

11 Republics and principalities in Italy

Luciano Pezzolo

The nature of the Italian peninsula allows the comparison of institutions within different contexts, where traditions, historical events, geographical and political structures combine to influence institutional processes and vice versa. The complex and diversified institutional landscape of Renaissance and baroque Italy offers a rich laboratory to test hypotheses. Republics and principalities were not mere constitutional containers, but showed marked differences which were decisive for the formation of states and peoples. This chapter treats relations between fiscal systems and institutions, and particularly between republics (Venice, Genoa and fifteenth-century Florence) and principalities (the state of Milan, the Duchy of Savoy, the Duchy of Tuscany and the Kingdom of Naples).

The fiscal geography

The fiscal geography of most Italian states was the outcome of the late Middle Ages. Marked differences existed between the taxpayers of the capital, those of the subject towns and rural inhabitants. Direct and personal taxes fell mainly on the countryside while the citizens of major cities were usually exempt from such levies and paid taxes on consumption and commercial exchanges. The inhabitants of the capital city enjoyed special tariff conditions. Urban land-holders, moreover, paid fewer taxes on their properties in the hinterland than rural land-owners. These differences were also present in the southern territories, although the political weight of urban centres was less pronounced. Naples was exempt from ordinary direct taxation, feudal lords paid a specific tax and city dwellers were less burdened than rural taxpayers.¹

¹ For a general view, G. Vitolo (ed.), *Città e contado nel Mezzogiorno tra Medioevo ed Età moderna* (Salerno: Laveglia, 2005); P. Jones, 'Economia e società nell'Italia medievale: la leggenda della borghesia', in R. Romano and C. Vivanti (eds.), *Storia d'Italia Annali* (Torino: Einaudi, 1978), Vol. I, pp. 185–372. More quantitative data and details will

This picture, however, changed during the early modern period. Under the pressure of political and military needs, the internal fiscal equilibrium was questioned and new systems emerged.

The economies of late Renaissance and early modern Italy experienced structural changes that widened and deepened their fiscal bases. For example, the budgets of the Republics and principalities heavily involved in maritime commercial activities – such as Genoa and Venice – included high percentages of ordinary revenues drawn from duties on international trade. Until the end of the sixteenth century, Venice, as one of the most important hubs of the interchange between East and West, depended on customs duties. Revenues from trade began to decline during the seventeenth century, when the Venetian government increased taxation on domestic consumption and on the wealth of its citizens. Staple foodstuffs and land bore the brunt of fiscal pressure, and exemplified the intensified competition that Venice came under in international trade. Before that time and until the first half of the sixteenth century part of the Republic's tax burden had been transferred to foreign merchants and consumers through heavy taxation on goods in transit. When its entrepôt trade declined the tax burden shifted onto local taxpayers. Thus, the revenue structures of both the Venetian and Genoese republics underwent significant changes between the fifteenth and the eighteenth centuries.² For Genoa, the ratio between trade and consumption revenues was four to one in 1450. In the mid eighteenth century, it was about even (1:1.1).³

Although the Milanese economy was 'commercialized', data from Renaissance budgets show that the ducal government experienced difficulties in collecting taxes on commercial transactions. In 1463, taxation on trade accounted for about 30 per cent of total revenues and taxation on urban consumption slightly exceeded 10 per cent.⁴ Thus, the weight of direct taxation looked heavier in Milan than elsewhere. That burden was not, however, based on taxes levied on income and wealth but rather on the proceeds of levies gathered from rural families compelled to buy monopolized salt; through poll taxes on 'heads';

be presented in my forthcoming book, tentatively entitled *Mars and Pluto. War and finance in Italy, 1350–1700*.

² L. Pezzolo, *Una finanza d'ancien régime. La Repubblica veneta tra XV e XVIII secolo* (Napoli: ESI, 2006), p. 47; R. T. Rapp, *Industry and economic decline in seventeenth-century Venice* (Cambridge, MA: Harvard University Press, 1976), p. 141.

³ G. Felloni, 'Stato genovese, finanza pubblica e ricchezza privata: un profilo storico', in G. Felloni, *Scritti di storia economica* (Genova: Società Ligure di Storia Patria, 1999), p. 398.

⁴ C. M. Cipolla, 'I precedenti economici', in *Storia di Milano* (Milano: Fondazione Treccani Degli Alfieri, 1953–54), Vol. VIII, pp. 369–73.

and, via goods and services requisitioned for armies. Similar taxes prevailed in other states, particularly fifteenth-century Lombardy, and their burdens intensified under Spanish rule. Throughout the sixteenth and seventeenth centuries, direct taxation constituted a large share of Milanese revenues. Taxation in the Duchy of Savoy resembled that of the neighbouring Lombardy. Direct taxes accounted for at least half of the total income, and their role grew during the seventeenth and eighteenth centuries. Likewise, direct taxation constituted an overwhelming share of the budget of the Kingdom of Naples until the seventeenth century. Thereafter indirect taxation increased so as to equal the revenue from direct taxes.⁵

Central and local powers

The first obstacle met by governments when issuing a new tax was the problem of its legitimacy. Even if the principle that the sovereign had to 'live on his own' was not as strongly evinced in Italy as it was in France, nonetheless protests arose which aimed to limit government actions in the fiscal sphere. Resistance did not question the rights of government to levy taxes but rather demanded a legitimated process, consistent with the real needs and aims of the state.⁶ Emergencies, the need to defend frontiers, the prince's honour, or the Christian faith provided valid reasons for taxation. One of the most pervasive reasons underlying requests for money to subjects was the defence of the Catholic faith. In that way, the ideological apparatus of religion provided effective support for early modern states. In short, the Church helped to legitimize a secular fiscal system, and the duties of subjects to pay taxes.

Nevertheless, though not always evident, political constraints exerted strong influences on governmental choices in the field of fiscal policy. They are evident in the terms used to name new taxes (*subsidy*, *aid*, *grant*,) which underline how taxation was a negotiated process. A tax was regarded as more of a 'gift' than an expropriation. Taxation implied reciprocal relations between princes and taxpayers; a relationship entailed an exchange of money for something else, which acknowledged rights and duties.

⁵ For a long-term overview of direct taxation in Italy, see L. Pezzolo and E. Stumpo, 'L'imposta diretta in Italia dal medioevo alla fine dell'ancien régime', in S. Cavaciocchi (ed.), *La fiscalità nell'economia europea (secoli XIII–XIX)* (Firenze University Press, 2008), pp. 75–98.

⁶ M. Bianchini, 'La tassazione nella seconda scolastica', in A. De Maddalena and H. Kellenbez (eds.), *Fisco, religione e stato nell'età confessionale* (Bologna: Il Mulino 1989), pp. 48–9.

In Italy, centralized states pursued variations of two key strategies. The first involved an attack on local power structures, designed to limit the prerogatives of urban oligarchies in fiscal and other spheres. For example, Florence emerged thanks to determined exertions against towns in its hinterland. Volterra rebelled in 1429 against proposals for a *catasto*. Arezzo revolted in 1409, 1431, 1502 and 1529. Pisa fought a war between the late fifteenth and the early sixteenth centuries, which forced the Florentine state to return functions previously exercised by city councils.⁷ The Dukes of Savoy followed the same policy. From the late sixteenth century, they took political actions aimed at restricting urban autonomy and in favour of enhancing the political and social role of the aristocracies. States sometimes opposed resistance (often violent) by taking strong military action. The Dukes of Savoy built up a strong repressive apparatus in Piedmont in contrast to the more ameliorative strategy pursued by the Tuscan state. Although the duke's will was not boundless, the growth of fiscal pressure was linked with the coercive capability of central power. In practice, exemptions continued to be enjoyed even in Piedmont. Nobilities retained their fiscal prerogatives and exemptions well into the century of the great reforms.⁸

An alternative strategy, adopted by Venice and Milan, differed significantly. A strong tradition of growth with autonomy marked the urban centres of the Po Valley. Both the Dukes of Milan and the Venetian aristocracy had to negotiate deals and allow 'liberties' to subject towns. In fiscal terms that meant a mosaic of immunities, privileges and exceptions with respect to the fiscal demands of the prince or of the *dominante*. During the sixteenth century, the Venetian power elite began, however, to interfere with the political and institutional equilibrium on the mainland (the so-called *dominio da terra*). Humouring the *contadi*'s aspirations to set themselves free from the close control

⁷ C. Vivoli, 'Tra autonomia e controllo centrale: il territorio pistoiese nell'ambito della Toscana medicea', in L. Mannori (ed.), *Comunità e poteri centrali negli antichi stati italiani* (Napoli: CUEN, 1997), pp. 146–7; P. Benigni, 'Oligarchia cittadina e pressione fiscale: il caso di Arezzo nei secoli XVI e XVII', in *La fiscalité et ses implications sociales en Italie et en France aux XVIIe et XVIIIe siècles* (Rome: Ecole Française de Rome, 1980), p. 55; M. Luzzatti, *Una guerra di popolo* (Pisa: Pacini, 1974); G. Petralia, 'Imposizione diretta e dominio territoriale nella repubblica fiorentina del Quattrocento', in *Società, istituzioni, spiritualità. Studi in onore di Cinzio Violante* (Spoleto: Centro italiano di studi sull'alto Medioevo, 1994), pp. 639–52; G. Petralia, 'Fiscality, politics and dominion in Florentine Tuscany at the end of the Middle Ages', in W. J. Connell and A. Zorzi (eds.), *Florentine Tuscany. Structures and practices of power* (Cambridge University Press, 2000), pp. 65–89.

⁸ G. Symcox, 'L'età di Vittorio Amedeo II', in P. Merlin, C. Rosso, G. Symcox and G. Ricuperati, *Il Piemonte sabauda. Stato e territori in età moderna* (Torino: UTET, 1994), pp. 406–10.

of urban centres, Venice actually slowly dismantled the fiscal prerogatives of urban taxpayers. Relations between centre and mainland were mediated by the growing financial needs of the state; the loss of overseas territories; and the expansion of the economic interests of the Venetian patriciate in land and capital located on the mainland; not to mention the emergence of a new economic and social elite in the countryside. When fiscal advantages granted to citizens were severely reduced between the sixteenth and the seventeenth centuries, the growing fiscal burden was not, however, more equitably distributed among the different local towns, *contadi* and valleys. During the seventeenth century, some attempts to exploit income sources that had previously succeeded in eluding the tax net took place. If in Venice more attention was devoted to taxing financial transactions, on the mainland, commercial capital became the specified object of taxation. Land-owners also faced heavier fiscal pressure, particularly during wars against the Turks, which gave the state reasons to progressively cancel a whole series of traditional immunities and exemptions. By the end of the eighteenth century, the Venetian taxation system looked quite different from that of the Renaissance. Privileges had been reduced; universal taxes burdening all subjects, regardless of their legal and social status, were in place; the key role played by urban elites was a distant memory; and government controls over communal finance had become a constant concern.⁹

For the Savoyard duchy, evolution towards fiscal centralization seems to result from coercive actions. In the Venetian republic and the state of Milan revenues that flowed into central government coffers depended to a large extent on the consent of local bodies. The Tuscan case looked similar to the Piedmontese model during the Renaissance but later it shifted towards the Lombard–Venetian model of negotiation with leading local elites. Neapolitan financial history could also be considered similar to this model. Undoubtedly the Habsburg government managed to raise enormous amounts of money from Neapolitan taxpayers, but it had to rely on the feudatories' consent.¹⁰

In the eighteenth century, Italian governments met difficulties in levying taxes which fell uniformly on all subjects. Along with assessment

⁹ For a profile of Venetian financial history in the early modern age, see Pezzolo, *Una finanza*.

¹⁰ A. Calabria, *The cost of empire. The finances of the kingdom of Naples in the time of Spanish rule* (Cambridge University Press, 1991); G. Galasso, 'Economia e finanze nel Mezzogiorno tra XVI e XVII secolo', in A. De Maddalena and H. Kellenbenz (eds.), *Finanze e ragion di Stato in Italia e in Germania nella prima età moderna* (Bologna: Il Mulino, 1984), pp. 45–88.

difficulties, the main problems were the immunities and privileges that hindered the setting of a universal tax (though to a lesser extent than in the past). It is, however, worth asking if similar ideas about universal taxes were shared by ruling groups. Privileges have too often been considered as a sign of weakness in old regime states; as remnants of a medieval past and a brake on the development of the 'modern' state willing to subdue all taxpayers to its will. The persistence of immunities has been readily criticized by historians, who have pointed to privileges as the main restraint on the development of fiscal systems. We should, first of all, evaluate in quantitative terms the income fraction that eluded taxation by way of exemption. If in Spain and France large patrimonies were merely brushed by taxes, in northern and central Italy privileged areas were quite small, and did not represent a great concern for governments. After the great assessment of 1731, the Piedmontese nobility enjoyed exemptions as low as 8 per cent of their total ascertained wealth, and a similar percentage was estimated for ecclesiastical estates.¹¹ In the Republic of Venice, privileged lands accounted for a negligible portion of the whole assessed properties.¹² The Neapolitan case is quite different. The noble and feudal land-owners enjoyed large privileges and Naples was exempt from direct taxation. Nevertheless, the growing fiscal demands of the Spanish government reduced, *de facto*, the importance of these immunities. In fact, the principle of extraordinary taxation allowed the government to circumvent the privileges of subjects, and thus the capital's inhabitants were subject to the same burden as common taxpayers.¹³ It was quite unusual to find estates completely free from taxes in the eighteenth century.

The great Enlightenment reforms aimed mainly at eliminating abuses that were too often attached to specific exemptions. Recognized immunities were not questioned, but entrustments that had spread illegally were. It has been correctly stated that for governments of the time 'the primary objective was to reduce the cost to the state of noble privilege and to make it seem less arbitrary'.¹⁴ Different concerns, more focused on preserving fiscal interests, were directed towards Church properties. Developments during the Enlightenment led to limiting traditional ecclesiastical immunities, though they were not completely

¹¹ Symcox, 'L'età di Vittorio Amedeo II', p. 408.

¹² See, for example, Padova, Archivio di Stato, Archivio Civico Antico, Territorio, 268, fasc. 1079, cc. 24r ff.

¹³ G. Galasso, *Storia del Regno di Napoli*, 5 vols. (Turin: UTET, 2006), Vol. III, pp. 127–8.

¹⁴ S. Clark, *State and status. The rise of the state and aristocratic power in Western Europe* (Montreal: McGill-Queen's University Press, 1995), p. 161.

abolished.¹⁵ The ordinary taxation of the Church entailed, on the one hand, the beginning an unwelcome conflict with Rome and, on the other, tapping income sources that would affect powerful elites. Venetian and Florentine nobilities enjoyed considerable revenues from ecclesiastical offices and benefices, and the maintenance of exemptions safeguarded a part of the family income. The delicate role of controlling souls played by the clergy, moreover, suggested that governments should be respectful.

One might wonder whether the ruling elites of the old regime were willing to eliminate any form of fiscal privilege. Granting tax exemptions was a useful power mechanism for the prince. The privilege stressed a particular relationship between the beneficiary (a noble, a community, a family, a social order ...) and the grantor; a subtle mutual relationship bound them to one another. Exemptions were often the government's main means of weaving patronage networks. Arguably, the diminution of fiscal privileges during the early modern age reflected changes in the forms of patronage adopted by the leading groups of the political centre. In other words, not the fiscal system but other sectors, such as administrative and military structures, became the main areas for the development of clientelism.

A further element underlying distinctions among taxpayers concerned the very notion of social hierarchy. *Ancien régime* society was constituted of bodies, estates, orders, each of them precisely defined and acknowledged. Accordingly, the tax burden reflected not only power relations among groups, but also the different positions of taxpayers within society. Although in principle the government's intention was to tax all subjects in proportion to their economic capabilities, in practice the distribution of the fiscal burden conformed to social rankings. Even in early eighteenth-century Piedmont it was stated that different fiscal duties fell on properties according to the taxpayers' social status. Also the 1731 *perequazione* ('equalization') implied distinctions among noblemen, the bourgeoisie and peasants.¹⁶ This fact was not, however, considered an attack on the equity principle that had to underlie a 'just' fiscal policy.

¹⁵ See, for Tuscany, R. Bizzocchi, 'Politica fiscale e immunità ecclesiastica nella Toscana medicea fra Repubblica e Granducato (secoli XV–XVIII)', in H. Kellenbenz and P. Prodi (eds.), *Fisco religione Stato nell'età confessionale* (Bologna: Il Mulino, 1989), pp. 355–85; E. Brambilla, 'Per una storia materiale delle istituzioni ecclesiastiche', *Società e storia* 7 (1984), 395–450; E. Stumpo, 'Un mito da sfatare? Immunità ed esenzioni fiscali della proprietà ecclesiastica negli stati italiani fra '500 e '600', in *Studi in onore di Gino Barbieri*, 3 vols. (Pisa: IPPEM, 1983), Vol. III, pp. 1419–66.

¹⁶ G. Quazza, *Le riforme in Piemonte nella prima metà del Settecento*, 2 vols. (Modena: Soc. Tip. Ed. Modenese, 1957), Vol. I, pp. 66n., 145.

The emergence of direct taxation

Late medieval Italian city-states provided outstanding examples of connections between private interests and fiscal policies. Direct taxation was not very popular. These states were able to tax trade, staple foodstuffs and subjects resident in their hinterlands and dominions. Regular direct taxation on a poll basis (and sometimes on wealth) fell on peasants. The burden of billeting troops also fell mostly on the countryside. One alternative to taxing the citizens of republican cities consisted of the system of forced loans. This mechanism of taxing citizens by means of borrowing at interest (generally about 5 per cent) worked quite well as long as the financial conditions remained favourable. Taxpayers were required to contribute amounts calculated according to their assessed wealth as recorded in an *estimo*. They obtained government bonds that could be freely traded. Between the fourteenth and the fifteenth centuries, the constant pressures on state finances from warfare placed the system in difficulties. Interest rates were cut and the market prices of government securities dropped. By the fifteenth century, forced loans were more like a form of direct taxation rather than loans to the state.

Along with this crisis, the need to tax land on a regular basis emerged almost everywhere. From the middle of the sixteenth century, therefore, ordinary direct taxation appeared in all Italian states, but contributing very different shares of total state revenues. In the Venetian republic and in Tuscany, net receipts from direct taxation were quite small, while in the Milanese state and in Piedmont, the *mensuale* and the *tasso* dominated the state budget. At that time, taxation was neither as clear nor as direct as it is today. Back then, governments decided on the total required for a given assessment but left local authorities to apportion and collect the money. Thus, the Piedmontese *tasso*, which in principle fell on land rents, could actually be paid by the community through poll taxes on excises or on foodstuffs. Nevertheless, the growing importance of direct taxation exposes the needs and plans of late Renaissance governments for wider fiscal bases free from exemptions and immunities that constrained regular flows of revenue into central coffers.

While the sixteenth century witnessed the emergence of regularized direct taxation almost everywhere, the following centuries were characterized by a broadening of the taxable basis for forms of direct taxation. Pressure to collect and burdens on taxpayers were by no means constant. For instance, in the late sixteenth century, the Venetian budget showed a decline in yields from direct taxation. A similar policy

prevailed in Piedmont from 1660–90.¹⁷ Direct taxation carried political problems on its train and whenever possible, governments gave priority to reducing the burdens of direct tax before other forms of taxation. Furthermore, during the sixteenth century, the objects of direct taxation were not yet clearly specified and included land, rents, wages, polls, and profits and interest. In the seventeenth century, in the context of a marked reallocation of capital from trade to land and financial intermediation, some governments tried to tap income sources previously overlooked. For example, from the early seventeenth century, some governments attempted to tax the financial returns from *censi* (long-term loans secured on land). In the Venetian republic, Piedmont, Piacenza and Lombardy, subjects lending money were required to pay taxes.¹⁸ However, the difficulties involved in measuring returns from financial operations and the reluctance of lenders to comply with the law led to failure. Nevertheless, the attempt does point to the attention paid by Italian states to movements of resources between sectors of their fiscal bases. But *censi* involved taxing the very rich and for this reason officials could not rigorously enforce the law. The attempt also reveals governments' concern with debt and the burdens on communities in servicing debt that eroded the capacities of citizens to pay taxes.

Over the seventeenth and eighteenth centuries, direct taxation changed. Progressively, corvées related to billeting, personal obligations to support the army, supplies and services exacted from peasants were first extended to urban taxpayers and then modified from payments in kind into cash payments. These steps reduced tensions between soldiers and civilians when the need to support growing numbers of soldiers led states to seek a more balanced distribution of the burden between town and country. Furthermore, the monetization of this obligation prompted peasants to enter the market economy. Obviously, warfare intensified the burdens of supporting troops, however levied.

Over the period, important changes occurred in the methods of tax assessment and collection that were less significant for customs and excises than for taxes on real estate and people. The intractable problem of obtaining information forced governments to transform direct

¹⁷ L. Pezzolo, *L'oro dello Stato* (Venezia: Il Cardo, 1990); E. Stumpo, *Finanza e stato moderno nel Piemonte del Seicento* (Roma: Istituto Storico Italiano per l'età moderna e contemporanea, 1979), p. 264.

¹⁸ G. Corazzol, *Livelli a Venezia nel 1591* (Pisa: Pacini, 1989); C. Rosso, 'Il Seicento', in *Il Piemonte sabaudo*, p. 211n.; P. Subacchi, *La ruota della fortuna* (Milano: Angeli, 1996), p. 20; S. Pugliese, *Condizioni economiche e finanziarie della Lombardia nella prima metà del secolo XVIII* (Torino: Miscellanea di storia italiana, 3rd ser., 21, 1924), pp. 243–5.

into poll taxes during the seventeenth and eighteenth centuries. For example, taxes first conceived and levied as duties on flour were later levied as poll taxes. Sometimes tax yields improved and medieval poll taxes often proved less burdensome for the lower classes.¹⁹ States introduced distinctions between taxpayers through classifying them by age, status and, however roughly, into income classes. Slowly, the concept of progressive taxation was emerging.

At the same time, plans were implemented to measure and value landed property in Piedmont, Lombardy and the Veneto. The eighteenth-century cadastres, even if not always reliable, constituted a fundamental stage in fiscal history.²⁰ Their initial importance was to restrict immunities and exemptions rather than to jack up receipts from taxes on land.

Turning to the efficiency of Renaissance fiscal systems, the data suggest that net yields placed in short compass at the disposal of the central treasury amounted to about 70–80 per cent of predicted obtainable totals. The data also show that times taken to complete collections were usually long for direct taxes. Customs and excise duties tended to flow in at faster rates and franchised collection allowed treasuries to receive part of the negotiated leases in advance. In this period, governments favoured tax farming (franchising) because that system generated larger yields, usually collected directly by government agencies. Tax farmers could acquire better data and information about commercial flows and consumption than servants of the state.

Of course fluctuations in the economy affected levels of revenue received year after year. Data from sixteenth-century budgets are read by historians as a reflection of economic expansion. But we should be cautious because the following century (characterized by phases of depression and stagnation) witnessed several cases of persistent increase in the revenues of states. Although Florentine revenues seem to reflect a long period of economic stagnation between the late sixteenth century and the early eighteenth century, when the budget settled at around a million *scudi*. Meanwhile, the revenues of the Venetian republic and the Savoyard duchy grew to impressive levels. These upswings emanated, however, from involvement in international conflicts and

¹⁹ A. Contini, 'La riforma della tassa delle farine, 1670–1680', in F. Angiolini, V. Becagli and M. Verga (eds.), *La Toscana nell'età di Cosimo III* (Firenze: Edifir, 1993), pp. 241–74; L. Pezzolo, 'Dal contado alla comunità: finanze e prelievo fiscale nel Vicentino (secoli XVI–XVIII)', in C. Povo (ed.), *Dueville. Storia e identificazione di una comunità del passato* (Vicenza: Neri Pozza, 1985), pp. 381–428.

²⁰ R. Zangheri, *Catasti e storia della proprietà terriera* (Turin: Einaudi, 1980), pp. 71–130.

wartime pressures for funds. In general, fiscal flows followed exogenous shocks due to war or plague, rather than those induced by economic fluctuations.

Republican and princely debts

During the fifteenth century, debt crises led to reforms to the financial system. Some governments issued bonds that competed with other assets sold on open markets. But a real public debt detached from forced loans, and characterized by the full marketability of state bonds on primary markets, really came on stream in the sixteenth century. Alongside long-term debt, short-term indebtedness persisted. Recourse to short-term credit was widespread, especially in principalities, and it continued to be the fastest and easiest way to cope with state demands for liquidity. Bankers, occasional financiers, courtesans, officers, wealthy people and foreign capitalists made up a world of court finance revolving around princes, always in urgent need of money and often compelled to accept loans and credits on very onerous terms.

Two different models of state indebtedness emerged in Italy: on the one hand, a long-term debt typical of republican states, and on the other hand, a short-term debt, as a feature of princely states. This distinction was never clear-cut, but seems to be a useful way to analyse financial policy for these centuries.

Let us take three examples. Between the 1520s and the 1530s the Venetian government issued a series of annuities to be sold on the domestic financial market. These loans – the so-called *Depositi in Zecca* ('deposits in mint') – became the backbone of state debt right down to the end of the republic in 1797. The main characteristics of Venetian bonds were: attractive interest rates (between 6 and 8 per cent); simple rules for the redemption of capital; exemptions from taxes; protection from expropriation; and the marketability of bonds. Venice soon abandoned the system of forced loans and relied on the markets protected by the state and where creditors' interests were secured by regular levies of taxes. The value of the debt was sustained and strengthened by the commitments of the state to its creditors.

The system in Milan was similar but somewhat different. Until the early sixteenth century the state of Milan did not have a consolidated debt. The main tools of indebtedness were forced loans and/or short-term loans, through bills of exchange issued by bankers and local financiers. When needed, moreover, fiscal receipts were sold to lenders. From the mid sixteenth century, a remarkable expansion of loans assigned on tax revenues occurred, while state expenditure and fiscal

resources simultaneously widened. The rulers' endless demands for cash to fund armies provoked a persistent state of emergency, both in Castile and the European provinces of the Habsburg Empire. The spiral of war–taxation–indebtedness led to resorting to short-term loans (*partiti* and bills of exchange at high interest rates) on a massive scale. The Habsburg debt was managed by private international financiers, who provided liquidity for the state through their commercial networks using and monetizing bills of exchange. The system operated at a high cost to taxpayers. Funded debt, by contrast, depended on tax and the share of tax revenues available to service the accumulation of long-term debt.²¹

The Neapolitan case is very close to the Milanese one. In Naples the government also resorted to both short-term loans at high interest and to long-term loans assigned to fiscal revenues. But, unlike the Milanese example, the Neapolitan economy proved to be unable to meet the gigantic effort called for from the Habsburgs. By the middle of the seventeenth century, after the great revolt of 1648, the whole fiscal and financial system collapsed. The government limited itself to collecting a small amount of revenues, while the great majority of receipts was pocketed directly from state creditors.²²

In conclusion, the princely model accords with a resort to a large floating debt along with growing consolidated and funded debt. The prince obtained money above all from financiers within and surrounding his court. He pledged fiscal revenues as interest and gave creditors rights to levy their returns and rents directly either from taxpayers or from tax officials. Some elements mark a difference between the princely model and the republican one. The latter seemed to rely on the market, where every investor enjoyed the same rights. The former, on the other hand, showed some features of cronyism. Different interest rates were paid by the Milanese government according to the importance of lenders. It was likely that a great noble earned from his investment in state debt more

²¹ G. Luca, 'L'alienazione delle entrate dello Stato di Milano durante l'età spagnola: debito pubblico, sistema fiscale ed economia reale', in M. Rizzo, J. J. Ruiz Ibañez and G. Sabatini (eds.), *Le forze del Principe. Recursos, instrumentos y límites en la práctica del poder soberano en los territorios de la Monarquía Hispánica* (Universidad de Murcia, 2003), Vol. I, pp. 181–210.

²² A. Calabria, 'Finanziari genovesi nel Regno di Napoli nel Cinquecento', *Rivista storica italiana* 101 (1989); L. De Rosa, *Il Mezzogiorno spagnolo tra crescita e decadenza* (Milano: Il saggiatore, 1987); G. Muto, *Saggi sul governo dell'economia nel Mezzogiorno spagnolo* (Naples: ESI, 1992); A. Bulgarelli Lukacs, *L'imposta diretta nel Regno di Napoli* (Milan: FrancoAngeli, 1993); Galasso, 'Economia e finanze'; R. Mantelli, *L'alienazione della rendita pubblica e i suoi acquirenti dal 1556 al 1583 nel Regno di Napoli* (Bari: Cacucci, 1997); I. Zilli, *Lo Stato e i suoi creditori. Il debito pubblico del Regno di Napoli tra '600 e '700* (Naples: Edizioni Scientifiche Italiane, 1997).

than a small merchant or an artisan. The famous financier Antonio D'Aquino, who in the 1630s and 1640s controlled the financial market in Naples, managed to purchase state credits at a low price from common investors, who were unable to get the interest rate, because he was paid by the Treasury.²³ In addition, bond-holders of the Monte di San Carlo in Milan, an institution that managed the Milanese debt, were never sure of being paid regularly and at the standard interest rate.²⁴

Douglass North has put forward the testable hypothesis that the interest rate provides 'the most evident quantitative dimension of the efficiency of the institutional framework'.²⁵ Italian data (see Table 11.1) show a tendency for interest rates to converge: the spread (about seven points) that marked the costs of borrowing for renaissance governments fell to around one point by the end of the eighteenth century. Meanwhile, costs for loans declined from 9–10 per cent in the mid sixteenth century to 4–5 per cent in the early eighteenth century. It is also clear that some states paid less than others for loans, and reasons for variance can be offered.

First, military strains influenced the cost of borrowing. Genoa, for example, fought few wars, while the Italian dominions of the Habsburgs were requested to fund long and expensive conflicts. Furthermore, cities such as Genoa and Venice could count on large potential supplies of investible funds even after their commercial success had faded away. Apart from the relative scope and scale of local financial markets the interest rates also mirrored the trust investors retained in states as debtors. From the end of the Italian wars onwards, the Venetian and Genoese governments avoided defaults and reassured their creditors by paying interest regularly and redeeming or converting bonds efficiently.²⁶ In addition, rulers and oligarchies held large portions of debt and that reduced risk. Urban patricians were unlikely to default on loans that would endanger one of their most important sources of income. The identification of interests between creditors and ruling

²³ R. Villari, *La rivolta antispannola a Napoli. Le origini 1585–1647* (Bari: Laterza, 1967), p. 148.

²⁴ For political influence on the management of the Monte see C. Marsilio, 'Debito pubblico milanese e operatori finanziari genovesi (1644–1656)', *Medierranea. Ricerche storiche* 5 (2008), 149–72.

²⁵ D. C. North, *Institutions, institutional change and economic performance* (Cambridge University Press, 1990), p. 69.

²⁶ L. Pezzolo, 'The Venetian government debt 1350–1650', in M. Boone, K. Davids and P. Janssens (eds.), *Urban public debts. Urban government and the market for annuities in western Europe (14th – 18th centuries)* (Leuven: Brepols, 2003), pp. 61–74; L. Pezzolo, 'Bonds and government debt in Italian city states, 1250–1650', in W. Goetzman and G. Rouwenhorst (eds.), *The origins of value. Financial innovations that created the modern capital market* (Oxford University Press, 2005), pp. 145–63.

Table 11.1. *Interest rates on government loans in Italy, 1450–1799*

	Florence	Genoa	Venice	Milan	Bologna	Naples	Piedmont
1450–59		4	4				
1460–69		3.6	4				
1470–79	3.25	3	4				
1480–89	3	2.8	5				
1490–99	2.25	2.5	5				
1500–09		2.8	5		8		
1510–19		3.2	5		8		
1520–29		2.8	6.5		8	9.5	
1530–39		2.2	7		8.2	10.1	
1540–49		2.4	5	8.3	8	9.1	
1550–59	12	2.4	3.5	11	8	9	
1560–69	7	2.6	6	12.3	7.6	9	10.5
1570–79		3	8	9.7	6.6	8.7	
1580–89		3.2	5	8.8	6	8.5	
1590–99	5	3.5		7.9	6.5	7.4	
1600–09		3.8	4	7.9	6	7	
1610–19	5	3.5	5	6.6	6		
1620–29	5	3.4	5	6.8	5		
1630–39	5	3	5	7.5	5		3.75
1640–49	4.5	3.1	6	5	4.7		3.75
1650–59		3	6	5.8	4.5		5.5
1660–69		2.5	5.8	5.7	4	5.8	5.5
1670–79		2.6	2.5	5	4	6.1	3.75
1680–89		2.3		4.8	4	4.2	4.5
1690–99		2.5		6.2	3.5	3.7	5
1700–09		2.4	4.5			4.9	5
1710–19	4.5		5.8			5.5	5
1720–29	4		4.2			5.3	
1730–39	3	2.5	3.8			4.2	
1740–49	3.5	2	3.6			5	
1750–59	3.25	2.5	3.5			5.3	4
1760–69			3			4.8	3.5
1770–79			2.1			4.8	
1780–89			2.3			5.1	
1790–99			3.3			5.4	

Source: L. Pezzolo, *Mars and Pluto. War and finance in Italy, 1350–1700* (forthcoming).

elites provided a secure basis for the accumulation of public debt. This identity was surely stronger in republican states than in principalities. In the former, the interests of the wealthy elites resident in capital cities strengthened the credibility of the states' financial commitments. Princes were not considered to be nearly as reliable. Money cost more

in the Italian dominions of the Habsburg monarchy because a series of financial crises marked the relations between bankers and the crown. During these crises, the monarchy retained more freedom of action than its weaker creditors. Republics were not identified with a mortal person or dynasty; they were seen as immortal polities.

Of course trust also depended on the fiscal health of states. It is likely that, during the sixteenth century, general economic conditions, including the growth of trade, consumption and tax receipts, facilitated borrowing. Raising tax revenues assigned for the payment of interest reassured lenders; and the security of creditors grew gradually along with the strengthening of state sovereignty. Revenues flowed in from well-defined and regular taxes, no longer subjected to local negotiation. Republican debt, based on the affluence of towns, enjoyed other advantages. Creditors could monitor commercial flows and thereby evaluate the health of public finances. Compliance towards taxation and the lack of major tax revolts also strengthened the creditworthiness of states. Naples demonstrated how the Habsburg government reached the economic limit of taxation. Fiscal pressures in the 1630s and 1640s ignited a revolt, which forced the government to considerably lower fiscal requests. The economic system of the kingdom proved unable to meet the growing demand of the state, which eventually defaulted.

Efficient debt management must also be stressed, and a financial system, based upon open markets (the republican model) reduced information costs for both government and subscribers to loans. Even if they were theoretically a state secret, information on republican finances was available to many patricians – that is to creditors. While access to information at court was probably difficult, narrow credit markets implied that relations between prince and lenders were not at all transparent. In republics, the issue of bonds was available to all potential investors. In principalities, differences among creditors prevailed. As already stated, investors with power and status stood a better chance of repayment than smaller investors did. Patronage embodied in the princes also spilled over into debt management and raised the costs of servicing loans and credit. The princely model did, however, offer other opportunities for profit through social mobility, superior to those available in republics. The financial history of Piedmont, for example, exposes several cases of commoners who managed to reach the higher levels of the social hierarchy by lending to princes in exchange for titles and feudal privileges rather than straightforward monetary returns.²⁷

²⁷ See Stumpo, *Finanza e stato moderno*; S. Cerutti, *Mestieri e privilegi* (Turin: Einaudi, 1992), pp. 97–8.

All governments paid a risk premium on their debts. Compared with rents secured on land, the premium risk of state bonds was usually about two percentage points and it was, moreover, more commonplace in principalities than republics. Indeed, in the mid sixteenth century, 'public' interest rates stood below 'private' counterpart rates.

Distinctions between princely and republican models should not, however, be drawn too sharply. Throughout the seventeenth and eighteenth centuries, princely states also established institutions that improved the collection of revenues and widened markets for debt beyond restricted court or narrow urban circles to regional levels. Financial innovations that can be compared to the so-called financial revolutions that occurred later in Holland and England appeared to attract creditors. Italian innovations in the financial sector helped rulers to raise large amounts of money at modest costs. Except in Piedmont, not all of the money was raised for military purposes.

As early as the Renaissance, some Italian states (Venice, Milan and Florence) displayed those close and familiar correlations between economic prosperity, financial capacity, fiscal efficiency and political power. Geopolitical and economic competition on the peninsula forced the states to look for more rational means of financing ordinary as well as extraordinary deficits. The huge availability of capital allowed for the exploitation and transformation of money into military strength. After the end of the Italian wars, when most Italian city-states fell under the control of great European powers, the picture changed and fiscal and financial policies were designed to meet the needs of imperial monarchies, first the Spanish and later the Austrian empires. The Piedmontese duchy somehow maintained independence and utilized domestic resources together with loans from allies to engage in European warfare. Wars for expansion, an effective fiscal system, favourable economic and social conjunctures, and chance laid the basis for Piedmontese geopolitical success.

Another independent state, the Republic of Venice, again after the favourable Renaissance phase, had to cope with defensive wars in order to limit Ottoman expansion. Despite the republic's remarkable capacity for mobilizing financial resources, its geopolitical destiny was decided by the potential scope and scale of small states that could not follow the paths taken by larger powers such as Britain, France, Austria and Russia.

Of course, fiscal capacities and efficiencies must be assessed in relation to fiscal bases or fiscal potential. For example, in mid-seventeenth-century Genoa, for every 100 lire of personal income almost 22 lire was taken annually by tax collectors, undoubtedly a high percentage for the

Table 11.2. *Central revenues and per capita 'burden' in Italy, 1420–1789 (working days of a labourer in the building trade)*

	Milan	Venice	Florence	Genoa	Naples
1420–29			9		
1450–59		6			
1550–59		6	6	8	4
1560–69			6		7
1590–99					4
1600–09		5		12	5
1620–29			7		
1640–49	7		6		15
1650–59	8			9	
1700–09		8			
1750–59					5
1760–69	15	8			
1770–79	19				
1780–89	22				

Source: L. Pezzolo, *Mars and Pluto. War and finance in Italy, 1350–1700* (forthcoming).

times.²⁸ Data for Piedmont and Lombardy in the eighteenth century show that these states appropriated taxes at British ratios and tax burdens were less unequally distributed than in France. Furthermore, their subjects transferred most taxes to central governments. For example, a small Piedmontese farmer paid 12.8 per cent of his own income in state taxes, and only 1.4 per cent in ecclesiastical and feudal dues.²⁹ The Kingdom of Naples in the seventeenth century, on the contrary, accumulated enormous tax arrears that hindered the fiscal health of the state. This was the result of diminishing tax returns due to a dramatic gap between the financial needs of the government and the economic circumstances of society. As little as 800,000 ducats were collected from a grant of 1.5 million ducats offered by Naples in 1638.³⁰

Table 11.2 shows a comparison among Italian states considering the amount of taxes at the disposal of the central treasuries and the per-capita 'burden' expressed in the number of working days of a labourer.

²⁸ G. Felloni, 'Distribuzione territoriale della ricchezza e dei carichi fiscali nella repubblica di Genova, e Stato genovese, finanza pubblica e ricchezza privata: un profilo storico', in Felloni, *Scritti di storia economica*, I (Genoa: Società Ligure, 1999), p. 230.

²⁹ G. Prato, *La vita economica in Piemonte a mezzo il secolo XVIII* (Torino: Società Tip. Ed. Nazionale, 1908), p. 468.

³⁰ Galasso, *Storia del Regno*, pp. 166, 178, 189.

Data tell different stories. By the end of the *ancien régime*, some Italian states had achieved high levels, relatively speaking, of fiscal efficiency. Limits had been reached because their revenues funded wars rather than capital formation. It is not easy to connect fiscal efficiency to the construction of institutions for economic growth. During the Renaissance, states that managed to reconcile the interests of local elites and fiscal needs were small republics. Towards the end of the *ancien régime*, these republics could no longer compete with the great powers and their Italian dominions and satellites. Despite significant differences among several states, it does not seem that taxation in central and northern Italy provoked permanent and bloody tensions between states and subjects. In the south, on the other hand, the great revolt of 1647–48 marked a significant turning point. It was the peak of an increasing fiscal burden that, after the Spanish restoration, was lowered considerably. Thus, in the eighteenth century, Neapolitan taxpayers enjoyed more favourable conditions than previously. Napoleon's arrival on the peninsula changed the situation drastically. Italian taxpayers had to bear a heavy fiscal burden imposed to support his futile attempt to conquer Europe.