modified the old system and awaited only favourable circumstances in order to give substance to a completely new system.