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The Unification of Common Sovereign Debt

What can we learn from the Italian Kingdom
experience?

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*Alla mia famiglia,
per il continuo sostegno
e per avermi reso la persona che sono.*

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Abstract

In this thesis we want to analyze the current Eurobonds proposal, understanding how investors would react to the issuance of common sovereign debt. In order to do this, we will analyze the most similar situation present in history: the unification, in the 19th century, of Italy, from seven different entities (different in culture, traditions, languages and economy) to one single, unified Kingdom. The experience faced by the Kingdom of Italy is, historically, the closest one to the exhausting attempt to give greater political consistency to the European Union, also through the integration of economic and fiscal policies, including the sovereign debts of the European countries. Therefore, we should look at it as a precious precedent to try to understand how the financial markets may behave in front of the unification of the public debt of the Eurozone countries.

After a qualitative analysis, the thesis empirically shows, based on a database of Italian bonds, traded in Brussels and Antwerp markets, how common taxation impacted on bond prices, leading finally to a homogeneous movement in the financial market.

Key words: Sovereign Debt, Unification, Italy, Taxation, Public finance, Eurobond Proposal.

Résumé

Dans cette thèse, nous voulons analyser l'actuelle proposition d'obligations pour la zone Euro (les Eurobonds), en comprenant comment les investisseurs réagiraient à l'émission de la dette souveraine commune. Pour ce faire, nous allons analyser la situation la plus proche de l'histoire: l'unification, au 19ème siècle, en Italie, de sept entités différentes (différentes cultures, traditions, langues et économie) en un seul Royaume unifié. L'expérience dont le Royaume d'Italie a fait face est, historiquement, la plus proche de la difficile tentative de donner une plus grande cohérence politique à l'Union européenne, également par l'intégration des politiques économiques et fiscales, dettes souveraines des pays européens comprises. Par conséquent, nous devrions considérer cette expérience historique comme précieuse pour essayer de comprendre comment les marchés financiers pourraient se comporter face à l'unification de la dette publique des pays de la zone Euro.

Après une analyse qualitative, la thèse montre empiriquement, basé sur une base de données d'obligations italiennes, échangées sur les marchés financiers de Bruxelles et Anvers, comment la taxation commune a eu des répercussions sur les prix des obligations, ce qui conduit finalement à un mouvement homogène sur le marché financier.

Mots-clés: Dette Souveraine, Unification, Italie, Taxation, Public Finance, Eurobond Proposal.

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Introduction

Sovereign debt is one of the oldest investment asset classes in the world, as national governments have been issuing bonds for centuries. Nowadays, sovereign debt characterized a significant part of institutional investors' portfolio, and is becoming very popular also among individual investors.

But what do we mean when we talk about sovereign debt? Sovereign debt is the debt issued by national governments and it can be broken down into two broader categories: on one hand bonds issued by large, stable, developed countries that carry high credit ratings and provide relatively low yield, and on the other hand bonds issued by emerging markets that carry lower credit ratings (junk bonds) compared to the developed nations sovereigns and offer high yield, since they are perceived as more risky.

Since sovereign debt is the debt issued by governments, investors look at it as the safest investment in most countries. Indeed, the government, having the right to collect taxes and issue currency, could not go bankrupt. But it is also true that investors have no real claim to force reimbursement; therefore, if the State decides not to repay its debt, investors have not much to say.¹ This represents a paradoxical situation and solve it is one of the main challenge related to this subject (Eaton and Fernandez, 1995; Collet, 2013).

Different studies have tried to understand and explain how certain events impact on sovereign bond's expected rates of return. One example is given by the study made by N. Ferguson where he argues that war, or the threat of war, leads to fluctuation in bond prices. He focused the attention on bonds market movement in the period between 1840 and 1880 in which he found important fluctuations in great powers bond prices, exactly because of wars or the threat of them.² Dinecco, Vindigni and

¹ Collet S., *A unified Italy? Sovereign debt and investor scepticism*, ESCP Europe Université Libre de Bruxelles, July 15, 2013, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2024636

² Ferguson N., *Political Risk and the International Bond Market between the 1848 Revolution and the Outbreak of the First World War*, Wiley on behalf of the Economic History Society, 59(1), 70-112, February 2006.

Federico have also studied the issue focusing on political change, warfare and taxation during the Italian Risorgimento. They assert that external and internal threat environments had significant implications for the demand for military might, which in turn had important ramifications for fiscal policies, the likelihood of constitutional reforms and crucial impact on bonds market.³

Other researchers, instead, have studied the impact on sovereign bond's expected rates of return during peaceful period. For example, McGillivray and Smith have studied the issue linking the different reaction of bonds prices not only to economic conditions but also to the characteristics of the issuer government. They found out that nations with absolute leaders not only receive worse access to credit, but also their creditworthiness shifts with leadership change on the contrary to what happens in democracies.⁴

There is another event that can heavily impact sovereign bond markets and it is the case of State unification. When a country unifies, the sovereign debts of each single pre-unitary State are merged together to create a new single sovereign debt.

In this thesis we want to analyze the current Eurobonds proposal, understanding how investors would react to the issuance of common sovereign debt. In order to do this, we will analyze the most similar situation present in history: the unification, in the 19th century, of Italy, from seven different entities (different in culture, traditions, languages and economy) to one single, unified Kingdom. As Stéphanie Collet has stated in her paper *A unified Italy? Sovereign debt and investor scepticism*, investors did not believe in Italy unification until common taxation was introduced.⁵ Therefore, we will try to understand how common taxation impacted on bond prices, leading finally to a homogeneous movement in the financial market.

³ Dincecco M., Federico G., Vindigni A., *Warfare, taxation, and political change: evidence from the Italian Risorgimento*, The Journal of Economic History, Vol. 71, No. 4, June 6, 2011

⁴ McGillivray F., Smith A., *Who can be trusted?: Sovereign debt and the impact of leadership change*, Department of Politics New York University 726 Broadway New York, NY 10003, July 2003

⁵ Collet S., *A unified Italy? Sovereign debt and investor scepticism*, ESCP Europe Université Libre de Bruxelles, July 15, 2013.

The integration of the common sovereign debt is a very hot topic today in Europe. Many proposals have been advanced in these years, that have been welcomed in different way by the various European arena's players, with attitudes ranging from enthusiastic endorsement to skepticism, up to complete aversion. The arguments against the Eurobond proposal essentially reside in the fact that the most virtuous countries should bear an additional burden, in terms of cost of debt, compared to the least virtuous countries. There would also be the additional risk that the protection offered by the Eurobonds encourages moral hazard, incentivizing, in general, tax and budgeting policies even less stringent, exacerbating the discrepancy between relaxed nations and virtuous ones and weighing down the burden borne by the latter. On the contrary, different studies (e.g. The Blue Bond Proposal by von Weizsäcker and Delpla), that endorse the Eurobond proposal, believe that the integration of common sovereign debt would lead to lower yields.⁶

In the history of the modern state, the experience faced by the Kingdom of Italy is, historically, the closest one to the exhausting attempt to give greater political consistency to the European Union, also through the integration of economic and fiscal policies, including the sovereign debts of the European countries. Therefore, we should look at it as a precious precedent to try to understand how the financial markets may behave in front of the unification of the public debt of the euro zone countries.

The thesis is divided into 6 sections. Section 1 describes the Italian historical background and outlines its position in the broader European context. Section 2 introduces the new financial policies implemented by the *Historical Right* after the unification. Section 3 focuses on the path undertaken by the newly born Kingdom towards common taxation, highlighting the most important fiscal decisions that restructured the Italian fiscal system. Section 4 concerns the news, reported by the contemporary financial press, about what the economic arena was saying regarding Italian unification. Section 5, instead, shows the analysis we run to understand how

⁶ Delpla J., von Weizsäcker J., *The Blue Bond Proposal*, Bruegel Policy Brief, 2010.

the market reacted to the passage of tax reforms, and the results thus obtained. In order to do so, we used a structural break analysis to see which tax events drove the financial market. Section 6 draws conclusions and gives some future possible choices for European sovereign debt unification.

1. Towards a unified Italy: historical background of XIX century Europe

The 22h of September 1814 the Congress of Vienna was convened by the powers (Austria, Britain, Prussia and Russia) that defeated Napoleon Bonaparte, in order to restore the European political structure present before the Napoleonic campaigns. The conference was aimed also to give Europe a stable order to prevent the expansionist ambitions of France. There was only one way to ensure long lasting peace in Europe: limit the power of each nation so that none could prevailed over the other. The tendency of the Congress was to strengthen the monarchical absolutism and to prevent the dissemination of the French ideas. Therefore, the spirit of the restoration was anti-liberal and intended to deny the principle of nationality.

The answer to the anti-liberal policy of the Congress was not long in coming. Liberal groups, who demanded the establishment of constitutional governments, were a political and social minority that was headed mainly by members of the intellectual and entrepreneurial middle class. Since these groups could not operate in the clear light of day, they organized themselves into secret societies with clandestine conspiratorial activities. In Italy, the most famous one, was the *Carbonari* secret society that had branches all over the country. So in 1820-1821 many uprisings started in the south of the peninsula and also in Spain and in Portugal, forcing the regnant powers to grant new Constitutions. Livened up by the events occurred in Spain and in the southern part of Italy, the Lombard and Sardinian secret societies increased their activity but the Austrian police stopped them, arresting some rioters.⁷ Therefore, Austria, that was the most interested in repressing the uprisings, convened a congress in Troppau where Austria, Russia and Prussia proclaimed the principle of intervention. In a congress in Ljubljana it was decided the armed intervention in the

⁷ Website Presidenza della Repubblica italiana, Giorgio Napolitano Per l'unità d'Italia, Discorsi e interventi ottobre 2009 – giugno 2010, Verso il 150° anniversario della fondazione dello Stato nazionale.

Neapolitan. The 23rd of March 1821 the Austrian troops demolished the Neapolitan constitutional regime.

With the Congress of Verona, France was mandated to repress the Spanish constitutional regime that, despite the fierce resistance of liberal groups, fell in October 1823. In Portugal, instead, the constitutional regime was repressed by the internal absolutist forces, that in the meantime were reorganized.

In 1830 new uprisings broke out in Europe causing, in France and in Belgium, a first break in the arrangements established during the Congress of Vienna. In France a popular uprising against Charles X broke out, due to the fact that he was willing to completely restore the old regime. The *July Revolution* brought on the French throne Count Louis Philippe d'Orleans. France became a constitutional monarchy. In Belgium, the 23rd of August 1830 people in Brussel rose up against the government, demanding independence from the Netherlands. The intervention of the Alliance, in defense of King William I, was prevented by Louis Philippe d'Orleans who believed that to ensure peace in Europe was necessary not to intervene. So Belgium became an independent State and was able to adopt a liberal constitution. In Italy the conspiratorial activities of the *Carbonari* did not stop, but it was very active mainly in central Italy, where, however, in a short time the absolutist monarchies were restored.⁸

The failure of the *Carbonari* revolts was mainly due to the lacking support of the mass; that is why also the Mazzini's project failed. Mazzini was one of the most influent member of the *Carbonari* society and he aimed to constitute "one, free, independent and republican" Italy. He refused the idea of a federal Italy; he believed that a centralized State would have better represented the national communion. According to Mazzini the people had the mission, through an uprising, to complete the unification of the country and not an Italian king with the aid of some foreign power. In 1831 he founded the *Giovine Italia*, an organization that incited the revolt.

⁸ Website Presidenza della Repubblica italiana, Giorgio Napolitano Per l'unità d'Italia, Discorsi e interventi ottobre 2009 – giugno 2010, Verso il 150° anniversario della fondazione dello Stato nazionale.

Mazzini's thinking crossed the national borders and, so, in 1838 the *Giovine Europa* was born. However, also the attempts of Mazzini failed because his purposes did not take into account the biggest part of the population made of farmers.

Therefore, due also to the continuous failures, Mazzini's followers were losing points against the moderate liberals who wanted to achieve the birth of a federal State, through a slow and bloodless unification process.⁹

In 1848 Europe was hit again by a wave of riots. In France, the political and economic situation was extremely precarious because of the conservative attitude assumed by Louis Philippe d'Orleans. Opponents of the king gave birth to the *Banquet Campaign*¹⁰ that led to the institution of the Republic. The right to work was proclaimed and were created the national workshops aimed at eliminating unemployment. The universal male suffrage was also introduced. The national workshops, unproductive and too expensive, were soon closed by the moderate bourgeoisie came to power, after having put down in blood a workers' revolt.

It was thus launched a moderate Constitution and France became a Presidential Republic. As first president of the Republic was appointed Louis Napoleon.

The revolts interested also the Hapsburg Empire where a revolt, promoted by students and teachers, broke out in 1848 and from Vienna spread throughout the empire. These uprisings led to the abandonment of Vienna by Metternich before, and after by Ferdinand I and to the establishment of provisional governments in Budapest and Prague.

Riots broke out in 1848 also in Germany where a revolt spread from Berlin to other German cities. It was then convened a meeting in Frankfurt with the objective of writing the Constitution for a unified Germany.

⁹ Website Archivio storico della Camera dei deputati, L'Archivio storico per il 150° anniversario dell'Unità d'Italia.

¹⁰ The Banquets were private political meetings which were a way to turn around the 1835 Act prohibiting public assemblies. The first session was in Paris on 9 July 1847, and progressively spread to all of the French provinces. The prohibition of one of these meetings by François Guizot's cabinet, supposed to take place on 14 January 1848 in the 12th arrondissement of Paris, and then of another one set up for 22 February 1848, were the immediate cause of the riots which led to Louis-Philippe's destitution.

In the same year harsh revolts broke out also in Italy leading to the First Italian War of Independence (1848-1849), a real national war against Austria. Unfortunately, it did not have a good ending, since all the old government structures were restored. The first step towards the unification was made in the summer 1859 when, after three months of battles (Second Italian War of Independence), the Villafranca armistice was signed by France and Austria. With the armistice Italy obtained just Lombardy, while Veneto remained under the Hapsburg Empire; therefore, Cavour's plan of establishing a northern Italian kingdom was finally frustrated.

At this point, Mazzini's followers entered the scene organizing the so called Expedition of the Thousand led by Giuseppe Garibaldi, with the goal of let the people of the south rise up. Started the 6th of May 1860 the expedition will conclude the 26th of October 1860 with the memorable meeting in Teano, where Garibaldi consigned to Vittorio Emanuele II all the territories he released.¹¹

Thus, the national unification began to take shape, even if it was not yet complete because Lazio remained a Papal territory and Veneto was still in Austrian hands. However, the 17th of March 1861 Vittorio Emanuele II was proclaimed King of Italy. We have to wait for the Third Italian War of Independence (1866) to see Veneto become part of the Italian Kingdom.

To complete the unification process, it was left just the annexation of the Papal State, an operation difficult to implement since Pius IX was not at all willing to give up his temporal power. Given the Pope refusal, Garibaldi and his volunteers tried twice to occupy Rome, but Napoleon III, protector of the Papal State, prevented him from doing it. With the fall of Napoleon III, as a result of the Franco-Prussian War, Italian troops led by General Cadorna entered Rome after having breached Porta Pia (20 September 1870), marking the end of the temporal power of the Pope. In February 1871 Rome became the capital of the Kingdom of Italy. Italy unification was finally achieved.

¹¹ Ruscello L., *La questione meridionale non avrà mai fine*, Lampi di Stampa, TiPubblica, 2016.

Abbiamo fatto l'Italia. Restano da fare gli italiani (We have made Italy. Now we must make Italians).¹²

With this sentence Massimo D'Azeglio, predecessor of Cavour at the helm of the Savoy government, intended to highlight the important and difficult task that was up to the new government of the Kingdom of Italy. Unitary Italy was a country of 22 million inhabitants and it was socially and economically backward. The 80% of the population was illiterate, the economy was still based on agriculture and there was a huge gap between North and South that gave rise to the *Southern issue*. The new government, then, in addition to solve the Italian economic problems, had to build a non-existing national identity.¹³ This absence of national identity manifested itself in southern Italy with brigandage and popular revolts due to the fact that lands were still in the hands of landowners. To these problems we have to add the increased tax burden imposed by the new Italian governments compared to the previous Bourbon system and the introduction of mandatory conscription, unknown in southern Italy.

1.1 United but not so close together yet

The governments in office during the first years of the Kingdom of Italy had to manage many difficult challenges; as we have seen in the first part of this section, once done Italy, we had to make Italians. This was one of the main tasks the government had to deal with. Indeed, it found itself in front of a nation that was the result of a merger of completely different States, each one with his culture, tradition, language and administrative structure. Post-unitary Italy was a kind of melting-pot that had to find a national identity.

In the next section we will focus on the differentiations existing in the economic and fiscal system, but now we would like to spend few words concerning another aspect of difference that we believe was as crucial as the economic aspect in the unification process, that is the language.

¹² Capurso A., *Le frasi celebri nella storia d'Italia*, Oscar Mondadori, 2008.

¹³ Ruscello L., *La questione meridionale non avrà mai fine*, Lampi di Stampa, TiPubblica, 2016.

The Unification, achieved with an unexpected acceleration, still seemed like a fatal outcome, crowning a common past: the same language, same culture, same traditions. This portrait of Italy is not entirely true. The historian Sergio Romano, in the essay *Finis Italiae*, points out that, in 1861, the Italian language was spoken just by the 8% of the population. The remaining 92% communicated solely through the dialects (and recalls how, even sixty years ago, there were not so many of our compatriots who expressed themselves properly in the language of Dante Alighieri, so much so that conscripts were sent in regions far from those of origin, in the attempt to facilitate communication between people from Lombardy and people from Sicily, between people from Puglia and people from Piedmont).¹⁴ The difficulty of mutual communication was not attributable only to illiteracy, still widespread in the mid-nineteenth century. At that time, for example, the two most old States of the Peninsula, the Venetian Republic and the Papal States, ran their business in a language other than Italian: a stylish and elegant version of the Veneto in the first, Latin in the second. Nor traditions were common, as they were related to municipalism, heir of the Italian *Districts* and of the *Signorie*.

However, Benedetto Croce will write, in 1945, that "Italy, from 1860 to 1922, was one of the most democratic countries in the world", and that "his conduct was an uninterrupted and often accelerated rise in democracy" of liberal type.¹⁵

Italian language, to become the language we know today, went through different unification processes.

Between the thirteenth and fourteenth century a linguistic unification process was beginning, based on the Tuscan language and favored by a number of factors. In first place, the geographical centrality of the Tuscan region and its cultural, economic and commercial vibrancy made the choice very obvious. Moreover, Tuscan language resembled the Latin more than other vulgar languages, and it was, therefore, accepted more easily by educated people, who were used to write in Latin.

¹⁴ Website Ministero della Difesa, *17 marzo 1861: nasce il Regno d'Italia*.

¹⁵ Website Ministero della Difesa, *17 marzo 1861: nasce il Regno d'Italia*.

Another very important factor that contributed to the success of the Tuscan language was the work of three great authors of the fourteenth century: Dante Alighieri (1265-1321), Francesco Petrarca (1304-1374) and Giovanni Boccaccio (1313-1375). Their masterpieces constituted a reference linguistic example in prose and poetry, because it was used a rich vocabulary of simple terms and wide circulation, but at the same time open to Latinisms. The language of literature, addressed to few people, distinguished itself from the dialects, limited to local use and to the scope of orality. The result was a sharp separation between the written culture and the different regional cultures of dialects, very rich, but more difficult to describe and document.¹⁶

The example of the three great authors was always accompanied by an intense debate on the quality of the vernacular and on the adoption of a truly unifying linguistic model. Even Dante, in the treaty on the vernacular literary language, *De vulgari eloquentia* (1304), set out the establishment of a common language, which transcended the boundaries of dialects and that was “eminent”, that is, perfect and noble compared to the lowest idioms of each region. His attempt was, as mentioned, in the direction of a clear gap between written, literary language, and spoken one. The so called “language issue” was born precisely in the next century, and began to move towards a solution only in the sixteenth century, when the literary dignity of the vernacular was further consolidated, and reached equal status with Latin. Niccolò Machiavelli (1469-1527) proposal of adopting, as the only written language, the liveliest spoken Florentine, was counterposed by the winning theory of Pietro Bembo (1470-1547), who identified in Boccaccio the best model for the prose and in Petrarch the best model for the poetry. The superiority of a written language anchored to a refined model was thus finally confirmed, increasing the gap between the few beneficiaries of the literature and the rest of the speakers. To accentuate this gap contributed, in 1612, the birth of the *Accademia della Crusca* (Academy of the Bran), the first major European lexicographical operation, which was essentially based on the Florentine of the great authors of the fourteenth century.¹⁷

¹⁶ Marazzini C., *Breve storia della lingua italiana*, Il Mulino, Bologna, 2004.

¹⁷ Marazzini C., *Breve storia della lingua italiana*, Il Mulino, Bologna, 2004.

The invention of printing with movable type by Johann Gutenberg (1394-1468) around the mid-fifteenth century, represented a turning point for the unification of the language. It was a revolutionary event, which allowed to increase the dissemination of works and, consequently, helped to extend the circulation of the language. Furthermore, to reach larger segments of readers, the language itself had to be leveled out not only in morphology and syntax, but also in the graphics, so as to make the published works enjoyable for a greater number of people.

The evolution of the literary language toward simplified forms and adapted to a wider audience of readers owes much to the scientific production of the seventeenth century. The need to spread, with the widest possible resonance, new discoveries led many scientists to elaborate a language closer to everyday life. Even the syntax changed, adopting less complex constructions, suitable to quickly express the logic of the new argumentations. The masterpiece in this field was the *Dialogue Concerning the Two Chief World Systems* (1632) by Galileo Galilei (1564-1642). The scientist used a high and impeccable literary language, but at the same time flexible and streamlined. He knew how to make it the instrument of an extended communication, and its success was surprising.¹⁸

From the sixteenth century, all over Italy the unique pattern for the written language was going to consolidate, but the spoken languages remained for centuries the regional ones, even in the upper classes. Only with struggles for political unification, which took place between 1859 and 1870, it made his way the full awareness of the need of popularizing the use of the Italian language everywhere, even spoken, as a single language. That was a prerequisite for the political unification. From a national perspective, the language had the task of overcoming the old regional particularities and generate the basis for a common Italian cultural identity. In fact, at the time of the proclamation of the Kingdom of Italy, in 1861, Italy had not yet achieved full linguistic unification and it is estimated that only 2.5-10% of the population would

¹⁸ Sebastio L., *Manuale di storia della lingua italiana*, p. 37-61.

understand and would use the Italian language.¹⁹ The actual linguistic unification was accomplished only in the twentieth century, thanks to a combination of factors that we will see later.

The debate around the language, already reclaimed in the eighteenth century, was rekindled in the nineteenth century. Alessandro Manzoni (1785-1873) had a significant role in the debate; indeed, his novel *The Betrothed* favored the rapprochement between written and spoken Italian language and contributed to the movement towards the creation of an Italy linguistically united. The writer realized that in order to achieve this goal it was necessary to choose one of the Italian dialects and promote it as national language. Therefore, to write *The Betrothed* Manzoni made use of a simplified language, close to the modern Florentine spoken by the educated classes and he proposed it as national language.²⁰

The use of the language thus obtained marked the long lasting success of the novel, intended to be considered the model of new language for entire Italian generations: a model for the writing, but also reference point for the oral.²¹

However, the linguistic unification was not achieved through the bestowal of spoken Florentine. Actually, it was completed thanks to some crucial factors of social, economic and communication nature.²² The most important factors were:

- The national army, where masses of young people coming from all over Italy were merged and that during the World War I felt the need, for the first time, to take advantage of a unified language to communicate;
- Industrialization, and the consequent urbanization, that led to the partial abandonment of dialects in order to manage different communication needs;

¹⁹ Sebastio L., *Manuale di storia della lingua italiana*, p. 37-61.

²⁰ Marazzini C., *Breve storia della lingua italiana*, Il Mulino, Bologna, 2004.

²¹ Sebastio L., *Manuale di storia della lingua italiana*, p. 37-61.

²² Zanichelli, *La lingua italiana: storia e attualità*, from the website.

- The internal migration, masses moving from the countryside to the city and from the poorest regions to more developed ones, from which derived the necessity of using a common vehicular language;
- Employment, throughout the national territory, of a bureaucracy that had to use a homogeneous language;
- Newspaper dissemination that in order to conquer a mass audience, had to greatly streamline vocabulary and syntax;
- Compulsory Education Introduction, initially (1859) limited to the first two years of primary school and then extended to the middle school (1962);
- Radio broadcasting, movies and, since 1954, the television, had a fundamental role in the definitive linguistic integration of the country.

The result of these processes is a language comprehensible to everyone, even if we still have differentiation, in its written and oral expressions, according to the cultural level of the user: more or less rich and expressive in the case of the upper class; more or less repetitive and simplified in the case of people less educated.

1.2 European economic background

Italy, at the time of unification, was a country economically backward compared to nations such as France or England. Italy was mainly an agricultural economy, even if also this sector was not well developed, except in the Po valley where there were agriculture factories based on a capitalistic model. The main reasons for this situation was the weakness of the domestic market and the fragility of the financial system, that were also the causes for a delayed industrial development. Moreover, for a long time Italy did not have an efficient road network that allowed wares flow and the States on the boarder were trading with neighboring countries and had limited trades

with the other Italian territories; an example is Piedmont that was more oriented toward France and Lombardy-Venetia toward Austria.

With the unification, things slowly started changing. In the first years after unification, the two pillars of Italian economic policy were the extension to the whole peninsula of the rail network and the strict application of principles of liberalism, but neither one nor the other were able to give the first push to the country industrial development.

However, thanks to the rail network construction, Italy improved the exportation of agriculture products but also the importation of industrial ones, leading therefore to an ulterior stagnation of the industrial sector, while improving agriculture.²³

The agricultural production was growing; there was a satisfactory flow of wealth that returned, however, just in small portion to the peasantry. Indeed, the major part remained in the propertied classes hands or went to the state, through the implementation of tough fiscal policies. By taxing agriculture the state could lay the foundations for an economic takeoff and build the essential foundations and preliminary conditions for industrialization.

Doing so, the economic benefits were great, but the costs, from a social point of view, were very high: since, as we mentioned above, Italy at the time was an agriculture country, these decisions led to widespread poverty and to a backwardness condition in the southern countryside. Indeed, with the fall of any barrier and the adoption of free trade, the southern regions, that were taking advantage, before, of strong protection policies, were hit by English, French and American products.

Thus, the new policies, implemented during the first years of unification, while hampering the agriculture sector and most of all the southern regions, were building the foundation for a much broader economic growth.²⁴

Also at European level, the agriculture was still the main activity in the mid-nineteenth century. The difference with Italy is, however, that in other areas of the continent the sector underwent a process of big changes when the capitalist model

²³Allain J.C., Bosworth R.J.B., Dellacasa G., Moses J.A., Repetto P., Tipton F.B., Trezzi L., Vanzetto, L., *Storia d'Italia e d'Europa: Il passaggio del secolo e la Grande Guerra*, Cap. 4, pag. 85-132, Jaca Book, Milano 1983.

²⁴ Allain J.C., Bosworth R.J.B., Dellacasa G., Moses J.A., Repetto P., Tipton F.B., Trezzi L., Vanzetto, L., *Storia d'Italia e d'Europa: Il passaggio del secolo e la Grande Guerra*, Cap. 4, pag. 85-132, Jaca Book, Milano 1983.

spread out. Also the Napoleonic occupation of some territories had the effect of dynamism and improvement in agricultural policies: the feudal rights were abolished, church properties were largely sold, thus these lands became available for the intensive cultivation, exploiting “modern” cultivation techniques. Therefore, Italy lacked completely of this agriculture “modernization” experienced, on the contrary, by other European nations.

Furthermore, countries like France, England, Belgium and Germany already showed strong foundations for an industrial economy improvement. These nations experienced a much more notable economic boost thanks to different factors: favorable economic legislation that fostered capital flow and credits; reduction or abolition of custom duties; reorganization of monetary system and, most of all, the banks and government support to the overall economy was fundamental concerning investments. Among these powers, England was the first one experiencing an important economic growth already at the end of the eighteenth century, it was the so called first comer in the industrial development. The other powers coming from continental Europe experienced it around 1815-1840 thanks to important social-economic changes, as we have mentioned above.

Belgium acquired a leading position among the nations of continental Europe due to the economic relations with England and thanks to the presence of combustible; France was one of the most technological advanced power in Europe and even if it had to face different challenges it could count on the State and banks support. Germany also knew a remarkable economy growth thanks to its position and, above all, thanks to the establishment of the so called *Zollverein*, a customs union among the German Confederation territories. The territories involved constituted a trade union without customs barriers between them and left the entry barriers for foreign goods, in order to protect the German production from foreign competition.²⁵

Therefore, if compared with the economy of the main powers of the time, Italy shows a very underdeveloped economic structure. In any case, it has to be underlined that

²⁵ Price R., Ville S.P., Aldcroft D. H., *L'economia europea 1750-1914. Un approccio tematico*, University book, pag. 85-98.

Italy reached late the national unification and did not realize any kind of unification of its domestic markets before it, differently from what Germany did with the Zollverein. Thus, when evaluating the economic situation of the European countries of the time, we have to take into account that we are weighing nations that were united since centuries against a newly born nation that had to face many different challenges in order to reach the level of its European peers.

2. A new Italian financial policy

Among the most difficult tasks that the government of the new State had to face, we have to include the construction of public finance, the column on which the Italian authorities had to rest on in order to demonstrate strength and reliability in the eyes of its citizens and of foreign powers. In pursuance of this objective, the new State could not apply the fiscal system belonging to the Kingdom of Sardinia because, even if it was certainly the most advanced among those of the pre-unification, it revealed itself inadequate to the needs of the new Kingdom.

The new State inherited, after the collapse of the totalitarian regimes, a catastrophic economic and financial situation: different systems for charging and collecting tributes, different customs fees, different currencies, different government debts, different administrative structures. These were the main obstacles to be overcome to let the territorial unity turn into political unity.

Exceeding these disparities was the primary task that the liberal government class had to tackle. For this reason, the establishment of a single state budget, which included the revenues and expenses of the ancient States, appeared particularly urgent, resulting in the need to resolve the issue of both tax rearrangement and new revenues finding.

At the end of the day, the financial situation of the Italian States at the end of 1859 showed a deficit of 191.500.000 lire and a public debt of 2.241.870.000 lire.²⁶

It follows that the new Kingdom was born burdened by huge expenses: it had to face not only the deficits of the former States but also the exceptional loss caused by the enormous expenses that Piedmont had to deal with for the Second War of Independence in 1859, as well as the failure of antiquated systems of tax collection. The special structure of the Italian tax system ongoing during the first decades of the new united state, weighed on the poorest social classes and it was more an obstacle

²⁶ Fausto D., *Lineamenti dell'evoluzione del debito pubblico in Italia (1861-1961)*, *Rivista di storia finanziaria*, 15, 77-110, 2005.

rather than an incentive for economic growth.²⁷

The first step towards a united financial policy happened during Pietro Bastogi's mandate as Minister of Finance (April 3, 1861-March 3, 1862). Bastogi, indeed, was the author of the law that led to the creation of *Gran libro del debito pubblico* ("Great book of sovereign debt"), the 17th of July 1861. In the *Gran libro* were collected all the former states' debts, after having been recognized and converted in 5% and 3% Italian *Rendita*, with all the others that were recognized but without the obligation to be converted in Italian *Rendita*, because approved earlier under special conditions. From the *Gran libro* were excluded all those debts that were identified as inconsistent and irregular.²⁸

The other big challenge Bastogi had to face was the establishment of a committee in charge of create a project for land tax equalization. Previously, land tax was regulated by 22 cadasters with different taxation methods; therefore, an equal and common taxation was fundamental in order to reorganize the entire tax-related set of rules. In fact, at the time Italy was unified, each single State presented its particular tax system, showing unbelievable differences: there were taxation laws extremely different, in some States we could have multiple types of taxes while in others they could be non existents, and more in general taxes were cashed in in different size and way.²⁹

The Kingdom of Sicily was the state presenting the major differences, where the tax revenues were stationary sine 1830 and they derived from land taxes and customs duty. All the other type of taxes were completely absent. On the contrary the Kingdom of Sardinia was the biggest taxpayer State, as we can see in the table below.

²⁷ *Condizioni Economico-finanziarie Dell'Italia Unita*, website Istituto Luigi Sturzo.

²⁸ Fausto D., *Lineamenti dell'evoluzione del debito pubblico in Italia (1861-1961)*, *Rivista di storia finanziaria*, 15, 77-110, 2005.

²⁹ Zamagni V., *Debito pubblico e creazione del nuovo apparato fiscale nell'Italia unificata (1861-1876)*, Ente per gli Studi Monetari, Bancari e Finanziari «Luigi Einaudi», 2011.

Table 1: Income of the pre-unitarian States in 1861

	Total (thousand lire)	Population	Per head
Sardinia	161.045	4.500.000	35,8
Lombardy	76.921	2.800.000	27,5
Tuscany	45.543	1.800.000	25,3
Parma	16.789	500.000	33,6
Modena	12.052	600.000	20,1
Romagne	23.964	1.050.000	22,8
Marche and Umbria	25.000	1.400.000	17,9
Neapolitan	109.429	7.000.000	15,6
Sicily	23.766	2.300.000	10,3
Total	494.500	21.950.000	22,5

Source: Zamagni V., *Debito pubblico e creazione del nuovo apparato fiscale nell'Italia unificata (1861-1876)*, Ente per gli Studi Monetari, Bancari e Finanziari «Luigi Einaudi», 2011.

In the same time, Bastogi instituted another committee for the rearrangement of the so called *Imposta di ricchezza mobile* (it was the first income tax provided by the new Kingdom). This side of the taxation structure, indeed, had to be revised by the government since in most of the former States the income tax was not collected or just in part.³⁰

At that time, Italy was an agricultural country where the commercial and entrepreneurial sector was not yet developed; therefore, one would expect the land tax to be the most important source of revenues for the new State and the income tax to be the completion of the general tax structure.

However, in actual fact, the income tax took on an excessive importance compared to the size of the economic activities that it should have hit, and this gap between the two type of taxes was destined to increase in the next years.

³⁰ Zamagni V., *Debito pubblico e creazione del nuovo apparato fiscale nell'Italia unificata (1861-1876)*, Ente per gli Studi Monetari, Bancari e Finanziari «Luigi Einaudi», 2011.

The international diplomacy world was worried for the situation the new State was handling and it was not sure about the outliving of the Italian Kingdom because of deficit problems. It was, therefore, necessary to think about a new fiscal structure but, unfortunately, the policies proposed by Bastogi had to wait for their implementation almost a decade, also because of clashes that occurred in the meantime.³¹

The 3rd of March 1862, Quintino Sella succeeded Pietro Bastogi and had to face an incredible growth in deficit, that reached the amount of 308.846.372,02 lire.³² Since the government rejected the option of cutting expenses, there were only two other possible ways to tackle the problem: either expanding the existing deficit or imposing new taxes.

Sella was against the first option, due to the fact that it would have meant prejudicing some production activities and compromising the just achieved unification of the sovereign debt. Therefore, the remaining option was to apply new form of taxation. Moreover, in order to cover the enormous deficit, Sella applied the so called *manomorta tax*³³: since the enormous Church properties were inalienable and perpetual, he posed on them this tax getting back an annuity of 5%. It was the first government attempt to expropriate and alienate the properties owned by the Church, attempt that would have assumed biggest importance in the years to come.

The following governments implemented all their actions based on the need of balancing the expenses with the revenues in order to attain as soon as possible the balanced budget. According to Sella this was the first objective to be reached to

³¹ *Condizioni Economico-finanziarie Dell'Italia Unita*, website Istituto Luigi Sturzo.

³² Fausto D., *Lineamenti dell'evoluzione del debito pubblico in Italia (1861-1961)*, *Rivista di storia finanziaria*, 15, 77-110, 2005.

³³ The ecclesiastical *manomorta* was a legal status of privilege regarding all the assets (usually real estate) belonging to a church organization which, not being able to be transmitted by succession *mortis causa* to third parties, because of the temporal continuity of the legal ecclesiastical entity over the centuries, they could not also be subject to the inheritance tax of the State where they were.

The Kingdom of Sardinia introduced the *manomorta tax* (equal to 0.90% of the asset value) during the Cavour government: this legal institution was later integrated in the United Kingdom of Italy.

Albeit with very limited functions due to the subsequent revolutionary laws that handed over the Italian State the majority of land and real estate assets of the church, the *manomorta tax* remained over the years and it was only suppressed by the law n. 608 of the 31st of July 1954, which abolished the income tax for these institutions.

rearrange the structure of the Italian public finance.

At the end of the 1865, after the downfall of Alfonso La Marmora government, the Italian financial policy had overtaken different obstacles but it was far, anyway, from accomplish a stable structure. The ordinary expenses were doubled, the extraordinary ones kept growing without stopping and the State properties were going to be sell out. In addition, it has to be taken into consideration that many production activities were facing a huge recession caused by the abolition of protection rules and by the implementation of more liberal policies, and that the new Kingdom was facing the danger of a war against Austria, leading in 1866 to a really precarious financial system.³⁴

Therefore, now more than ever, there was the need for extreme measures in order to keep the country away from the risk of default.

This was the situation that Antonio Scialoja, Finance Minister from 1865 to 1867, had to take on. He implemented his financial policy on two pillars: continuing the taxation system rearrangement and adopting new exceptional economic measures to tackle the increasing expenses caused by the war.

During his mandate, Scialoja elaborated a new financial plan founded on the creation of a unique income tax, in order to organize in a more efficient way the direct taxation. The project, at that time so innovative, could not be approved and, still nowadays, the possibility to merge direct and indirect taxation systems is almost unresolved.³⁵

In the next paragraph, it will be analyzed the most important and somehow revolutionary taxes introduced by the government in the first years of the Kingdom of Italy: the land tax, the income tax and the so hated ground tax.

³⁴ Fausto D., *Lineamenti dell'evoluzione del debito pubblico in Italia (1861-1961)*, *Rivista di storia finanziaria*, 15, 77-110, 2005.

³⁵ *Condizioni Economico-finanziarie Dell'Italia Unita*, website Istituto Luigi Sturzo.

Table 2: Key dates

17/07/1861	Creation of The Great Book of Sovereign Debt under Pietro Bastogi Ministry
1861	First attempt to rearrange the income tax structure
3/03/1862	Quintino Sella succeeds Pietro Bastogi and has to face an incredible growth in deficit
1862	Introduction of the Manomorta tax
1865-1867	Scialoja Ministry: taxation system rearrangement and adoption of new exceptional economic measures to tackle the increasing expenses caused by the war

3. Towards common taxation

As it has been already mentioned in the previous section, at the unification's eve each Italian State presented a very heterogeneous tax-related organization. Indeed, it was possible to find many different tax systems that differentiated not only in the type of taxes were imposed, but also in the set of rules controlling their application. Therefore, the most important effort, made by the government during the first years of the Kingdom, in the public finance field, was trying to implement equalizing measures.

3.1 The land tax

The first attempt to equalize the taxation structure was made with the rearrangement of the land tax. Despite the fact that it was an historical tax, existing since years, there were multiple way of sizing and collecting it. In some States, the tax was imposed on the revenues coming from lands and buildings together (Kingdom Lombardy-Venetia, Duchy of Modena), in other States, on the contrary, there were two distinctive taxes, one applied on lands revenues and one on buildings income (Kingdom of Sardinia, Papal State and Tuscany). Moreover, there were differences in the method used to determine the taxable base; even if the cadastral method was generally used in all the States, there were various way for evaluating and estimating the land. Precisely, two categories of cadastre stood out: *geometric cadastre* and *descriptive cadastre*.³⁶

The first one was based on calculations that led to the creation of precise maps indicating the use and the profitability of the plot. This category of cadastre was present in the former Kingdom of Sardinia, in the Kingdom of Lombardy-Venetia, in the former Duchy of Parma, in Tuscany and in the Papal State, with different

³⁶ Magni D., *Storia del catasto italiano, dall'unità d'Italia ai giorni nostri*, Corso di Sistemi Catastali, Parte 3, 2004/2005.

upgrades. The second type was based, instead, on notifications made by each possessor; these notifications were controlled by specific committees that used general criteria to evaluate the plot, leading, most of the time, to carelessness and protests given the fact that this type of cadastre did not call for any map. The *geometric cadastre* was into force in the ex Duchy of Modena and in the ex Kingdom of Sicily. In addition, in the *geometric cadasters* was hit the net product, obtained on an average of many years, while in the *descriptive cadasters* was the current income to be hit. An interesting aspect is that also within the same State it was possible to observe numerous different cadastral measurements with different conceptions and coming from different historical periods.³⁷

Initially, the government took into consideration the possibility of changing approach using the tax on revenues, proposed by Quintino Sella, but especially Marco Minghetti, Prime Minister at that time, spoke out in order to keep the cadastre as base for this kind of tax. Therefore, Minghetti proposed a provisional balance to be calculated in each segment and based on ingenious detection systems that had been prepared by a commission appointed for this purpose immediately after the unification. They gathered about 750.000 real estate purchase agreements drawn up in the years 1851-1860 and distributed throughout all the territory, in addition to the taxes that had some connection with the sale and purchase prices, and in addition to the interest rates linked to the capital engaged. From this analysis they got four ratings, not too far from each other, of the partition of the land tax, waiting for a new and more uniform cadastral organization.³⁸

The final decision, taken after many discussions and with many adverse votes led to the law n. 1831 of the 14th of July 1864.³⁹ With this law the total contribution slightly increased, spreading it so that the distances between the different areas tone down.

³⁷ Magni D., *Storia del catasto italiano, dall'unità d'Italia ai giorni nostri*, Corso di Sistemi Catastali, Parte 3, 2004/2005.

³⁸ Boria P., *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, pag. 27-35, Utet Giuridica, Torino 2008.

³⁹ Website MEF Dipartimento delle Finanze, *I tributi nella storia italiana, l'imposta fondiaria*.

Table 3: Alternative repartition proposals of the land tax (in thousand of lire)

	Pre-law	1st project	2nd project	3rd project	4th project	Adjust.	Final Adjust.	Per head	Per hectare
Piedmont-Liguria	3,96	17.930	20.111	19.450	19.367	18.680	20.079	4,47	7,17
Lombardy	7,44	12.803	16.320	16.635	16.325	19.110	17.717	6,33	8,51
Parma	6,65	2.404	2.404	2.396	2.314	2.776	2.501	5,00	5,45
Modena	5,03	2.778	3.369	3.293	3.300	3.437	3.492	5,82	5,45
Tuscany	3,64	9.112	8.054	8.139	8.463	7.820	8.271	4,60	3,70
Former Papal areas	5,06	12.400	11.796	10.982	10.734	12.027	11.571	4,72	4,35
Neapolitan	4,87	31.600	30.159	31.486	32.174	33.895	33.530	5,16	4,68
Sicily	3,4	12.142	10.217	9.970	9.756	9.626	10.185	4,24	4,23
Sardinia	4,2	3.620	2.491	2.570	2.488	2.628	2.647	4,41	1,14
Total	4,83	104.789	104.921	104.921	104.921	110.000	110.000	5,08	4,83

Source: Zamagni V., *Debito pubblico e creazione del nuovo apparato fiscale nell'Italia unificata (1861-1876)*, Ente per gli Studi Monetari, Bancari e Finanziari «Luigi Einaudi», 2011.

Looking at the table above, if we compare column 1 (situation before the law) with column 8 (first year of the entrance into force of the law) it can be noticed that Piedmont, Modena, Tuscany, Neapolitan and Sicily recorded an increase, while Lombardy, Parma and the areas of the former Papal States recorded a decrease, with a narrowing of the gap between the most taxed (the citizens of Lombardy, with 7,44 lire per head before and 6,33 lire per head after the law implementation, remaining, anyway, at the upper limit) and the less taxed (the citizens of Sicily, that from 3,40 lire per head reached 4,24 lire per head, always remaining at the lower limit).

The columns going from 2 to 5 illustrate the four different projects: the first one based on a cadastral analysis; the second based on the purchase agreements analysis; the third based on the density of the population in relation to the cultivation status and, finally, the fourth one based on the possible actual incomes. Column 6 shows the temporary adjustment achieved for the years 1864-1866. The column 7 exhibits the

final repartition of the adjustment according to the law. And, finally, columns 8 and 9 report the calculation of contributions, respectively per head and per hectare.

The adjustment that was supposed to be a temporary measure lasted for a longer period, because of strong contrasts to launch a new geometric cadastre for the whole country, a decision that was taken only in 1886, triggering a process that saw its definitive conclusion just in 1956.⁴⁰

The next step was to make autonomous the tax on non-rural buildings. Hence, Marco Minghetti the 18th of April 1864 presented a bill which was approved into law n. 2136 the 26th of January 1865 and which also established the register of buildings.⁴¹ It was, also in this case, an innovative law which allowed to separate the buildings from the land cadastre, using an evaluation method that allowed a quick tax adjustment to the increase in the value of urban buildings.⁴²

Table 4: Land tax key dates

18/04/1864	The bill regarding non-rural buildings taxation is proposed by Marco Minghetti
14/07/1864	Law n.1831: land tax rearrangement. The total contribution slightly increases
26/01/1865	The bill regarding non-rural buildings taxation, proposed by Marco Minghetti, is approved into law n.2136 and the register of buildings is established

⁴⁰ Zamagni V., *Debito pubblico e creazione del nuovo apparato fiscale nell'Italia unificata (1861-1876)*, Ente per gli Studi Monetari, Bancari e Finanziari «Luigi Einaudi», 2011.

⁴¹ Website MEF Dipartimento delle Finanze, *I tributi nella storia italiana, l'imposta sui fabbricati*.

⁴² Boria P., *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, pag. 27-37, Utet Giuridica, Torino 2008.

3.2 Income taxation

The most important element of the fiscal reform carried out after the unification was another: the taxation of incomes others than those derived from property. Only the Kingdom of Sardinia had been tried that path, but with circumstantial methods⁴³ (houses, furnitures, staff, horses, cars), that made it more like a poll tax⁴⁴, slightly progressive, rather than an income tax. In other parts of the country there were taxes on particular activities, or on public salaries or family taxes (the so called *hearth tax*)⁴⁵, while in the former Papal areas and in the former Kingdom of the Two Sicilies trade and industry were exonerated from taxation.⁴⁶

As reported in the table below, the internal revenues given by those kind of taxes were very low in the different areas of the country, at the time of the unification.

Table 5: Income taxes

	1861 (Thousand of lire)	1861 (Lire per head)	1872 (Thousand of lire)	872 (Lire per head)	1881 (Thousand of lire)	1881 (Lire per head)
Kingdom of Sardinia	9.600	2,1	29.684	6,8	21.030	4,5
Lombardy-Venetian	3.833	1,4	16.960	2,8	23.481	3,6
Parma and Modena	1.293	1,2	3.759	3,3	3.501	2,8
Tuscany	2.063	1,1	19.346	9	15.993	7,3
Former Papal State	-	-	10.987	3,3	21.315	6,4
Kingdom of the Two Sicily	-	-	29.946	3,1	21.042	2
Total	16.789	-	110.682	4,1	106.362	3,7

Source: Boria P.. *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, Utet Giuridica, Torino 2008.

⁴³ *Circumstantial method* determines the taxable income using abstract evidences that lead to guess the wealth owned by the person. The problem of this method is that it is not so reliable, since it is based just on hypothesis that can lead to wrong evaluations and, therefore, to inequalities among tax payers.

⁴⁴ A *poll tax*, also known as a *head tax* or *capitation*, was a tax of uniform, fixed amount applied to an individual in accordance with the census and not with his ability-to-pay.

⁴⁵ *Hearth tax* was a property tax levied on each “hearth” thus by metonymy on each family unit. It was calculated based on the number of hearths, or fireplaces, within a municipal area.

⁴⁶ Boria P.. *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, pag. 37-41, Utet Giuridica, Torino 2008.

In August 1860 some bills had been presented proposing the extension to the entire Kingdom of the type of taxation in force in the Kingdom of Sardinia, but these proposals became discussion topics because of the general inapplicability of the circumstantial approach. Therefore the Minister Pietro Bastogi established a commission, preserved then by Marco Minghetti as well, that in the early months of 1862 showed preference for a system based on taxpayers' declarations. However, it was only under Quintino Sella's Ministry that was created a bill to this effect; this bill was so explanatory and corroborated by such statistical data and international comparisons that led the Parliament towards approval, without any indecision.⁴⁷

After the downfall of Urbano Rattazzi's government, during which Quintino Sella was the Finance Minister, Marco Minghetti sent forward the law process without hesitation, because he believed that his predecessor project was presented "with such firm topics and such copious documents" that it did not require significant changes.⁴⁸

The parliamentary debate around the proposal was heated and harsh; many MPs were willing to adopt some old form of taxation, but their reasonings were criticized by Quintino Sella, Emilio Broglio, Leopoldo Galeotti, Valentino Pasini and by Marco Minghetti himself, especially on the basis of the impossibility of identifying tangible clues that should have had the same value in different parts of the country. A change of no small account introduced by the Parliament was the qualitative discrimination of income, that was inspired by a famous discussion held in England about the Income Tax Reform: the different nature of income deserved different rates. So three different categories of income were recognised: the perpetual income (fully taxed), mixed capital and labor income (taxed for 6/8) and income from job or pension or annuity (taxed for 5/8), besides tax exemption for low incomes.⁴⁹

The proposal was something very new and in the forefront for the time, so much that a similar distinction was received in the English Income Tax only in 1907, but still

⁴⁷ Boria P. *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, pag. 37-43, Utet Giuridica, Torino 2008.

⁴⁸ Website MEF Dipartimento delle Finanze, *I tributi nella storia italiana, l'imposta di ricchezza mobile*.

⁴⁹ Boria P. *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, pag. 37-43, Utet Giuridica, Torino 2008.

many researchers believe that the Italian formulation was better than the English one even after almost fifty years. In France, a similar proposal on general income tax, promoted in 1870, was rejected and only the need for resources during the World War I led to a change of mind.⁵⁰

Because of its novelty, the law process was quite long and rough. Finally it was approved in early 1864, but published only the 14th of July 1864 as Law no. 1830, coinciding with the Land Tax Act. Initially, for a couple of years, the *quota system* was applied, then the government decided to implement a *quotity system* (8% over the taxable income, with certain exemptions and VAT reductions for lower incomes).

During the *quota system*, the quota was initially calculated on the basis of 1,70 lire per head for the northern provinces; 1,40 and 1,20 respectively for the central and the southern provinces, in order also to make less heavy a tax which in the south had never existed before.

When Quintino Sella returned to the Ministry of Finance, and the *quotity system* had already been implemented, he raised the tax rate to 12% (1870), with a surtax which brought it to reach the 13,2%. It was on this level that the tax went full speed, with the territorial distribution that we can see in the last four columns of the table below.

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Kingdom of the Two Sicily	-	-	29.946	3,1	21.042	2
Total	16.789	-	110.682	4,1	106.362	3,7

Source: Boria P.. *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, Utet Giuridica, To. 2008.

⁵⁰ Boria P.. *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, pag. 37-43, Utet Giuridica, Torino 2008.

To conclude this part concerning income taxation, it is interesting to recall what Vera Zamagni has highlighted regarding this monumental reform: “It is certainly surprising that a landowner as Minghetti and a descendent of an industrial family as Sella were the protagonists of parliamentary battles that led to tax their social classes, but their foresight contribute to include Italy among the countries with the most advanced fiscal legislation in the world. There are not many historical periods that can boast a political staff with such qualities. In particular, it is the income tax the masterpiece of the political class of the time, a class that had the courage to look forward creatively, not reclining on some existing practice.”⁵¹

Table 6: Income tax key dates

1860	Different bills are presented, proposing the extension, to the entire Kingdom, of the type of income taxation in force in the Kingdom of Sardinia
1862	The Minister Pietro Bastogi establishes a commission that in the early months of 1862 shows preference for a system based on taxpayers’ declarations. However, it is only under Quintino Sella’s Ministry that is created a bill to this effect
Early 1864	The bill about income taxation is approved
14/07/1864	The bill enters into force as law n.1830, coinciding with the Land Tax Act
1870	The tax rate is raised from the previous 8% to 12%, with a surtax which brought it to reach the 13,2%

3.3 The ground tax

The creation of the Italian tax authority did not end in 1865 with the above mentioned laws, even because the revenues from the new taxes were late in regulating and the expenses, especially for the defense, were not going to decline. Indeed, Quintino Sella presenting to the Chamber of Deputies the financial situation of the

⁵¹ Zamagni V., *Debito pubblico e creazione del nuovo apparato fiscale nell’Italia unificata (1861-1876)*, Ente per gli Studi Monetari, Bancari e Finanziari «Luigi Einaudi», 2011.

Kingdom of Italy in the years 1862-1865, denounced a deficit of 625 million.⁵² Therefore, in order to achieve a balanced budget Sella proposed to sell the railways (200 million), to get a financing of 425 million and other fiscal measures. Among these other fiscal measures there was the proposal of a ground tax. However, the government whereof Sella was part collapsed, and Antonio Scialoja, Neapolitan senator, was appointed Minister of Finance. In addition to increasing registration fees and stamp duty, he thought of unifying direct taxes in a general tax revenue.⁵³

This revolutionary bill exposed to the Chamber of Deputies the 27th of January 1866 did not find favor within the Parliament, which appointed a commission to study the matter.⁵⁴ In March 1866 a serious crisis of credibility struck the Italian government leading Antonio Scialoja to declare the legal tender the 1st May 1866.⁵⁵ The following months were troubled months, the financial situation at the end of 1866 and in 1867 was very serious and deficit reached very high levels, so it was necessary to ensure extraordinary revenues to the State. That is why Francesco Ferrara, Minister of Finance at the time and for few months, suggested the resubmission of the ground tax (June 1867), already proposed by Quintino Sella. However, to this proposal did not follow concrete steps for its implementation, so that the Minister Ferrara, since the committee was examining various solutions, and since he was accused of excessive benevolence toward the Church, resigned from his role in 1867.⁵⁶

The new Minister of Finance, Luigi Guglielmo Earl of Cambray-Digny, resumed Antonio Scialoja proposal of unifying all the revenues coming from the direct taxation and proposed again the ground tax.

The parliamentary commission, led by Sella, rejected the first proposal, but welcomed

⁵² Tattara G., Commento, in *Il disavanzo pubblico in Italia: natura strutturale e politiche di rientro*, a cura dell'Ente Einaudi, 2 voll., il Mulino, Bologna 1992.

⁵³ Izzo L., *La finanza pubblica nel primo decennio dell'Unità italiana*, Giuffrè, Milano 1962.

⁵⁴ Website MEF Dipartimento delle Finanze, *I tributi nella storia italiana, la tassa sul macinato*.

⁵⁵ Tattara G., Commento, in *Il disavanzo pubblico in Italia: natura strutturale e politiche di rientro*, a cura dell'Ente Einaudi, 2 voll., il Mulino, Bologna 1992.

⁵⁶ Izzo L., *La finanza pubblica nel primo decennio dell'Unità italiana*, Giuffrè, Milano 1962.

the second one, with an increase in the rates of many existing taxes.

There were harsh parliamentary debates about the opportunity to introduce a similar tribute. It was contested, in particular, that the fee was going to hit low-income social classes, and that it would guarantee revenues of little relevance.

The tax n. 4490 was, however, approved the 7th of July 1868 under the government of Luigi Menabrea, President of the Council of Ministers of the time, and it entered into force the 1st of January 1869, but riots broke out in various parts of the country, since the government undervalued the difficulty in collecting the tax.⁵⁷ It was only when Quintino Sella returned to the Ministry of Finance that the technical and administrative problems were solved, and the tax started contributing substantially to public finance. Indeed, Italy was essentially based on an agricultural economy, and the revenue guaranteed by this type of taxation was important, thus denying some pessimistic forecasts.⁵⁸

The ground tax was an indirect tax, and its amount was calculated based on the amount of ground corn. Within each mill a mechanical counter was applied in order to compute the number of rotations made by the mill wheel. The fee was so calculated in proportion to the number of revolutions, which had to correspond to the amount of ground corn. The tribute had to be paid in cash, but the customer could also pay with the product that he brought to grind. The miller was obliged to pay the collector on time and according to manners they agreed on. The lap counter was installed at State expenses. At the end of 1869, 136 counters were installed, in 1870 30k and in 1871 fifty thousand.⁵⁹

Progressively, the collection was reduced until the tax was finally abrogated by the Left party of the government, led by Agostino Depretis, with effect from the 1st of January 1884. At the time of its repeal the ground tax guaranteed a revenue of 80

⁵⁷ Website MEF Dipartimento delle Finanze, *I tributi nella storia italiana, la tassa sul macinato*.

⁵⁸ Parravicini G., *La politica Sociale e le entrate effettive del Regno d'Italia, 1860-1890*, Ilte, Torino, 1958.

⁵⁹ Website MEF Dipartimento delle Finanze, *I tributi nella storia italiana, la tassa sul macinato*.

million lire a year, which it represented a very remarkable figure. The State budget experienced hard consequences as a result of the suppression of the tribute.⁶⁰

At this point the structure of the Italian treasury was ready, the rate was the only part to be fixed in order to achieve the balanced budget, goal that was reached in 1876 by Marco Minghetti.⁶¹

The two following tables show respectively the different type of taxes and the revenues generating from their collection, and the revenues and expenses over the period 1861-1875 allowing us, therefore, to compute the deficit over the same period.

Table 7: Fiscal revenues 1861-187 (In million of lire)

	1861	1865	1869	1872	1875
Property taxes	35	22,2	82,8	54,3	94,4
Direct taxes	151,9	233,3	303,1	406	370,9
whereof: land tax	136,3	164,5	175,4	217,1	186,2
and income tax	15,6	68,8	127,7	188,9	184,7
Indirect turnover taxes	55	82,9	101	135	156,4
Excise duties	106,2	114,3	169,9	217,7	245,3
whereof: ground tax	6	3,4	31,1	58,5	76,7
Monopolies	116,2	172,9	216,9	216,6	230,3
Others	20,9	30	43,3	70,6	51,9
Total	482,6	655,6	920,7	1.100,20	1.149,20
Per head	22,2	29,1	36,8	41,1	42,1

Source: Boria P.. *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, Utet Giuridica, Torino 2008.

⁶⁰ Tivaroni J., *Storia del debito pubblico del Regno d'Italia*, 2 voll., Marelli, Pavia 1908-1910.

⁶¹ Tattara G., *Commento*, in *Il disavanzo pubblico in Italia: natura strutturale e politiche di rientro*, a cura dell'Ente Einaudi, 2 voll., il Mulino, Bologna 1992.

Table 8: Actual revenues, expenses and deficit 1861-1875

	Revenues	Expenses	Deficit
1861	457	903	-446
1862	450	906	-456
1863	486	891	-405
1864	534	931	-397
1865	618	877	-259
1866	578	1.318	-740
1867	710	915	-205
1868	714	980	-266
1869	850	1.045	-195
1870	836	1.085	-249
1871	944	1.023	-79
1872	981	1.098	-117
1873	1.010	1.149	-139
1874	1.042	1.102	-60
1875	1.058	1.091	-33

Source: Zamagni V., *Debito pubblico e creazione del nuovo apparato fiscale nell'Italia unificata (1861-1876)*, Ente per gli Studi Monetari, Bancari e Finanziari «Luigi Einaudi», 2011.

Therefore it is easy to understand that, during the first decade of the Kingdom of Italy, the government asked for big sacrifices; sacrifices that were, however, necessary to ensure the survival of the newly born Kingdom and that, with the time, were all paid back.

For this reason, it is fair to quote what Quintino Sella said to the Chamber of Deputies the 11th of December 1872:

‘MP Lazzaro says: we are not the ones who have voted the ground tax. Sincerely, in terms of taxes I do not know what you voted for. I believe you did not vote for any tax. You have only voted expenses. And you take no responsibilities for this. It is not enough to say: we did not vote this or that tax. You have almost always voted the expenses, you have asked for many of them. So, I think we really imposed burdens on taxpayers, not when we vote the taxes, but when we vote the expenses. You are therefore perfectly liable with us for the current situation. Those people who have had the courage to approve the taxes are perfectly justified to be proud of this,

because doing this choice they saved the country, which would be lost if they did not vote the taxes.”⁶²

Table 9: Ground tax key dates

1865	Quintino Sella presenting to the Chamber of Deputies the financial situation of the Kingdom of Italy in the years 1862-1865, denounces a deficit of 625 million.
27/01/1866	Antonio Scialoja exposes to the Chamber of Deputies his bill that provides for higher registration fees and stamp duty, but above all for the unification of direct taxes in a general tax revenue.
1/05/1866	Antonio Scialoja declares the legal tender.
June 1867	Francesco Ferrara, Minister of Finance, suggests the resubmission of the ground tax , already proposed by Quintino Sella.
7/07/1868	Under the government of Luigi Menabrea, President of the Council of Ministers, the bill regarding ground tax is finally approved.
1/01/1869	The ground tax bill enters into force as law n.4490.
1876	Under Marco Minghetti Ministry Italy reached the balanced budget.
January 1884	The ground tax is abolished by the Left party, headed by Agostino Depretis.

3.4 Local policies

The unification led to discuss also of local finance, where many different systems existed and the degree of administrative decentralization was extremely different from one region to another. Lombardy-Venetian and Tuscany had maintained a tradition of considerable autonomy and activism of the municipalities, while in the Kingdom of Sardinia, in the territories of the former Papal State and in the Kingdom of the Two

⁶² Camera dei Deputati, *Discorsi parlamentari di Quintino Sella*, 5 voll., Tipografia della Camera, Roma 1886-1890.

Sicilies was in force a more centralized system, with differences in the local taxation similar to those of the State taxation. In 1859, after the annexation of Lombardy, a decree was issued by Urbano Rattazzi which agreed with the centralist option of the Kingdom of Sardinia, even if it was still providing great democratic representation to municipal governments, arising as a compromise between the Piedmont and Lombardy tradition. The prefect and the provincial administrative government were assigned with control tasks. Later, this decree was extended to other areas which were gradually added to the new Kingdom and brought important changes, with particular emphasis on the areas of the former Kingdom of the Two Sicilies, where municipalities suddenly had to cope with a series of tasks never addressed before.⁶³

Soon, a more radical reform of local self-government, was taken into consideration with the presentation of a project for regionalize the country. The most ambitious and detailed proposal was made by Marco Minghetti, which left to the municipalities the powers they already had (primary education, care, public hygiene and some infrastructure projects), while he gave to the provinces secondary education, other infrastructure projects and health care services, and to regions higher education, art schools, historical archives and other public projects. To determine the fall of Minghetti projects, an important role was played, undoubtedly, by the fear that excessive local freedoms and especially regional autonomy could help to keep alive ancient divisions (Volpi, 1962, p.18). The rejection of this project was so heavy that any later project did not take into consideration radical reforms, proposing instead only modifications to the Urbano Rattazzi decree, without changing the setting.⁶⁴

This led to the law n. 2248 of the 20 of March 1865, that based the municipalities budget on consumer duty and on the surcharges on direct taxes (in addition to some local taxes) and that of the provinces only on surcharges, not daring, because of State financial difficulties, to assign to the municipalities the entire income of consumer

⁶³ Battilani P., *Decentramento o accentrimento: obiettivi e limiti del sistema amministrativo locale scelto con l'Unità del paese*, «Rivista di Storia Economica», 2001, 17, pp. 313-357.

⁶⁴ Volpi F., *Le Finanze dei comuni e delle provincie del Regno d'Italia (1860-1890)*, Ilte, Torino 1962.

duties, which were instead shared with the State.⁶⁵ This regime of no separation between the assets taxed by local authorities and by the State was the source of endless parliamentary debates, which did not lead to anything. Finally, the share of these assets reserved to municipalities and provinces tended to decrease, particularly with the law n.5784 called *omnibus* issued by Quintino Sella the 11th of August 1870, while services assumed by municipalities and provinces tended to increase. So, the original simplicity of the common tax system got more difficult because of the introduction of countless offsetting tributes, that were not sufficient to prevent the budgets of local authorities to incur in losses since 1868; in 1873 the municipal debts, not even existing before, already recorded 534 million of lire. Moreover, in the law of 1870 Sella decided to shift all surcharges only on income from land and buildings, leading to disproportions in the local tax system. It was only with the return of Marco Minghetti to the government that the tightening of public finance impressed by Quintino Sella was reduced.⁶⁶ However, it was this very reform that led the left wing to the success in the mid-1870s.

Table 10: Local policy key dates

20/03/1865	The law n.2248, that based the municipalities budget on consumer duty and on the surcharges on direct taxes (in addition to some local taxes) and the budget of the provinces only on surcharges, enters into force
1868	Budgets of local authorities starts to incur in huge losses
11/08/1870	Quintino Sella issues the so called Financial Omnibus that enters into force as law n. 5784
1873	The municipal debts, not even existing before, already recorded 534 million of lire

⁶⁵ Boria P.. *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, pag. 48-50, Utet Giuridica, Torino 2008.

⁶⁶ Boria P.. *Il Sistema Tributario*, Cap. II, *La formazione del sistema dei tributi in Italia*, pag. 48-50, Utet Giuridica, Torino 2008.

3.5 Taxation impact on the Italian southern regions

As we have seen in the pages above, the people who succeeded in office of the government in the years following the unification were sensitive to the problems faced by the just born Italy. Only in few cases the Piedmont financial system was extended to the rest of the country, while most of the time the government created new taxes or fully restructured old ones. Moreover, the financial extraordinary measures taken in these years proved to be innovative for the time. In particular, the shift of the taxation structure from indirect taxes to direct ones, the taxation of all types of income and the introduction of progressivity, positioned Italy at the forefront among the advanced countries in terms of balance, also social, of its tax system. The only criticism that can be made is for the ground tax, that was, however, a necessary measure and it was a suffered and not shared stopgap, which was soon revoked. But if we think about all the remaining financial structure, we can assert that it has been able to face the comparison with the most advanced nations, and it has been also able to withstand to the ravages of time.

On the other hand, it is much more difficult to asses the different impact of the new fiscal system on the various areas of the country. If it is evident that the increase of the fiscal pressure was substantial for the entire country, it was even more for those areas, especially the southern ones, where previous governments had kept taxation very low and where nor public works or education concerned them.⁶⁷ If this sudden and deep change in the fiscal structure has led the South to a disadvantaged position is an issue that is part of a much more broader and fundamental question: as Vera Zamagni has underlined, we have to question ourselves if the Kingdom of the Two Sicilies was ready enough to gather with the rest of the country in a historical period in which it was not possible to think about equalizing economic policies such as, for example, the ones applied much more later within the European Union between

⁶⁷ Ruscello L., *La questione meridionale non avrà mai fine*, Lampi di Stampa, TiPubblica, 2016.

developed and underdeveloped areas.⁶⁸

The so called *Southern issue* has been studied for years by many researchers, producing different and often contradictory answers. The image of a southern economy and society completely static through the decades prior to unification has been significantly revised from the most qualified historiography. This image was built, since the years of the unification and those immediately following it, by the political propaganda, tending to glorify the historic positivity of the unification and the achievements of the unitary state through a minimization of all the processes of change and improvement that took place in the previous decades.⁶⁹ At a later time this image has been reaffirmed and reinforced on the basis of some surveys that portrayed a condition of extreme economic and social precariousness in the southern countryside, that certainly constituted the core of the economic and social backwardness of the South, but that did not mean that the pre-unified South as a whole was remained completely stationary.⁷⁰

In the early seventies of the twentieth century began to appear studies that suddenly and radically overthrew the stationary idea with a clear intent of lessen and denigrate the unitary State policies, which would have plundered the Bourbon South wealth, suspending an industrial development already began, and reducing the southern population to extreme poverty and to emigration. A fairly energetic response counterposed to this point of view, drawing the attention instead on the underdeveloped situation of the South at the time of the unification. From the second half of the seventies, the stationary representation began to be revised in light of numerous studies free from political and ideological exploitation and with scientific accuracy to examine in depth the economic, social, territorial, institutional and pre-unification dynamics of the South in order to have a better knowledge of a series of

⁶⁸ Zamagni V., *Debito pubblico e creazione del nuovo apparato fiscale nell'Italia unificata (1861-1876)*, Ente per gli Studi Monetari, Bancari e Finanziari «Luigi Einaudi», 2011.

⁶⁹ Ruscello L., *La questione meridionale non avrà mai fine*, Lampi di Stampa, TiPubblica, 2016.

⁷⁰ Romani M., *Storia economica d'Italia nel secolo XIX (1815-1914)*, 2° vol., Parte seconda, Giuffrè, Milano 1976.

facts for too long neglected, or worse clouded.⁷¹

The most important results of these studies were a drawing of the attention on the break, that occurred since the middle of the eighteenth century, of the vicious cycle of population stagnation, consumptions, prices, production and incomes, which persisted from the early seventeenth century, and the identification of specific dynamics of productive development and social transformation. These findings rejected the stationary thesis as explanation for the economic and social situation of the pre unitary South. In particular, they have shown that in different periods before the unification there was a productive growth in the southern agriculture that was proved by the increase in the foodstuff export and by the growth of southern population from 6 million in 1771 to over 7.150 in 1801 and to 9.5 million in 1861, with an overall increase, in 90 years, of 63%.⁷²

Concerning southern economy and society after the unification, they were subjected to solicitations more aggressive than in the past. These solicitations immediately generated a malaise that was added to the one already existing in the countrysides because of the extreme poverty and social tensions caused by the capitalistic reorganization started since the French period. The brigandage phenomenon, too often simplistically reduced to a chivalrous rebellion against the brutality and oppression of a conquering army, was the first and most dramatic manifestation of that set of problems that in the seventies of the nineteenth century was mentioned as *Southern issue*.⁷³

Besides being a political issue, because advocate of a Bourbon restoration for several years, brigandage was first of all a social issue that led to a southern civil war, which forced the established powers to a repression, since the real issue at stake was the very outliving of national unity. If on one hand, over time, the violent repression of the Italian state was proved to be right, on the other one the State was never “forgiven” for the other problems linked to the *Southern issue*, that is to say the

⁷¹ Ruscello L., *La questione meridionale non avrà mai fine*, Lampi di Stampa, TiPubblica, 2016.

⁷² Romani M., *Storia economica d'Italia nel secolo XIX (1815-1914)*, 2° vol., Parte seconda, Giuffrè, Milano 1976.

⁷³ Ruscello L., *La questione meridionale non avrà mai fine*, Lampi di Stampa, TiPubblica, 2016.

problems connected to the integration of the southern economy and society into the unified State.

Once achieved the political annexation, since January 1861 there were protests and resistances generated from the overnight application to the southern regions of the liberalist Piedmontese fare. Vigorous protests also occurred for the unprecedented fiscal burden surged on the South, and most of all, as we have already talked about it in the previous pages, after the entered into force of the ground tax that led to extreme uprisings.⁷⁴

After all, it has to be highlighted that, if the post-unitary tax burden was greater than in the Bourbon age, the unitary state was absolutely much more committed in the modernization process. As a result, southern Italy in 1887 proved to have removed a notable part of those delay factors that it showed in 1861. Moreover, it has been shown that income gap did not increase significantly during the liberal period, which would result in not considering the economic policies of the post-unitary governments responsible for a worsening of the southern Italy. Actually, the gap grew especially in the period between the First and the Second World War.⁷⁵

⁷⁴ Galasso G., *Mezzogiorno, Risorgimento e Unità d'Italia*, Dipartimento per l'informazione e l'editoria, Roma, 2011.

⁷⁵ Romani M., *Storia economica d'Italia nel secolo XIX (1815-1914)*, 2° vol., Parte seconda, Giuffrè, Milano 1976.

4. What were the financial press and contemporary investors saying about Italian Unification?

In this section we will have a glance on what the financial press and contemporary investors were thinking about Italian Unification. We have taken as reference, besides of course the Italian press, the French financial press since France was, among the foreign countries, the most involved in the Italian situation because of historical reasons, because of different commercial agreements existing between the two countries and because Italian bonds were heavily traded in the Paris stock exchange.

4.1 Italian Unification in the French press.

Le Journal des Économistes of February 1863 talked, in its *Bulletin Financier*, about fever and excitement on the Paris Stock Exchange: not just local fever but also foreign one. Indeed, it is underlined how the domain of speculation activities was not limited just to French investors; Italy was equally feeding this fever and the operations of the Paris stock exchange, where Italy was trading mortgage credit stocks with a premium ranging from 3 to 400 fr.; a similar excess was recorded also in Turin. It was then emphasized that this financial fever was just at the beginning and was going to grow little by little.

Concerning monetary issues, the press recalled that Italy, when it was fragmented in many different States, was more an agricultural economy than an industrial or commercial one.⁷⁶ It follows that it did not need a huge capital for its trades at the time. But, with the unification and the political centralization, the new Kingdom has seen grow the need and, at the same time, has understood the necessity of extending

⁷⁶ “L’Italie, tant qu’elle se trouvait morcelée, était plutôt une puissance agricole qu’industrielle ou commerciale; par suite, elle n’avait besoin, pour ses transactions que d’un capital en numéraire assez restreint.”

M. Alph Courtois, *Bulletin Financier* in *Le Journal des Économistes: Revue de la Science Économique et de la Statistique*, n. 36, 3rd serie - 10th year, Paris February 1863

the circle of its activities to become an industrial and business power, as the other continental nations. Therefore, Italy needed a monetary capital much more significant than before. Italy was importing considerable quantity of gold and silver coins from France and England⁷⁷, and that was the main problem for the increasing discount experienced after a bit in the two countries. In order to fix the problem, it was suggested the creation, in Italy, of financing companies that would have answered to the new need of the country.⁷⁸ This project would have led to lower the coins export from France and England to Italy and the money market would have recovered his balance.

The 17th of January 1863 the agreement between France and Italy about customs duties was definitively signed. The February's edition of the *Chronique Économique* reported the main features of this agreement: France will apply for Italy the same taxation policy as for England and Belgium, with the exception just for some products, like oranges, pasta or olive oil, for which the duty will be lower than the others. However, Italy will have to revise its custom duty policy, since the Piedmont tariffs, become the Italian ones, were too much protectionists if not prohibitionists, compared to the new French system, especially for some type of products.⁷⁹

The 15th of March 1863 the *Bulletin Financier* reported a high volatility of the stock market; two main news, one political and one financial, influenced and shook the

⁷⁷ “De là exportation d'Angleterre et de France en Italie de sommes importantes d'espèces d'or et d'argent, ce qui est la principale cause de l'augmentation de l'escompte depuis quelque temps dans les deux premiers pays.”
M. Alph Courtois, *Bulletin Financier* in *Le Journal des Économistes: Revue de la Science Économique et de la Statistique*, n. 36, 3rd serie - 10th year, Paris February 1863.

⁷⁸ “Pour couper le mal dans sa racine, divers financiers ont voulu, en même temps que l'Italie éprouve le besoin d'une circulation plus importante, créer des sociétés de crédit rapport avec ces besoins.”
M. Alph Courtois, *Bulletin Financier* in *Le Journal des Économistes: Revue de la Science Économique et de la Statistique*, n. 36, 3rd serie - 10th year, Paris February 1863.

⁷⁹ “Ajoutons que les rapports douaniers entre la France et l'Italie appelaient d'urgence un nouvel arrangement. Ils se trouvaient dans un état provisoire qui ne pouvait pas se prolonger c'était la substitution, aux tarifs divers des anciens États autonomes, du tarif piémontais, plus restrictif sur bien des points. Le tarif piémontais, devenu le tarif italien, était bien avancé pour l'époque où M. de Cavour l'avait établi; mais il est, pour bon nombre d'articles, fortement protectioniste ou presque prohibitioniste en comparaison de notre nouveau régime conventionnel.”
H. Baudrillart, *Chronique Économique*, Paris February 1863.

market: the attitude of the Prussian government in front of the Polish insurrection, and the request of a loan of 700 millions by the Italian government. Regarding the last event, the 5% *Rendita Italiana* presented a very high volatility in its price, but that was just for some days until it reached gain its previous price. The press highlighted the fact that a credit of 700 millions was not a small matter, if we think, above all, that the country that asked for it, was a newborn one. Moreover, it was questioned why Marco Minghetti was hiding from all the interested parties the announcing date of this loan. In this situation, the French Rendita was highly hit and it seemed the one who had to pay for this new *Rendita Italiana* emission. Furthermore, the article reports that the new Kingdom had many French investors sympathizing with it, and since the price of the French and Italian Rendita were the same, investors preferred to be creditor of the Italian government at 5% rather than of the French government at 3%.⁸⁰ And this was true also for other foreign government titles. In addition, it was argued that also the presence of big names among the underwriters, like the Rothschild family, and the presence of big banks that participated in indirect way to the issue, drove investors towards the *Rendita Italiana*.⁸¹ It follows that France had to figure out how to handle this situation of outflowing capital, retaining it within the country.

French, however, admired Marco Minghetti policies and appreciated his efforts of improving the budget situation not just through government debt but also through fiscal policies and other initiatives, like the sale of state-owned and ecclesiastical

⁸⁰ “Le nouveau royaume a des sympathies assez caractérisées sur notre marché, et le public est assez porté à trouver que pour le même prix vaut mieux être créancier du gouvernement italien à 5% que du gouvernement français à 3%.”

M. Alph Courtois, *Bulletin Financier* in *Le Journal des Économistes: Revue de la Science Économique et de la Statistique*, n.37, 3rd serie - 10th year, Paris March 1863.

⁸¹ “Trois grandes puissances financières ont intérêt à pousser le public dans cette voie, et ce dernier ne demande pas mieux que d'obéir à cette tendance le crédit mobilier, par sa participation à la création des crédit foncier et mobilier en Italie; la Société de crédit industriel et commercial, par celle d'une société analogue à elle-même, et la maison de Rothschild frères, en vue de l'emprunt dont elle est, assure-t-on, dès ce jour le plus gros souscripteur (on assure que cette maison aurait pris ferme à elle seule la moitié de l'emprunt). On comprend que le concours de ces trois influences auxquelles il faut joindre celui de bon nombre de grandes maisons de banque qui ont indirectement participé à ces opérations ou à d'autres du même pays, est une circonstance importante, et en y joignant les sympathies du public, ou peut en conclure que le marché devra y obéir.”

M. Alph Courtois, *Bulletin Financier* in *Le Journal des Économistes: Revue de la Science Économique et de la Statistique*, n.37, 3rd serie - 10th year, Paris March 1863.

assets, and through a lowering of expenses, thanks to administrative simplifications.⁸²

In the 70s, after the first decade of unification, the French press was writing about the economic, political and social situation in the new Kingdom after years of new reforms, difficult choices, social clashes and much more, as we have already discussed in the sections above.

According to the article appeared on *Le Journal des Économistes* on May 1870⁸³, one of the most important causes that led to the situation in which Italy was at the time, was the theory of the State abstention. This theory, that has produced very good results in different nations, perfectly works in those countries that are used, since long time, to individual initiatives, like England or U.S.; but in a country like Italy, where in most of the numerous provinces ruled laziness and negligence, there was the need for a strong and centralized State appointed to implement important reforms and services useful to the entire society. Unfortunately, even if the situation was really difficult to manage, Italy was not able at all to unified the country through large and useful social reforms, neglecting, indeed, all that part that was not linked to economy but to the different culture, different traditions, different languages presents in the country and leading so to the birth of anti-unitary movements. People living in the countryside, the vast majority in Italy, were burden by increasing taxes and were indifferent to the political and economic advantages declared by the government.⁸⁴ So, at this point, French press argued that the ministers who succeeded one another in the first decade of the Kingdom have not been able to look at the broader picture,

⁸² “Nous prions bien autrement les efforts que M. Minghetti promet de faire pour une amélioration intrinsèque de la situation budgétaire il veut à la fois accroître les ressources par la création et l'augmentation d'impôts, diminuer les dépenses par la simplification des rouages administratifs et par la réduction de la besogne gouvernementale cette réduction serait obtenue notamment au moyen de la restitution aux provinces d'une foule d'attributions dont l'État se trouve aujourd'hui indûment surchargé.”

M.J.-E. Horn, *Bulletin Financier de l'Étranger* in *Le Journal des Économistes: Revue de la Science Économique et de la Statistique*, n.37, 3rd serie - 10th year, Paris March 1863.

⁸³ M. Eugène Poujade, *L'Italie, son administration, ses finances, ses réformes* in *Le Journal des Économistes: Revue de la Science Économique et de la Statistique*, n.53, 3rd serie - 5th year, Paris May 1870.

⁸⁴ “Les masses, les populations agricoles qui sont les plus nombreuses, en Italie comme ailleurs, et plus qu'ailleurs peut-être, ne connaissent du nouveau régime que les impôts augmentés, la conscription et toutes ses charges, et demeurent indifférentes aux avantages politiques proclamés si haut.”

M. Eugène Poujade, *L'Italie, son administration, ses finances, ses réformes* in *Le Journal des Économistes: Revue de la Science Économique et de la Statistique*, n.53, 3rd serie - 5th year, Paris May 1870.

but they dealt, instead, with one problem at the time, implementing contradictory policies. “Italy did not have yet a Financial Minister suitable to handle a situation such crucial for a melding State”, has been said in the press of 1870.⁸⁵

Concerning trade policies, the French press asserted that Italy, despite the industry stagnation of the mid-70s, could have managed its expenses thanks to an important development of the agricultural industry; but, unfortunately, the latter was hit as well because of the silkworm withering and the vineyard illness, two products that made up the wealth of different Italian provinces.

In spite of huge expenses, however, in 1876 Italy reached the craved balanced budget with a surplus of 14 millions. But this was not enough to guarantee to the *Historical Right* the permanence in the government. Indeed, in April 1876 the *Chronique Économique* reported the news that Marco Minghetti left its Financial Minister position. It was the first time that a head of the government was deprived of authority by the Parliament and not by the King. Many were the reasons why he left the position, but the main one was that the majority was not pleased with his political attitude, in particular with his economic inclination, too much fiscal, regulatory and not enough anti-protectionist.

So the 28th of March 1876 the new Ministry was presented to the Chamber, with Agostino Depretis as President, a Piedmontese MP and head of the left wing after Urbano Rattazzi’s death. Except from the promise of an electoral reform and other few promises, the press argued that the new political program could have been signed by Marco Minghetti himself. According to the *Chronique Économique*, indeed, almost nothing was changed and it was puzzled by the new economic and fiscal

⁸⁵ “L’Italie n’a pas encore eu un ministre des finances vraiment digne de tenir ce portefeuille si important pour un Etat qui se fonde.”

M. Eugène Poujade, *L’Italie, son administration, ses finances, ses réformes* in *Le Journal des Économistes: Revue de la Science Économique et de la Statistique*, n.53, 3rd serie - 5th year, Paris May 1870.

announcements, often contradictories.⁸⁶

4.2 Italian Unification in the Italian press.

The 4th of January 1860 the *Gazzetta Ufficiale del Regno* (The Official Kingdom Journal) is published for the first time, replacing the Piedmontese Journal, official newspaper of the Sardinian Kingdom since 1848. There is a bit of everything in the *Gazzetta Ufficiale del Regno*: an official part, where statutory legislations were reported, and other sections with parliamentary reports, national and international news, chronicle, advertisement, and cultural appendices.

At that time, there were not large national newspapers in Italy, but only newspapers of local interest, especially endorsing political groups: the functions of national newspaper were taken for the first time exactly by the *Gazzetta Ufficiale del Regno*, with characteristic of general press.

Reading the *Gazzetta Ufficiale del Regno* we can recall Italian history through the government point of view, since the journal was its official authority. For example, the changing evidence with which are disclosed the episodes from 1860 to the death of Pius IX, clearly demonstrates, on one hand, the prudence with which the government was acting towards the great European powers and, on the other, the desire to seek an amicable solution with the Pope, to persuade him to peacefully surrender the Papal territories, including the city of Rome.

The fact that the *Gazzetta* is the expression of government policy and not of the parties is clearly stated in one of the first numbers, and precisely in the n. 9 of the 11th of January 1860:

“Turin, January 11, 1860 - Since a couple of days, we have received news, that were spreading in the country, about a possible government interference in parties conflicts and in the debate concerning periodical press. We believed that it was not necessary

⁸⁶ “A l'exception de quelques promesses de réformes dans la loi électorale et d'une observation plus stricte de la loi des garanties, le programme politique du nouveau cabinet aurait pu être signé par Minghetti. Quant aux déclarations économiques et fiscales, elles nous ont paru un peu embarrassées.”
M. Joseph Garnier, *Chronique Économique*, Paris April 1876.

to deny these rumors; but given that now some newspapers have welcomed them, we declare in the most formal way, that those hearsay are without any foundation. Faithful observer of the constitutional principles, the Government, while holding at its Italian and liberal political program, has nothing to do with parties struggles. Meanwhile, we take this opportunity to remind you once and for all, that the Government has not and does not recognize no other authority than this journal: and this journal is the Official Journal of the Kingdom.⁸⁷

The *Gazzetta* of Wednesday 4th of January, the first releasing of the journal, reported in the section “last news” an article published in the *Revue des deux Monde* regarding the willingness of Italian to become a unitary country. The article pays tribute of justice and harmony to the demeanor that Italian have demonstrated in those last months, proving with tangible facts that they deserved independence and freedom: “People from central Italy have expressed and repeated a vote: they want to be unified to Piedmont, and they want to form with it a State able to guarantee, with its own strengths, the peninsula independence. This vote is neither capricious nor chimeric; it is inspired by a very clear and strong awareness of the real conditions of Italy independence.[...] The most outstanding head of central Italy, the baron Ricasoli, gave an excellent evidence of this. His uniform is: annexation or death. The danger he fears is not the restoration of duchies but the creation of a different kingdom in central Italy. For this reason he endured with winning stubbornness to

⁸⁷ Torino, 11 gennaio 1860 - Da alcuni giorni era a nostra notizia, come si diffondessero nel paese voci che attribuivano al Governo ingerenze nelle lotte dei partiti e nelle polemiche della stampa periodica. Non ci era sembrato opportuno nè conforme alla dignità del Governo il contraddirle; ma poiché ora alcuni giornali le hanno raccolte, dichiariamo nel modo più formale, che quelle voci sono pienamente insussistenti. Fedele osservatore dei principii costituzionali, il Governo, mentre mantiene fermo il suo programma di politica italiana e liberale, si serba estraneo alle lotte dei partiti.

Cogliamo frattanto questa occasione per ricordare una volta per sempre, che il Governo non ha e non riconosce a suo organo se non un solo giornale: e questo è la *Gazzetta Ufficiale del Regno*.

the possibility of the establishment of a common regency of the four central Italy States; he wanted Tuscany's destiny to be linked exclusively to the Piedmont one."⁸⁸

On the 21st and 22nd of March 1860 plebiscites occurred for the annexation of Tuscany and Emilia to the Kingdom of Sardinia: over a million eligible to vote, voters counted for the 80% and almost all of them were in favor of the annexation.

The *Gazzette* of those days reflect the climate that was reigning: wide coverage to the visit of the King in the new provinces, and complete minimization of Garibaldi's challenge. The first days of May the King was visiting Bologna to move then to Piacenza, Parma, and Modena, everywhere welcomed by enthusiastic crowds as reported in the *Gazzetta* of the 10th of May.

Almost in the same days begins the Expedition of the Thousand. Garibaldi, raised anchor the 6th of May from Quarto, in Liguria, with two vessels, laden with 1089 men, landed in the port of Marsala the 11th, and the 14th he proclaimed himself "Dictator" in Sicily "in the name of Vittorio Emanuele, King of Italy".

There were rumors that Garibaldi was financed by private individuals, mainly British. Cavour released no statements concerning the rumor neither for it nor against it, holding himself back to watch the events, since he clearly preferred to take a position based on the evolution of the situation. The *Gazzette* of the period reflect the events: very few second or third-hand news, even because communications were precarious; no judgment, no behavior that could suggest a link between Turin and Garibaldi. The tone was of absolute non-involvement in what was going on. This attitude is particular in contrast with the emphasis that has been given, in the same days, in the *Gazzette* to the visit of the King of Italy in the new provinces. Moreover, foreigner newspaper as *Times*, *Patrie*, *Constitutionnel* and the *Morning Post* were

⁸⁸ "Le popolazioni dell' Italia centrale,così la Revue, hanno espresso e ripetuto un voto: esse vogliono essere unite al Piemonte, e formare col Piemonte uno Stato, il quale con le sue forze sole assicuri l'indipendenza della Penisola. Questo volto dell'Italia centrale non è nè capriccioso, nè chimerico; esso è ispirato da un sentimento assai chiaro e assai forte delle vere condizioni della indipendenza d'Italia.[...]Il più notevole fra i capi dell'Italia centrale, il barone Ricasoli, ne ha dato una splendida prova. La sua divisa è: annessione o morte. Il pericolo che egli teme non è il ritorno degli arciduchi: è la formazione di un regno distinto nell'Italia centrale; ed è per timore di porgere indirettamente le mani alla preparazione eventuale d'uno Stato di quel genere che nell'incidente Bon Compagni egli ha resistito con vittoriosa ostinazione all'assorbimento della Toscana in una reggenza comune ai quattro Stati del centro; egli ha voluto che la sorte della Toscana fosse esclusivamente vincolata con quella del Piemonte, e non si confondesse in una combinazione, la quale avesse presentato il quadro bello e fatto per un nuovo regno."

trying to follow the Expedition's events but with many difficulties since few news were disclosed.

The 26th of October there was the meeting between the King and Garibaldi in Teano, but in the *Gazzette* of those days there were no news about the meeting. The only thing reported in the Journal of the 27th of October was the arrival of the King in Teano, but Garibaldi was never mentioned. Therefore, one of the most important event of the Italian Risorgimento is completely ignored by the official press. Probably, one of the explanation for this behavior is that Cavour did not want to give too much credit to Garibaldi for the annexation of the southern provinces to the Kingdom of Sardinia.

The 17th of March 1861 the Kingdom of Italy was born and in the *Gazzetta* of the 18th is reported the law with which the new Kingdom is proclaimed.

The *Gazzetta* of the 20th of July 1861 reported the law approved the 17th about the creation of the Great Book of Public Debt. It was given to the Minister of Finance the right to put into the book as much debt as possible to ensure 500 millions to the Treasury.⁸⁹

The 12th of July 1862 the weekly publication *Il Mediatore* reported among the most important events of the week the proposal of a unified monetary system, that will be approved and will enter into force as law n. 788, the 24th of August of the same year. This law, the so called Pepoli Law, from the name of the MP who proposed it, defined the Italian lira as the legal tender for payments and extended to the entire national territory the legislation in force in the Kingdom of Sardinia, which provided the mintage in bimetallic modality, on the basis of a fixed ratio between gold and silver of 1: 15.5. This coinage system, bimetallism, was motivated by Gioacchino Pepoli emphasizing that although "technically evaluated lower than monometallic gold standard, it was preferred to the latter, because allowed the double advantage of

⁸⁹ Il Senato e la Camera dei Deputati hanno approvato: Noi abbiamo sanzionato e promulghiamo quanto segue: Articolo unico. È data facoltà al Ministro delle Finanze di inscrivere nel Gran Libro del Debito Pubblico tanta rendita quanta valga a far entrare nel tesoro cinquecento milioni di lire.

not hamper the possible future introduction of a gold standard system and foster trade with major trading markets” (Pepoli, 1861). Arguments that demonstrate transparently the pragmatic character of the choice: the importance given to trades with France, that was the main market, and the ability to adapt the rules to gold payments in order to comply, as a result of industrialization, to what was in use in the main importing country, Britain, which adopted a monometallic gold payment system (Spinelli 1989; Roccas 1990; Onado 2003).

The 15th of August 1863 the *Gazzetta* reported the law known as Pica Law, enacted as law 1409, with the aim of suppressing brigandage and any form of armed resistance in the southern provinces. The law, presented as “exceptional and temporary tool of defense”, was repeatedly extended and remained in force until the 31st of December 1865.

The Royal Decree of the 20th of August 1865, listed the provinces “infested by brigandage” on which the special regime would have been applied.

In the “last news” section of the *Gazzetta* of the 21st of March 1864 is reported the news about the approval of the bill for the establishment of the Bank of Italy, that will be finally established just in 1893.

The 20th of March 1865 was enacted the law n. 2248 for the administrative unification, which included six measures concerning the municipal and provincial administration, public safety, public health, the establishment of the State Council, the administrative litigation and public works, a set of rules destined to deeply affect civil life and the organization of local government authorities.

The administrative unification was translated into reality in the extension to the rest of Italy of the Piedmont system, characterized by a highly centralized and hierarchical system, which allowed the government to exercise, through the prefects, a strict control over local government.

The 7th of July 1868 the ground tax was approved as law n. 4490 and entered into force the 1st of January 1869, as reported in the *Gazzetta* of that day.

The *Gazzetta* of the 21st of September 1870 reported the news of the conquest of Rome, occurred the day before, by the Italian troops. The *Gazzetta* reported that everywhere the troops were welcomed with manifestations of happiness and great enthusiasm: houses decked with flags, public music concerts, lights everywhere, and acclaims for the King, for the troops and for Rome as new capital of the Kingdom.⁹⁰

The *Gazzetta* of the 3rd of October 1870 reported the news of plebiscites that were taking place in the Roman provinces concerning their annexation to the Kingdom of Italy. It is also reported the scrutiny result in each province; for example in Civitavecchia was recorded the highest number of voters pro annexation: 4243 voters, 4220 for the annexation, 13 against it and 10 null votes.⁹¹ Everywhere, however, the number of people pro annexation exceeded the number of the opposers.

All this led to the shift of the capital from Florence to Rome the 3rd of February 1871, as reported in the *Gazzetta* of that day (the previous shift from Turin to Florence occurred in 1864). In it, was is also reported a message from the mayor of Rome, Francesco Rospigliosi Pallavicini, who announces with joy that “Romans! The destiny of Italy is accomplished. Now Italy is one, from Alps to Sicily, and Rome is encircled by the magnificent crown of Capital.[...] Let’s show that Rome is a guarantee of order and harmony on the cry of Hurrah Italy! Hurrah the King!”⁹²

Cavour’s dream, so, came true. This was the speech he delivered to the Parliament the 11th of October 1860: “ I tell you frankly, gentlemen, our dream is that the

⁹⁰ “La notizia diffusasi ieri in ogni parte d’Italia dell’ingresso delle truppe italiane in Roma, fu, come l’annunziano i numerosissimi telegrammi già pervenuti, salutata dappertutto, si nelle grandi città che in ogni minor comune, con improvvise e spontanee dimostrazioni di gioia e del più grande entusiasmo: le case imbandierate, pubblici concerti musicali, luminarie, acclamazioni vivissime e continue al Re, all’esercito, a Roma capitale, ed ogni maggior segno di pubblica festa.”

⁹¹ “Risultato del Plebiscito nelle provincie romane: Lo spoglio generale della votazione del plebiscito ha dato il seguente risultato per la città e provincia: Votanti 4243. Per il Sì 4220. Per No 13. Voti nulli 10.”

⁹² Il sindaco di Roma ha pubblicato il seguente manifesto: “Romani! I destini della patria sono compiuti. L’Italia è una dalle Alpi alla estrema Sicilia, e Roma torna a mostrarsi dal Campidoglio cinta della splendida corna di Capitale.[...] Mostriamo che Roma capitale d’Italia è arra di ordine e di concordia al grido di Viva l’Italia! Viva il Re!”

eternal city, on which every kind of glory has been gathered in 25 centuries, becomes the wonderful capital of the Italian Kingdom”.⁹³

This first decade of the Kingdom of Italy ends with the long-awaited balanced budget, reached in January 1876 by Marco Minghetti’s government. However, it was not enough to keep Minghetti at the head of the government; as we have already seen above, as reported also by the foreigner press, Minghetti was replaced by Agostino Depretis, member of the left wing.

The Left wing, now at the government, was well aware of both the positive heritage transmitted by the Right wing (a balanced budget), and of the great unsolved problems that inherited. The *Gazzetta* of the 8th of October 1876 reported a speech delivered by Agostino Depretis regarding this point: “The urgent issue, the one that gave the fundamental mark of the parliamentary revolution of March 18th, is therefore the tax reform.” Moreover, during the same speech he continued: “We often find ourselves in a vicious circle; taxes do not yield a return, because the production is missing; production is not growing, because taxes are the major obstacle.”⁹⁴

The left party kept proposing tax reforms but most of them failed. One of the most important bill was the local finance reform, that will be known as “the failed reform”, due to the resistance it encountered in the majority, in Parliament and in the country. Therefore, financial difficulties of local finances continued and strengthened.

Once done Italy, in few years all the greater protagonists of the Italian Risorgimento passed away. Camillo Cavour in 1861, Giuseppe Mazzini in 1872, Vittorio Emanuele II in 1878 and Giuseppe Garibaldi in 1882. Garibaldi’s death was really an epochal event; condolence’s events were unanimous and not just in Italy. All the Italian newspapers reported the news with emphasis as well as the foreign ones; also

⁹³ Speech to the Parliament, October 11th, 1860: “La nostra stella, o Signori, ve lo dichiaro apertamente, è di fare che la città eterna, sulla quale 25 secoli hanno accumulato ogni genere di gloria, diventi la splendida capitale del Regno italico.”

⁹⁴ “La questione fondamentale, che ha dato l’impronta alla rivoluzione parlamentare avvenuta il 18 marzo, è la riforma fiscale. Ci troviamo spesso all’interno di un circolo vizioso; le tasse non fruttano, perché manca la produzione; la produzione non cresce, perché le tasse costituiscono il più grande ostacolo.”

Austrian and German journals, belonging to those nations Garibaldi fought against, spent good words for him: “It is a very satisfying signal that Austrian-Hungarian people recall today, without resentment, Garibaldi achievements against them, acknowledging without reserve that the deceased deserves the most beautiful civic crown.”⁹⁵, writes the *Fremdenblatt* in Wien the 4th of June.

Also Léon Gambetta, French Prime Minister wrote a message to Garibaldi’s son: “I have never forgot the big support showed by your famed father in defending my afflicted and abandoned country.”⁹⁶

Garibaldi’s death became a symbol: Risorgimento, with its ideals and with its passions, was over.

Table 11: Key news reported in the contemporary financial press

17/03/1861	The Kingdom of Italy is proclaimed.
July 1861	Creation of The Great Book of Sovereign Debt.
12/07/1862	Proposal of a unified monetary system.
24/08/1862	The proposal of the unified monetary system is approved and enters into force as law n.788.
17/01/1863	The agreement between France and Italy about customs duties is definitively signed.
February 1863	Many speculation activities on the Paris Stock Exchange.
15/03/1863	High volatility of the stock market; two main news, one political and one financial, influences and shocks the market: the attitude of the Prussian government in front of the Polish insurrection, and the request of a loan of 700 millions by the Italian government.
15/08/1863	Pica Law, enacted as law 1409, enters into force with the aim of suppressing brigandage and any form of armed resistance in the southern provinces.
21/03/1864	Approval of the bill for the establishment of the Bank of Italy, that will be finally established just in 1893.
20/03/1865	It is enacted the law n.2248 for the administrative unification.
7/07/1868	The ground tax is approved as law n. 4490 and enters into force the 1st of January 1869.
20/09/1870	Conquest of Rome by the Italian troops.
3/02/1871	Rome is proclaimed capital of the new Kingdom.
1876	Achievement of balanced budget
28/03/1876	The new Ministry is presented to the Chamber, with Agostino Depretis as President, a Piedmontese MP and head of the left wing after Urbano Rattazzi’s death.

⁹⁵ “È certo un segno altamente soddisfacente che i popoli d’Austria e Ungheria si ricordino oggi senza rancore di ciò che Garibaldi ha operato e tentato di operare contro di essi, riconoscendo, senza riserve che il defunto è degno della più bella corona civica.”

⁹⁶ “Je n’ai jamais oublié le généraux concours apporté par votre illustre Père à la défense de mon pays accablé et abandonné.”

4.3 Parliamentary discussions regarding Italian financial situation

Quintino Sella to the Parliament, April 14, 1865:

There were two ways to take in the creation of the Kingdom of Italy [...] Some people, [...] and they were the scariest, [...] have been able to believe that you could put a kind of extinguisher on the strong need of job, on the movement that arose all around the kingdom, over this spontaneous need for a new life, and they were convinced to keep the expenses according to the small resources that the ancient States had. Moreover, they were sure that there was no need to hasten the unification process, but they thought was more convenient going ahead slowly with all our comfort. We have chosen a path diametrically opposed; we boldly thrown ourselves to meet the needs of civilization, the needs of progress that perspired from all parts of the Italian population [...] Italy, therefore, in my opinion, has done well to throw himself boldly in all these expenses to provide for needs of civilization and progress.⁹⁷

Marco Minghetti in a letter to voters talking about the situation he faced when he became Minister, October, 1865:

Talking about financial policies, Italy was perhaps more dissimilar than in any other part of public affairs, and I would almost say repulsive itself [...] If we examine the tax laws that existed in the various States before the 1859, it will be seen how they were different among each other except for a single point, that is, the land tax, even if it was based on different land registers or on different directions and was levied in different sizes and with different form. And when you consider the direct tax on non-land incomes, in certain provinces they were multiple and very varied, in others they did not even exist. The same variety was found in the business taxes. Concerning the consumption tax, that came up somewhere as “canone gabellario” and somewhere else as personal tax, it belonged to the City in some places, to the government in others, or to both with various proportions [...] If in the tax structure there was variety, and sometimes contradictions, the financial system and policy was not any different.

⁹⁷ Camera dei Deputati, *Discorsi parlamentari di Quintino Sella*, 5 voll., Tipografia della Camera, Roma 1886-1890.

Autonomous administrations, different accounting systems, different methods of tax collection, multiple audit offices and proceeding with different criteria.⁹⁸

Pietro Bastogi to the Parliament, April 29, 1861:

In order to deserve the creditworthiness of the whole Europe, Italy had to begin to respect all its debts [...] Nor it would be convenient to the new Italy that it constitutes itself as debtor of old loans and pays them, like prosecutor of the ancient governments. Hence the need to destroy their ancient bonds and replace them with an Italian bond.⁹⁹

Quintino Sella during a speech to the Chamber of Deputies, June 7, 1862:

With the greatest indifference, never taking into account our liabilities and our assets, without ever worrying about the means by which we will meet our expenses, we vote a billion of expenses against half a billion in revenues! Will we continue to have a budget of one billion, with assets of half a billion? Or has not the time come to seriously think about restoring our financial structure, without wasting money in unnecessary expenses until when we will be sure to have the means to do it, except when you will be provided with reasonable ways to have these means? [...]It is now time to take into consideration our tax system, rearranging it in a definitive way, and, when it will be reorganized, see if we can await, within a reasonable time, the development that is likely to lead to a balanced budget.¹⁰⁰

Quintino Sella during the presentation of the financial forecasts for the year 1863, December 1, 1862:

The Kingdom of Italy was created in an instant, I would say, for the aggregation of provinces for so many centuries separated by high barriers. The economic conditions

⁹⁸ Camera dei Deputati, *Discorsi parlamentari di Marco Minghetti*, 8 voll., Tipografia della Camera, Roma 1888-1890.

⁹⁹ *Gazzetta Ufficiale del Regno d'Italia*, April 29, 1861.

¹⁰⁰ Camera dei Deputati, *Discorsi parlamentari di Quintino Sella*, 5 voll., Tipografia della Camera, Roma 1886-1890.

of several of these provinces made unhappy for the effect of a bad dominion or for the effect of foreign servitude, few roads, almost no schools and the trade jammed by that deadly enemy that is arbitrariness. The taxes of the ancient Italian states were repealed by the Provisional Government to endear the people to the new order of things. Finally the costs of the new kingdom are relatively higher than the total expenditure of the ancient States, because of the need to take as soon as possible the civilization of all parts of the kingdom to today's standards, and to accomplish the supreme destiny of the country [...] Hence the need, gentlemen, of restructuring the financial system, of developing wealth, of decreasing expenses that are not necessary for the new Kingdom.¹⁰¹

Marco Minghetti to the law proposal of March 19, 1863:

Now, if you want to compare the final results, you will detect that with the new allotment, even if the tax fails to be equal for each inhabitant of each allotment, however those exorbitant differences that can not be explained now disappear. You will see that even after this allotment Lombardy and Parma, that are decreasing, however, always remain at the highest levels of taxation; Piedmont, that is increasing, retains a place in between, and Tuscany and Sicily, as well increasing, keep the lowest degree. All of these things should lead your soul to the conviction that if not for absolute correctness, always impossible to obtain in this matter, with these proposals, however, we get closer to the true and to conclusions that can be accepted with clear conscience.¹⁰²

¹⁰¹ Camera dei Deputati, *Discorsi parlamentari di Quintino Sella*, 5 voll., Tipografia della Camera, Roma 1886-1890.

¹⁰² Camera dei Deputati, *Discorsi parlamentari di Marco Minghetti*, 8 voll., Tipografia della Camera, Roma 1888-1890.

5. Data series and methodology

The data used to run the analysis consist of monthly prices of the 5% *Rendita Italiana* that was traded in the Brussels and Antwerp markets. The sovereign debt prices stretch from the 31st of May 1878 to the 31st December 1906. To this period have been added the data, consisting of weekly prices, of the Italian sovereign debt collected by Stéphanie Collet in her research *A Unified Italy? Sovereign Debt and Investor Scepticism*, in order to cover the period we are interested in. Therefore, we have 38 years long database (1868-1906) with the prices of the *Rendita Italiana* traded in the two markets. Since, in some periods, there are missing values in the time series and the methodology asks for continuous data, the last trading price, in these cases, is applied.

The objective of this thesis is to understand how the unification of the Italian taxation structure impacted on the financial market, and so how investors reacted to the passage of tax reforms. In order to do so, we used a structural break analysis to see which tax events drove the financial market.

We have a structural break when a time series abruptly changes at a point in time. This change could involve a change in mean or a change in the other parameters of the process that produce the series. This test is really helpful in determining when and whether there is a significant change in our data (see Annex).

5.1 Analysis' results

Through our analysis we want to test how investors' perception about Italy unification changed with the introduction of tax reforms that led to a more equalized taxation structure.

Running the test, 11 break dates were found in the analyzed period. The table below, lists these 11 break dates and exhibits the type of news that influenced the bond prices as well as the possible explanations for these price changes.

Table 12: Break dates

1	21/02/68- 06/03/68	Good news	The ground tax is introduced, and, in general in 1868, in order to balance Italian public finance and to reach the balanced budget the government exacerbated taxation system, in particular the indirect taxation and custom duties.
2	20/08/68	Good news	Law n.4480 is approved introducing taxation over the trading and negotiation of titles.
3	30/10/68	Good news	Law n.4513 is approved introducing family tax.
4	04/02/70	Good news	General exacerbation of taxation system. Increasing in tax rates over taxable income (from 8% to 12%-13,2%).
5	22/07/70	Bad news	French-Prussian War. Possible Italian involvement.
6	03/02/71	Good news	Rome proclaimed capital of the Kingdom of Italy.
7	18/08/71 - 01/09/71	Good news	Surrender by different banks of the right of issuing currency in favor of the National Bank of the Kingdom. Gradual conversion of pre-unitary currencies in the Italian lira.
8	February 1881	Good news	The Parliament abolishes the non-convertibility of the lira, but the implementation of the measure was postponed until April 1883 due to a serious crisis on the Paris Stock Exchange that disturbs the European financial market. The law states the dissolution of the issuing banks consortium formed in 1874, the assumption by the state of the circulation consortium, and replacing it with gold and silver coins and convertible State notes. This led to an increase in the purchasing power of the lira and a strong inflow of foreign capital in Italy, but also a considerable inflationary pressure.
9	June 1893	Bad news	Giolitti government is hit by the scandal of the Banca Romana. Between July and August Giolitti manages to pass a law that establishes the Bank of Italy and reorders the emissions system, but at the end of November, the Ministry had to resign.
10	September 1896	Good news	End of the First Italo-Ethiopian War.
11	August 1901	Good news	Zanardelli government establishes a commission of nine members for the bill proposed by the economist Wollemborg regarding the tax reform. The project provides for the abolition of the consumption duty on flour, bread and pasta in most of the municipalities, which would in return get the proceeds derived from the increase in direct taxes and subsidies from the state. To support the financial commitment of the State, the Minister of Finance also proposes the introduction of progressive tax on inheritance.

The first three break dates measured by the test are all in 1868, year in which, as we have seen in the section regarding common taxation, the government implemented new taxes or exacerbated the already existing ones. The impact of these events on the bond market was of positive sign, since in these years, as already highlighted, the common taxation, or in any case, a more equal tax distribution was going full speed. In the period around February-March 1868, indeed, the government started a parliamentary discussion about the introduction of the ground tax and, in order to balance Italian public finance and to reach the balanced budget, it exacerbated taxation system, rising in particular the indirect taxation and custom duties (breakpoint 1). Furthermore, in August the law n.4480 was approved introducing taxation over the trading and negotiation of titles (breakpoint2), and in October the government approved another tax bill that entered into force as law n.4513 introducing the so called *hearth tax* or *family tax* (breakpoint 3).

Another good news hit the market at the beginning of 1870. The attempt, indeed, to rectify the deficit of the State remained the main target among all the government interventions. Presenting to the Chamber of Deputies the financial situation of the Kingdom, the Minister of Finance Quintino Sella announced a bill comprising a series of stringent economic measures to balance the state budget: reducing the number of central and local offices, shifting to provinces the expenditure for secondary education and tightening direct and indirect taxes.

After a lengthy parliamentary debate the full set of measures proposed by Sella, that will be known in history as the *Financial Omnibus*, will be approved with two laws on 11th of August.

Moreover, Quintino Sella raised the tax rate over taxable income from 8% to 12%, with a surtax which brought it to reach the 13,2% (break point 4).

The series of good news was stopped in July 1870 because of the burst of the French-Prussian War. This event affected the Italian market since French believed that Italians would have allied with them to show gratitude to the military support that France gave them against Austria in the battles of Magenta and Solferino in 1859.

But the Italian diplomacy was divided on this point: the King was pro intervention while the Foreign Minister was more keen on neutrality. At the end, Italy decided to support France only in the case of some kind of openness about the Roman issue. Napoleon III was not willing to concede anything concerning Rome and so the Italian support faded.

Therefore, the break test helped us to capture a belief of that time, that was the probability of going to war with France against the Prussian Empire. In the end, the event did not occur, but just the belief of this possibility was enough to negatively strike the financial market.

On the 3rd of February 1871, the analysis reveals a positive impact on bond prices. The news of this day, that produced a good reaction in the bond market, was the proclamation of Rome as capital of the Kingdom of Italy. Finally, the craved annexation of Rome to the Kingdom was completed and it, undoubtedly, contributed to a change of investors mind regarding their concerns about the survival of the new Kingdom (break point 6). Furthermore, during the period around August-September of the same year, different Italian banks gave away their right of issuing currency to the National Bank of the Kingdom, leading to a gradual conversion of the pre-unitary currencies in the Italian lira. Therefore, we can say that there was not anymore just a geographical unification, or a fiscal union, but we were going towards a monetary union as well (break point 7). Italy was not anymore a mere “geographical expression” as Klemens von Metternich said.

In February 1881 we have again a good news influencing the market. Indeed, the Parliament on 2nd of February started the debate about the abolishment of the non-convertibility regime of the lira, and approved it on 7th of April. However, the implementation of the measure was postponed until April 1883 due to a serious crisis on the Paris Stock Exchange that unsettled the European financial market. The law provided for the dissolution of the issuing banks consortium formed in 1874, for the assumption by the State of the circulation consortium (940 million lire) and for its substitution with gold and silver coins and convertible state notes. This brought

about an increase in the purchasing power of the lira and a strong inflow of foreign capital to Italy, but also a considerable inflationary pressure (break point 8).

This series of good news was suspended again in June 1893, because of a financial scandal that, clearly, hit the market. Giovanni Giolitti government was hit by the scandal of the Banca Romana. Between July and August he was able to manage the approval of the law that established the Bank of Italy and reordered the issuing system, but at the end of November, the Ministry had to resign (break point 9).

In 1892 the Banca Romana, that in the past was the Papal State Bank, was one of the six institutions authorized to issue notes of legal tender on which the Italian banking system was founded (other issuing banks were: the National Bank of the Kingdom of Italy, Tuscany National Bank, the Bank of Naples, and the Bank of Sicily). The Banca Romana was among the first to take advantage of the wave of speculation that went through Rome and other Italian cities between 1889 and 1893.

Because of the excessive credit granted to the Roman construction industry, the paper notes circulation produced by the Bank exceeded of 65 million the legal limit. Most of the excess circulation (including counterfeit notes for 40 million issued in double series) was used for political loans to MPs and Ministers, among whom Francesco Crispi and Giovanni Giolitti.

The inquiry committee appointed in 1889, when the first bank failures of the year leaked the excess circulation, drew attention to this and other irregularities (among others was found a cash shortfall of 9.000.000 lire, improperly covered by issuing short notes). The survey results, which Crispi and Giolitti wanted to keep secrets citing concerns about possible serious repercussions in the banking system, were made public in December 1892. The subsequent administrative investigation conducted in January 1893 led to the arrest of influential characters. The case ended in July 1894 with the resounding discharge of the accused; the judges in order to not involve in the situation leading figures from the political world, including Crispi, stated that during the investigation had been taken away important documents.

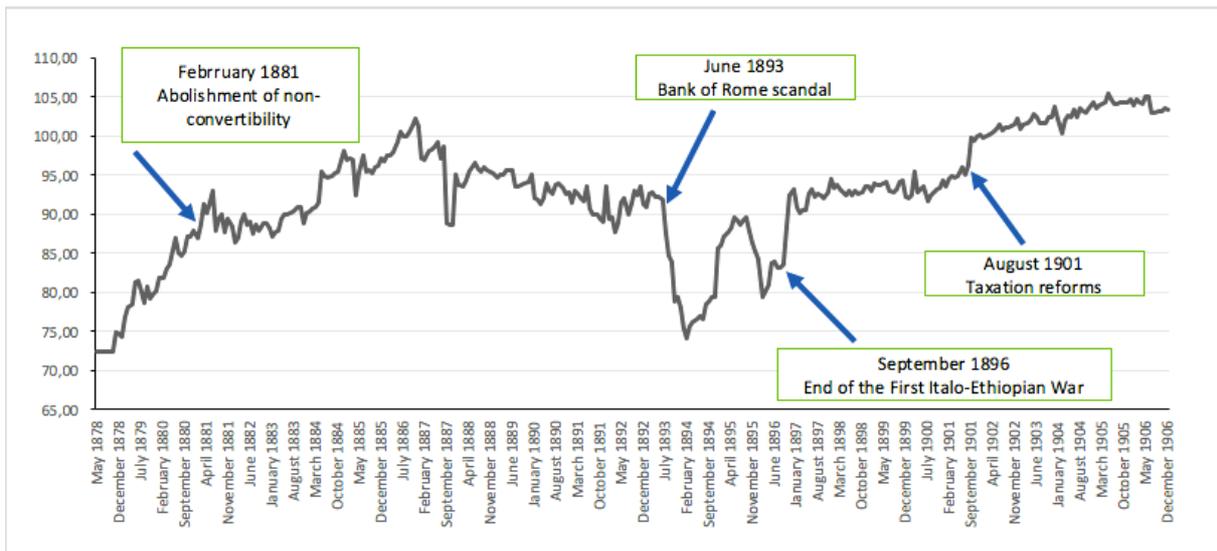
The tenth break point restores the series of good news, determining again a positive effect on the bond market. Indeed, the First Italo-Ethiopian War was finally going to end. The war, started in December 1895 between Italy and the Ethiopian Empire, had deeply shaken the Kingdom of Italy. The Italian public opinion was divided, many protests took place everywhere within the country, and the public foreign opinion was very harsh towards Italian choices. These terrible months ended with the Addis Abeba peace signed by the two parties in October 1896.

Therefore, the ending of these months of completely wrong political choices that had led to many episodes of tumultuousness in the Kingdom and to useless tragedies, determined a positive effect on the financial markets.

The last break point recorded by the test was in August 1901 (break point 11). In this month Giuseppe Zanardelli government established a commission of nine members to judge the bill proposed by the economist Leone Wollemborg regarding the tax reform. The project provided for the abolition of the consumption duty on flour, bread and pasta in most of the municipalities, which would in return get the proceeds derived from the increase in direct taxes and subsidies from the State. To support the financial commitment of the State, the Minister of Finance also proposes the introduction of progressive tax on inheritance. The committee rejected the project. In June Wollemborg brought again his project, modified, to the Chamber of Deputies, which, however, postponed the debate.

The Council of Ministers rejected, then, a new bill concerning tax reform: the project dealt with the issue of progressivity of taxes based on income, in a more comprehensive and incisive way than the March project, and tended almost to the complete abolition of the consumption duty. Wollemborg resigned as Finance Minister and was replaced by Paolo Carcano that presented and received the approval for a more moderate tax reform.

Figure 1: Trading prices



The analysis we run, using a break point test, has identified 11 events that positively and negatively affected the financial market at the time.

As stated in Stéphanie Collet research, *A Unified Italy? Sovereign Debt and Investor Scepticism*, investors remained sceptic about Italy unification for six years after the sovereign debt integration and the financial market started to consider Italy as a unified country only from the late '60s. There are many and different explanations to this situation but, as stated by Stéphanie Collet, probably the most relevant one is *taxation*. Through our analysis we wanted, exactly, to test if taxation was the main reason that led investors to change their mind about Italian unification.

According to the results we obtained, clearly taxation played an important role. As we have seen, the break in 1868 was due to the new taxation reforms introduced by the government and to the grater fiscal control of the pre-unitary States finance. The same can be said for 1870, where we had an exacerbation of tax rates and a more equalized taxation structure all around the country. Moreover, in September 1870 Rome, finally, became part of the Kingdom and it was proclaimed capital of Italy in 1871. Undoubtedly, this brought about investors to believe in the possibility of a long lasting unification of Italy. Furthermore, the different reforms and Parliamentary discussions held in those years concerning the creation of a monetary union was another important sign for the market.

It follows that, when we talk about pooling together the sovereign debts of the Eurozone countries, we should firstly take into consideration the establishment of a fiscal union and a greater control of the member states finances. Without common taxation none of the proposed projects would easily work.

6. Conclusion

The sovereign debt crisis in the eurozone rooted in the crisis of the U.S residential mortgage sector.

Following the subprime crisis, indeed, many European banks have experienced serious difficulties and were saved by government intervention. These interventions have exacerbated public finance imbalances of the most vulnerable countries, leading to a GDP contraction at global level of one per cent in 2009. In particular, while major developing countries have experienced a significant reduction in their growth rates, the industrialized countries have experienced negative change in the gross domestic product. For Italy the contraction in output in 2009 was close to 5 percent, configuring one of the worst recessions since the war.

On the eve of the outbreak of the sovereign debt crisis, the eurozone countries showed significant differences in the public finance conditions and in growth rate. The so called core countries (such as Germany) were characterized by low levels of public debt and by stronger economic activity, while the so called PIIGS countries (Portugal, Ireland, Italy, Greece and Spain), were characterized by a greater vulnerability linked to unsustainable dynamics of public debt, due to debt accumulated over the years, to the increase of uncontrolled deficits and low growth rates of GDP and, not least, to the costs of the rescue operations of banks in crisis.

Despite these differences, in 2010 the euro area has benefited from the economic recovery that has affected the major advanced economies, although with heterogeneous trends and manners between countries and geographical areas: the GDP growth rates have reached pre-crisis levels in U.S and Germany, but remained at levels significantly lower in the UK and in many euro area countries, including Italy.

The collapse of the public finances of Greece, marked, however, the transition to a new phase of the crisis, the sovereign debt crisis, interrupting the already uncertain recovery.

The crisis had its epicenter in peripheral eurozone countries (Portugal, Ireland and Greece) and then spread over the course of 2011 in Spain and Italy.

To counteract this crisis many different proposals have been advanced in these years, that have produced different reactions among the various European arena's players. The arguments against the Eurobond proposal essentially reside in the fact that the most virtuous countries should bear an additional burden, in terms of cost of debt, compared to the least virtuous countries. There would also be the additional risk that the protection offered by the Eurobonds encourages moral hazard, incentivizing, in general, tax and budgeting policies even less stringent, exacerbating the discrepancy between relaxed nations and virtuous ones and weighing down the burden borne by the latter.

On the contrary, different studies (e.g. The Blue Bond Proposal by von Weizsäcker and Delpla), that endorse the Eurobond proposal, believe that the integration of common sovereign debt would lead to lower yields. The main idea of this proposal is essentially to break down the government debt into two tranches: a senior or blue tranche up to a certain debt threshold which is assumed to be 60 percent of GDP and a junior or red tranche for any additional debt above that threshold.

In order to understand if the proposal could work, the best example in the history of the modern state is given by the experience faced by the Kingdom of Italy at the time of its unification. Indeed, it constitutes, historically, the closest example to the exhausting attempt to give greater political consistency to the European Union, also through the integration of economic and fiscal policies.

As Italy at the time, Europe is composed by heterogeneous States, each one with its own culture and tradition, with its own language and with different type of economies and fiscal structures. Italy took almost ten years before achieving the definitive unification and before being seen by investors as one single country; therefore, one question arises: how long will it take for Europe to be treated as a single block and to be equipped with a real rescue plan for the euro?

For Italy it took almost 10 years; as we have seen from the analysis of the data, starting from the late '60s, the achievement of definitive unification (1870) and the introduction of common taxation, convinced investors, and not only them, that the Italian unification was now irreversible. Italy was no longer a mere geographical expression, as Metternich in 1847 said, but after three wars of independence and more than twenty years of diplomatic maneuvers Italy became a unitary State. Furthermore, the integration of sovereign debt was a tool to further complete political integration, as it would be today for Europe. And, to answer to the skepticism of some big players of the Eurozone about the proposal, to the so called virtuous nations, scared to bear an additional burden in terms of cost of debt, the Italian experience could be a good example and could provide them acceptable solutions. As we have seen, it is true that the most virtuous nations would initially pay more than the others, as happened to Naples at the time, but it is also true that in the long term we would experience a greater stability in the financial market, with a lowering in the cost of debt.

Therefore, when questioning about the Eurobond proposal, we really should look back at the Italian experience and take into consideration the establishment of a fiscal union. Indeed, the current European monetary union, and the current level of political union are not enough to grant the success of the Blue Bond Proposal. Without some sort of common taxation and a greater control of the member states finances, the proposal would not work as expected.

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Annex

The option chosen are:

h = 34

eps1 = 0.1

hetdat = 1

hetvar = 1

hetomega = 1

hetq = 1

robust = 1 (prewhit =1)

hetvar = 1

The maximum number of breaks is: 8

Output from the global optimization

The model with 1breaks has SSR : 11240.0689

The dates of the breaks are: 280

The model with 2breaks has SSR : 7483.7536

The dates of the breaks are: 34 280

The model with 3breaks has SSR : 6401.0337

The dates of the breaks are: 34 158 279

The model with 4breaks has SSR : 3882.2625

The dates of the breaks are: 34 182 221 280

The model with 5breaks has SSR : 3156.1974

The dates of the breaks are: 34 72 182 221 280

The model with 6breaks has SSR : 2607.5655

The dates of the breaks are: 34 72 112 183 221 280

The model with 7breaks has SSR : 2493.1857

The dates of the breaks are: 34 72 112 149 183 221 280

The model with 8breaks has SSR : 2481.0557

The dates of the breaks are: 34 72 112 149 183 221 276 310

Output from the testing procedures

a) supF tests against a fixed number of breaks

The supF test for 0 versus 1breaks (scaled by q) is: 33.066

The supF test for 0 versus 2breaks (scaled by q) is: 16.4301

The supF test for 0 versus 3breaks (scaled by q) is: 18.6154

The supF test for 0 versus 4breaks (scaled by q) is: 53.4742

The supF test for 0 versus 5breaks (scaled by q) is: 66.6264

The supF test for 0 versus 6breaks (scaled by q) is: 57.9738

The supF test for 0 versus 7breaks (scaled by q) is: 52.2936

The supF test for 0 versus 8breaks (scaled by q) is: 185.2674

The critical values at the 10% level are (for k=1 to 8):7.42 6.93 6.09
5.44 4.85 4.32 3.83 3.22
The critical values at the 5% level are (for k=1 to 8):9.1 7.92 6.84
6.03 5.37 4.8 4.23 3.58
The critical values at the 2.5% level are (for k=1 to 8):10.56 8.9
7.55 6.64 5.88 5.22 4.61 3.9
The critical values at the 1% level are (for k=1 to 8):13 10.14 8.42
7.31 6.48 5.74 5.05 4.28

b) Dmax tests against an unknown number of breaks

The UDmax test is: 185.2674
(the critical value at the 10% level is: 8.05)
(the critical value at the 5% level is: 9.52)
(the critical value at the 2.5% level is: 10.83)
(the critical value at the 1% level is: 13.07)

The WDmax test at the 10% level is: 185.2674

The WDmax test at the 5% level is: 185.2674

The WDmax test at the 2.5% level is: 185.2674

The WDmax test at the 1% level is: 185.2674

supF(l+1|l) tests using global optimizers under the null

The supF(2|1) test is1.6397
It corresponds to a new break at: 34
The supF(3|2) test is0.90865
It corresponds to a new break at: 158
The supF(4|3) test is34.5918
It corresponds to a new break at: 72
The supF(5|4) test is21.6028
It corresponds to a new break at: 72
The supF(6|5) test is16.9494
It corresponds to a new break at: 112
The supF(7|6) test is10.7436
It corresponds to a new break at: 149

Given the location of the breaks from the global optimization with 1 breaks there was no more place to insert an additional breaks that satisfy the minimal length requirement.

The supF(8|7) test is 0

It corresponds to a new break at: 0

The critical values of supF(1+1|1) at the 10% level are (for i=1 to 8 are: 7.42

9.05 9.97 10.49 10.91 11.29 11.86 12.26

The critical values of supF(1+1|1) at the 5% level are (for i=1 to 8 are: 9.1

10.55 11.36 12.35 12.97 13.45 13.88 14.12

The critical values of supF(1+1|1) at the 2.5% level are (for i=1 to 8 are: 10.56

12.37 13.46 14.13 14.51 14.88 15.37 15.47

The critical values of supF(1+1|1) at the 1% level are (for i=1 to 8 are: 13

14.51 15.44 15.73 16.39 16.6 16.78 16.9

Output from the application of Information criteria

With 0 breaks:

BIC= 4.0305

LWZ= 4.0334

With 1 breaks:

BIC= 3.5206

LWZ= 3.5661

With 2 breaks:

BIC= 3.1478

LWZ= 3.236

With 3 breaks:

BIC= 3.0254

LWZ= 3.1564

With 4 breaks:

BIC= 2.5594

LWZ= 2.733

With 5 breaks:

BIC= 2.3863

LWZ= 2.6027

With 6 breaks:

BIC= 2.2293

LWZ= 2.4885

With 7 breaks:

BIC= 2.2184

LWZ= 2.5205

With 8 breaks:

BIC= 2.2475

LWZ= 2.5925

The number of breaks chosen by BIC is : 7

The number of breaks chosen by LWZ is : 6

Output from the sequential procedure at significance level 10%

The first break found is at: 280

The sequential procedure has reached the upper limit

The sequential procedure estimated the number of breaks at: 1

Output from the sequential procedure at significance level 5%

The first break found is at: 280

The sequential procedure has reached the upper limit

The sequential procedure estimated the number of breaks at: 1

Output from the sequential procedure at significance level 2.5%

The first break found is at: 280

The sequential procedure has reached the upper limit

The sequential procedure estimated the number of breaks at: 1

Output from the sequential procedure at significance level 1%

The first break found is at: 280

The sequential procedure has reached the upper limit

The sequential procedure estimated the number of breaks at: 1

Output from the repartition procedure for the 10% significance level

Output from the repartition procedure for the 5% significance level

Output from the repartition procedure for the 2.5% significance level

Output from the repartition procedure for the 1% significance level

Output from the estimation of the model selected by BIC

Corrected standard errors for the coefficients

The corrected standard errors for coefficients1is:8.478
The corrected standard errors for coefficients2is:0.423
The corrected standard errors for coefficients3is:0.93832
The corrected standard errors for coefficients4is:0.62148
The corrected standard errors for coefficients5is:0.44463
The corrected standard errors for coefficients6is:4.2866
The corrected standard errors for coefficients7is:0.30083
The corrected standard errors for coefficients8is:0.59906

Confidence intervals for the break dates

The 95% C.I. for the 1th break is: 34392
The 90% C.I. for the 1th break is: 34293
The 95% C.I. for the 2th break is: 6579
The 90% C.I. for the 2th break is: 6778
The 95% C.I. for the 3th break is: 101151
The 90% C.I. for the 3th break is: 105141
The 95% C.I. for the 4th break is: 139179
The 90% C.I. for the 4th break is: 142171
The 95% C.I. for the 5th break is: 76186
The 90% C.I. for the 5th break is: 106186
The 95% C.I. for the 6th break is: 221297
The 90% C.I. for the 6th break is: 221277
The 95% C.I. for the 7th break is: 277281
The 90% C.I. for the 7th break is: 278281

Output from the estimation of the model selected by LWZ

Corrected standard errors for the coefficients

The corrected standard errors for coefficients1is:8.478
The corrected standard errors for coefficients2is:0.423
The corrected standard errors for coefficients3is:0.93832
The corrected standard errors for coefficients4is:0.68046
The corrected standard errors for coefficients5is:4.2866
The corrected standard errors for coefficients6is:0.30083
The corrected standard errors for coefficients7is:0.59906

Confidence intervals for the break dates

The 95% C.I. for the 1th break is: 34391
The 90% C.I. for the 1th break is: 34292
The 95% C.I. for the 2th break is: 6578
The 90% C.I. for the 2th break is: 6777
The 95% C.I. for the 3th break is: 96134
The 90% C.I. for the 3th break is: 101128
The 95% C.I. for the 4th break is: 102187
The 90% C.I. for the 4th break is: 125186
The 95% C.I. for the 5th break is: 221297
The 90% C.I. for the 5th break is: 221277
The 95% C.I. for the 6th break is: 277281
The 90% C.I. for the 6th break is: 278281

Output from the estimation of the model selected by the sequential method at
significance level 10%

Corrected standard errors for the coefficients

The corrected standard errors for coefficients1is:2.0807
The corrected standard errors for coefficients2is:0.59906

Confidence intervals for the break dates

The 95% C.I. for the 1th break is: 280374
The 90% C.I. for the 1th break is: 280348

For the 5% level, the model is the same as for the 10% level.
The estimation is not repeated.

For the 2.5% level, the model is the same as for the 5% level.
The estimation is not repeated.

For the 1% level, the model is the same as for the 2.5% level.
The estimation is not repeated.

ii =

0

Output from the estimation of the model with 4breaks

Corrected standard errors for the coefficients

The corrected standard errors for coefficients1is:8.478
The corrected standard errors for coefficients2is:1.0961
The corrected standard errors for coefficients3is:3.7167
The corrected standard errors for coefficients4is:0.30083
The corrected standard errors for coefficients5is:0.59906

Confidence intervals for the break dates

The 95% C.I. for the 1th break is: 30214
The 90% C.I. for the 1th break is: 33165
The 95% C.I. for the 2th break is: 124199
The 90% C.I. for the 2th break is: 141194
The 95% C.I. for the 3th break is: 221282
The 90% C.I. for the 3th break is: 221265
The 95% C.I. for the 4th break is: 277281
The 90% C.I. for the 4th break is: 278281

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