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Abstract

A single currency is a powerful tool to integrate markets and instil a sense of common belonging. In nineteenth-century Italy, however, the introduction of a national currency, the lira, proved divisive, especially in the South. While it has already been argued in the literature that the South was disadvantaged in the long run by the currency union it formed with the North, this paper explores the concrete way in which monetary unification was achieved. The prolonged period of chaos following annexation stood in sharp contrast with the monetary stability the South had enjoyed under the Bourbons. Despite accounting unification, the peninsula remained divided for many years into a Northern area dominated by gold and a Southern one dominated by silver. Recoinage was further delayed once the notes of the National Bank – the former Piedmontese bank of issue – were declared inconvertible. On the one hand, inconvertibility fostered monetary integration by spreading the National Bank notes across the whole country. On the other, however, besides delaying recoinage, it generated a new monetary divide: between a North where paper money was readily accepted and a South still clinging to coin. Moreover, it impaired not only the relations of the Southern banks of issue with the privileged National Bank but those between the Southern banks themselves. Rampant speculation, favoured first by the slow and clumsy introduction of a single currency and later by note inconvertibility, could hardly be expected to rekindle national feelings, while the bitter banking antagonism reinforced regionalist aspirations.

Keywords

monetary integration, central banking, Italian unification, North-South divide, Kingdom of the Two Sicilies

JEL codes

E42, E51, F36, N13, N93

[I]n money matters, disorder reigned from the very beginning.¹

Introduction

A common currency is a powerful political symbol – even more so when unity is far from assured. This is in many ways as true for the European Union today as it was for Italy more than 150 years ago. The introduction of a national currency in the early 1860s was for the Italian government a practical need as well as an act of ideological cleansing. When advocating the extension of bimetallism to the whole country in his report to the Chamber of Deputies of the newly created Kingdom of Italy, Antonio Allievi warned his audience:

In vain have we destroyed the old States and their orders, in vain have we effaced the vestiges of a heinous past, because they come back to haunt us with the persistence of the old coins. The old borders still exist; and indeed whoever travels from Parma to Modena, from Lombardy to Piedmont would surely like to believe in the ancientness of the political union ..., but he cannot delude himself given the vexing and disagreeable sight of the different currencies.

Not only did old coins have to be reminted and made ‘Italian’, Italians also had to be forged into citizens of a new nation state. ‘[A] single currency – Allievi maintained – will engrave the persuasion of the changed political fortunes and victorious unification in all minds, with all the efficacy of an external and tangible symbol.’² A similar concept was reaffirmed a few months later by the Minister of Agriculture, Industry and Trade, Pepoli, when presenting the bill on monetary unification:

Money ... is ... the most popular, most constant and universal monument representing the unity of a nation. And this is why the emancipated [Italian] peoples regard with suspicion the old coins, which are linked in their minds with the humiliating slavery to which they were formerly subjected, and unanimously invoke coins bearing the effigy of the unifying King.³

However, contrary to their intents, especially in the South the introduction of a new currency aroused, instead of patriotism, widespread discontent.

Recent research has claimed that monetary integration with the North may have disadvantaged the South in the long run, further widening the regional divide.⁴ From the start, indeed, pre-unitarian states did not form an optimal currency area: once unified, North and South specialised in opposite directions, namely industry and agriculture, making a common monetary policy even less ‘optimal’. These studies are all the more welcome in that, with only a few exceptions,⁵ the monetary aspects of Italian unification have long been neglected or simply left to numismatists. They do not figure prominently in any grand narrative of Italian unification and yet they should, as monetary changes most directly affected the lives of Italians and did so for a much longer period than we would assume. Monetary unification in the past took much longer to achieve in practice than on paper. As Rebecca Spang has shown in her study on monetary innovation under the French Revolution, the money of the Old Regime outlived the Old Regime itself for many decades.⁶ The same happened in Southern Italy, where the Bourbon currency continued to circulate alongside the lira for a long period of time after

¹ Michele Avitabile in Camera dei Deputati, *Relazione della Commissione parlamentare d’inchiesta sul corso forzoso dei biglietti di banca*, 3 vols. (Firenze, 1869), III, p. 115.

² API, CD, Documenti, VIII leg., sess. 1861, no. 180-A.

³ API, CD, Documenti, VIII leg., sess. 1861, no. 258.

⁴ Foreman-Peck, J., ‘Lessons from Italian monetary unification’, *Working Papers of the Oesterreichische Nationalbank*, 113 (2006); Vicquéry, R., ‘Optimum currency areas and European monetary integration: evidence from the Italian and German unifications’, *LSE Economic History Working Papers*, forthcoming.

⁵ Most notably De Mattia, R., ‘L’unificazione monetaria italiana’, in *Archivio Economico dell’Unificazione Italiana*, 2nd ser., II (Torino, 1959).

⁶ Spang, R. L., *Stuff and money in the time of the French Revolution* (Cambridge, MA, 2015).

Unification. Although monetary unification was lengthy and gave rise to frequent complaints, even the economic historiography has concentrated much more on the vexed question of note issue and the competition between Italian regional banks of issue than on currency. This is all the more striking in that banking competition and monetary integration were closely intertwined. The creation of a new nation state coincided with the introduction of both a new currency and the banknotes of a new bank of issue – the Piedmontese National Bank – which were soon to become inconvertible. In the South, recoinage turned into a battlefield between the Bank of Naples – formerly the Bank of the Two Sicilies – and its Northern rival. From the very beginning, monetary policy became strongly politicised and a source of regional dissent rather than of national unity. In principle a short-term process embodying the nationalism of the new state, monetary unification in fact dragged on until the late nineteenth century. It caused serious hardship for the Italian people and impinged on the nation-building process, reinforcing, especially during the first 15 years, the stereotypical view of an authoritarian government closer to Northern interests.

Instead of exploring the long-run macroeconomic effects of monetary unification, this paper focuses on its actual implementation and political repercussions on the basis of in-depth archival research. In the first part I outline the state of monetary affairs in Italy prior to Unification and in particular in the Two Sicilies, which under the Bourbons had enjoyed a prolonged period of monetary stability. I then investigate the breakdown of the Southern monetary system following Unification until the mid-1870s. For years, monetary unification in the South was hardly more than an accounting fact, fuelling – together with political instability and international monetary tensions – widespread speculation. Monetary integration was partly fostered and partly hindered by the expansion of the National Bank and the inconvertibility of its banknotes. Capital flight, speculation at international, national and even regional level, note inconvertibility and fierce banking competition thus became the disturbing corollary of political integration.

The calm before the storm

On the eve of Unification, Italians were living in a babel of coins. Not only was the peninsula divided into several states, each with their own monetary and banking systems, but within each state there was a bewildering variety of currencies. Overall, almost a hundred different coins were minted in Italy, to which old coinages and foreign currencies should be added, for a total of probably more than three hundred.⁷ The lira, the Italian equivalent of the French franc, was at that time the official currency of only two states, the Kingdom of Sardinia and the tiny Duchy of Parma and Piacenza. There too, however, old and new monetary systems overlapped. In Liguria, for instance, a decade after its annexation by Piedmont, the old coins of the Genoese Republic were still minted and widely in use; in Sardinia, the Piedmontese system based on the lira was introduced as late as 1842, while the notes issued by the government in exile at the time of Napoleon continued to be legal tender until 1857;⁸ across the eastern border, Lombard coins circulated at an official rate and it took decades to withdraw old foreign coins from circulation, including those of Old-Regime France.⁹ However annoying, this variety was not particularly surprising in the first half of the nineteenth century: at that time not only Germany, but even a nation state like France was struggling to impose monetary standardisation.¹⁰

Like in Germany, after the Restoration Italian states began to rationalise their own monetary systems, besides experimenting with banks of issue. However, unlike in Germany, where monetary

⁷ De Mattia, 'Unificazione monetaria', pp. 9–16.

⁸ RD 28 March 1857, no. 2119, in *Raccolta degli atti del governo di Sua Maestà il Re di Sardegna* (Torino, 1857).

⁹ Conte, L., 'La Banca Nazionale: formazione e attività di una banca di emissione, 1843–61', in L. De Rosa, ed., *Ricerche in storia economica*, 2 (Napoli, 1990), p. 23; De Mattia, 'Unificazione monetaria', pp. 87–91.

¹⁰ Otto, F., 'Die Entstehung eines nationalen Geldes: Integrationsprozesse der deutschen Währungen im 19. Jahrhundert', in *Schriften zur Wirtschafts- und Sozialgeschichte*, 71 (Berlin, 2002), pp. 56–99; Spang, *Stuff and money*, pp. 247–70.

unification was preceded by three coinage treaties among German states – Munich (1837), Dresden (1838), and Vienna (1857) –, they never entered an Italian interstate monetary agreement. This led to the paradoxical result that in Lombardy, as part of the Habsburg Empire, the monetary system was reformed according to the Vienna Coinage Treaty, just to be overhauled a couple of years later when the region joined the Kingdom of Italy. Only in 1848 did some revolutionary governments mint the lira as a token of their nationalist aspirations; these were, however, no more than uncoordinated exploits, soon forgotten after the insurrections were quelled

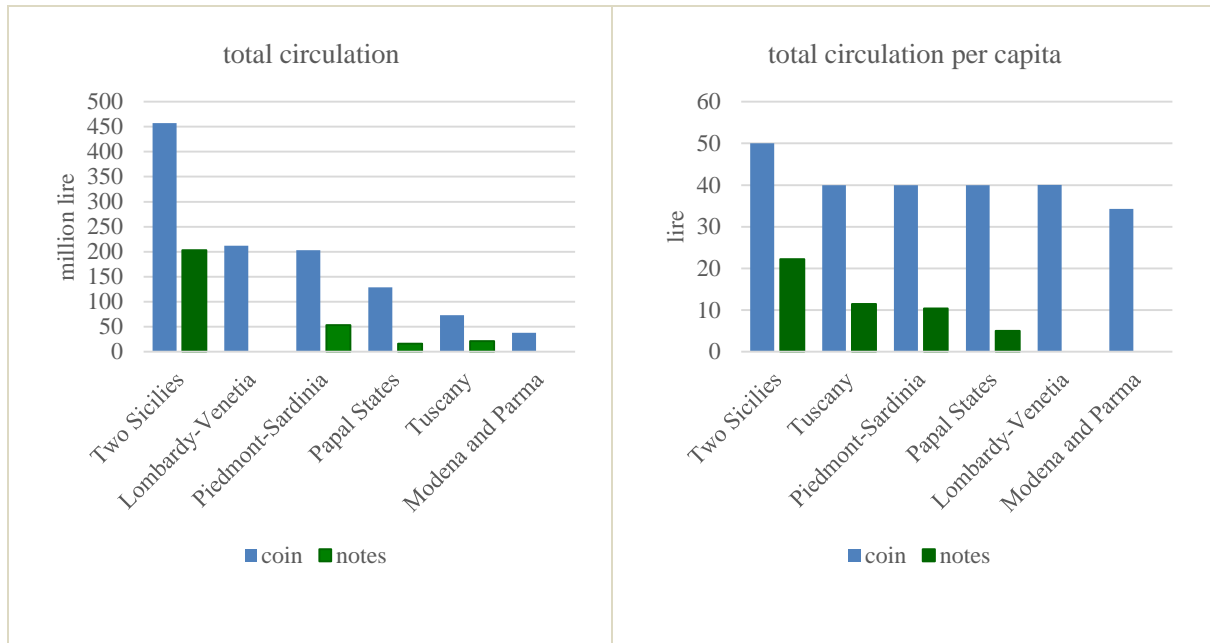


Figure 1. Total coin and note circulation, 1858–61. Notes: due to missing data, it was not possible to provide figures for one single year. Note circulation in the Two Sicilies and Piedmont-Sardinia refers to 1858, before the collapse and the increase of the circulation, respectively, of the Bank of the Two Sicilies and the National Bank in 1860 (see below). For Tuscany and the Papal States the figures refer to 1860 and as such overestimate note circulation with respect to the former states. In Lombardy-Venetia there was only one modest bank of issue (*Stabilimento Mercantile*) founded in Venice in 1853, while the bulk of note circulation were either state notes or banknotes of the Viennese National Bank. However, no reliable figures are available for the total note circulation in Lombardy-Venetia. Sources: Demarco, D., ‘Il Banco delle Due Sicilie, 1808–63’, in Direzione Generale del Banco di Napoli, *Storia del Banco di Napoli*, II (Napoli, 1958), App. I; De Mattia, ‘Unificazione monetaria’, App. B II and C.

The state with the largest monetary circulation, both in absolute and per capita terms, was the Kingdom of the Two Sicilies (Figure 1). The abundance of specie in the Two Sicilies, however, was not the result of financial backwardness and the lack of alternative means of payments such as paper money, since in terms of note circulation the region also ranked first.

The kingdom of the Two Sicilies not only had the largest coin and note circulation among Italian states, but it also enjoyed remarkable monetary stability in the decades preceding Unification, apart from some tension in the 1850s due to the appreciation of silver on international markets. When the Bourbons came back to power in 1815, one of their main concerns was to reform the monetary and banking system. The monetary unit was at that time the silver ducat, divided into 100 cents (*grana*), equal to 1,000 *cavalli*. Small change was in copper. The law of 1818, confirming a provision of 1814, converted the traditional duodecimal system into a decimal one by making 1 *grano* equal to 10 rather than 12 *cavalli*. Although the government fixed the current official value of gold coins with respect to the ducat, privates could freely trade gold – which was not legal tender – at its market value. All

foreign coins were to be traded at their market value, with the exception of *pezzi duri* (also known as *pezze*, or *piastres*) and *mezzi pezzi duri* (*mezze pezze*, or half-piastres), which had an official price. This reformed monetary system was extended to the whole state, including Sicily, where however the coin nomenclature was different.¹¹ According to the Neapolitan economist Ludovico Bianchini, the Bourbon monetary reform was at that time the ‘best in Europe’ and as such ‘praised everywhere and imitated in several States’.¹² The composition of actual circulation was neither so neat or simple as legislation would suggest, nor so perfect as Bianchini claimed, however. The unit of account, the ducat, was not coined and the real anchor of the system was the 12-*carlini* coin (120 *grana*), roughly equal to a 5-franc coin, an Austrian thaler or a Roman *écu* and as such undoubtedly more convenient for international trade. As Carlo Afan de Rivera lamented, ‘the convenience of foreigners was preferred to ours, sinning against the exactitude of our system’. Poor people, moreover, were left to use the old duodecimal small change.¹³

More remarkable, however, than the currency reform was the banking reform carried out by Finance Minister de’ Medici as early as 1816. Since the late sixteenth century in Naples had been operating several deposit banks (*banchi*) issuing transferable deposit certificates called *fedi*, whose circulation was enhanced by an informal clearing system (*riscontrata*) run by the city banks.¹⁴ Short of cash to finance military expenses, in the 1790s King Ferdinand forced the Neapolitan banks to issue unbacked *fedi* for many million ducats, making notes *de facto* inconvertible. The French, ruling the southern mainland from 1806 to 1815, repeatedly tried to create a sort of Bank of France out of the ashes of the nationalised city banks, but it was only in 1816, under the restored government, that their dreams came true. The old banks were definitively merged into a new public bank under the direct control of the Finance Minister. The Bank of the Two Sicilies collected both public and private deposits and acted as government treasurer, issuing, in this capacity, notes that were guaranteed by a general mortgage on all state property. In most people’s minds, this guarantee also extended to the notes issued on private deposits. Moreover, *fedi* enjoyed many legal privileges: they could contain binding contractual clauses (thus sparing the bank’s clients notary expenses) but, more importantly, they had to be received and exchanged into coin at every tax agency. Note circulation was thus extended to the whole country. Attempting to avoid repeating its earlier mistakes and to forge consensus, the restored monarchy was very careful in monetary matters. Although the main aim of the Bourbons in creating a public bank and fostering note circulation was to use depositors’ money to finance the Treasury, the new institution did so as discreetly as possible, never issuing more than twice the amount of its metal reserves. The bank was indeed so conservative that, had it kept a one-third reserve ratio, like most other banks of issue at that time, note circulation could have been much higher – staggeringly so if we consider that the circulation of its two Sicilian branches, merged into an autonomous entity after 1850, was backed for 100 per cent by specie (Figure 2). It comes therefore to no surprise that *fedi* were trusted to such an extent that on average they returned to the bank for conversion only after 3–5 years and in exceptional cases even after three or four decades.¹⁵

¹¹ RD 23 Feb. 1818, no. 1125; RD 13 Apr. 1818, no. 1170; L 20 April 1818, no. 1176, in *Coll. LL. DD.* (Napoli, 1818); see also Bianchini, L., *Storia delle finanze del Regno delle Due Sicilie* (Napoli, 1859, repr. 1971), pp. 607–10.

¹² Bianchini, *Le finanze delle Due Sicilie*, p. 608.

¹³ Afan de Rivera, C., *Della restituzione del nostro sistema di misure, pesi e monete alla sua antica perfezione* (Napoli, 2nd edn. 1840), pp. 257–66. It is also worth noting that, while Southerners considered theirs to be a decimal system because of the decimalisation of the *grano*, Italian legislation – as well as modern scholars – did not on the basis of actual coinage (30-, 15-, 6-, 3-ducat pieces, piastres and half-piastres).

¹⁴ De Simone, E., *Il Banco della Pietà di Napoli, 1734–1806* (Napoli, 1974).

¹⁵ Banco di Napoli, *Atti del Consiglio Generale del Banco di Napoli, 1863–4* (Napoli, 1865), 21 July 1863, p. 46; ACS, MAIC, DGCP, IBS, b. 478, f. 2308, *Relazione al Ministro delle Finanze sul Regio Banco di Palermo e di Messina*, Dec. 1865.

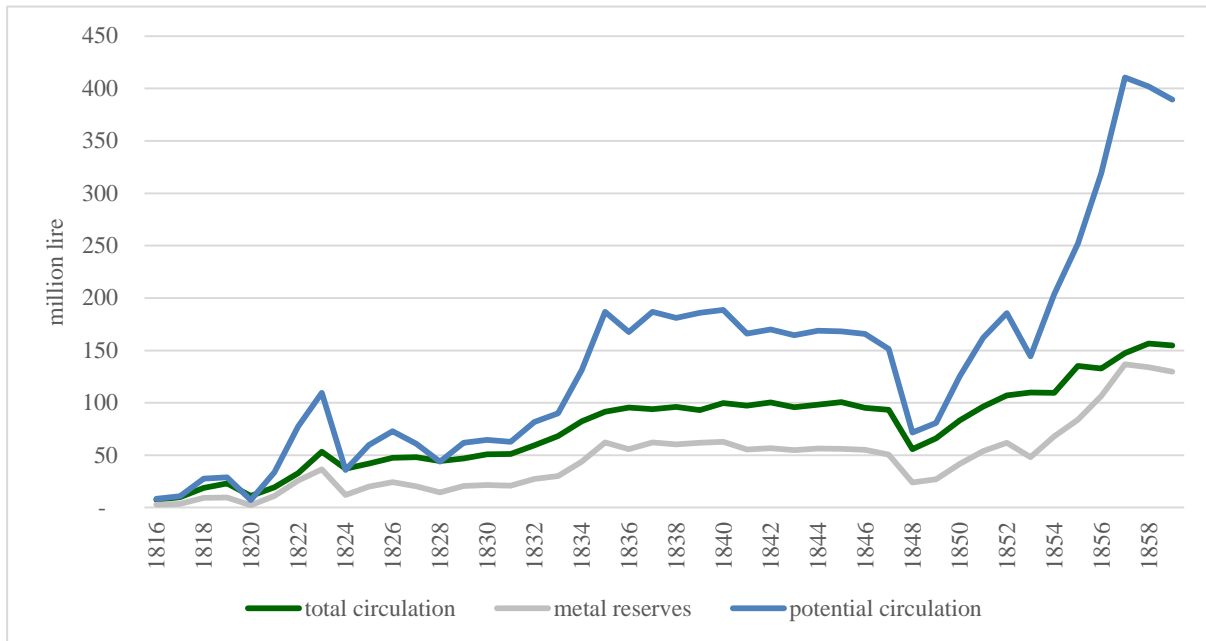


Figure 2. Total metal reserves, note circulation and potential note circulation of the Bank of the Two Sicilies and the Bank of Sicily, 1816–59. Note: For sake of comparability across the text, values are given in lire, using the official conversion rate 1 ducat = 4.25 lire set by the Italian government. Sources: Demarco, ‘Il Banco delle Due Sicilie’, App. I; Giuffrida, R., *Il Banco di Sicilia*, 2 vols. (Palermo, 1972–3), I, pp. 117–8.

Although *fedi* circulated across the whole country, provinces were seriously disadvantaged compared to Naples. For over half a century, the Bank of the Two Sicilies did not open a single branch outside the capital, apart from those in Palermo (1844), Messina (1846) and Bari (1858). Although in principle every tax agent was required to change *fedi* in specie at par, in practice they were able to do so only when enough cash was available after disbursements on the government’s behalf. Nor was it unusual for public officers to speculate on their own or with the complicity of moneychangers whenever notes or coins were in short supply. Without a bank branch, provincials were compelled to acquire notes either from moneychangers or, directly or indirectly, through their commerce with Naples. In order to have their notes changed at par, then, they had to pay enough taxes in coin to enable local tax receivers to use their cash surplus for this purpose. Such mechanism, though working fairly smoothly most of the time, suffered from two obvious shortcomings. First, it favoured the retention of specie in Naples, the largest outlet for provincial products. Second, by preventing provincials from depositing their monies with a public bank, it further reduced potential note issue. This was of course a disadvantage in terms of alternative means of payment, as notes were certainly more convenient to carry than bulky silver coins. But the real problem was the lack of credit provision, since no branch until 1858 was allowed to discount except Naples. Due to the absence of a branch network, provincials could not deposit their capitals into a bank of issue which would use them to finance the regional economy, multiplying the country’s money supply. However large, therefore, note circulation in the Two Sicilies was still much smaller and the Bourbon monetary policy much more restrictive than it might have been.

In 1848, while all Italy was shaken by revolutions and by the First War of Independence waged by Piedmont-Sardinia against Austria, the kingdom’s monetary system was disrupted by the Sicilian secession and the ensuing civil war between island and mainland. As a tangible sign of their independence from Naples, Sicilian parliamentarians proposed the abolition of the ducat system in favour either of the island’s traditional ounce system or of the lira – Piedmont’s currency, also reminiscent of Napoleonic glories – which, in a burst of national enthusiasm, was being minted also in Milan, Venetia and Tuscany. However, they soon became embroiled in disputes over the usefulness of

a unilateral introduction of the lira without any interstate agreement and the preference to be accorded to an 'Italian' rather than a Sicilian currency. They finally agreed on a celebrative minting of a 12-*tari* coin (roughly equivalent to a 5-lira coin) engraved with the Sicilian emblem instead of the Italian one. A couple of months before the Bourbon recapture of the island, however, the Mint had not struck one single coin – not a grave loss, however, since, in terms of total circulation, the new coinage of just 10,000 ounces would have been completely irrelevant anyway.¹⁶ While after the crushing of the insurrection the island's monetary system could be restored, note circulation with the mainland remained impaired. Sicily obtained a separate administration and its two branches of the Bank of the Two Sicilies were merged into an autonomous bank, later called the Bank of Sicily.¹⁷ Since the Neapolitan bank refused any clearing of notes with an institution it did not directly control, one of the main advantages of having a bank branch on the island – namely that of being able to settle accounts with Naples in paper rather than specie – was thus entirely lost. Mutual clearing of notes was resumed only in early 1860,¹⁸ to be suspended again after just a few months when Garibaldi landed in Sicily. Clearing was then resumed for a second time in September of the same year, as soon as Garibaldi entered Naples as a triumphant dictator.¹⁹

Monetary mayhem

Garibaldi's expedition in Sicily and the ensuing fall of the Bourbon regime in the summer of 1860 dramatically exacerbated the monetary crisis that had been looming over the kingdom since the 1850s due to international monetary tensions and the slow deterioration of its coin circulation. For 30 years the relative price of gold and silver had remained relatively stable: all this changed, however, with the gold discoveries in California and Australia, which led to a rapid appreciation of silver (Figure 3).²⁰ Since the early 1850s arbitrage had thrived, with silver flowing from bimetallic France, where it was undervalued, to Southern Italy, where it was traded at market prices. While gold was flowing out of the country, however, it took time for the Mint to coin the inflowing silver. At the same time, Southern silver was also eagerly coveted by foreign merchants to settle international trade with Asia: in just two years, between 1854 and 1856, as much as 10m ducats were exported abroad.²¹ Flourishing coin arbitrage, however, resulted in the exportation of good rather than poor-quality coins. Increasingly often, the Bank of the Two Sicilies was pestered by requests for large sums of new coins from Sicily or the main Neapolitan merchant bankers, while worn coins were accumulating in the bank's vault, contributing to the steady deterioration of its reserves.

With the military collapse of the kingdom between May and September 1860, these tensions exploded. Specie was withdrawn from the bank to be sent abroad, either for speculation or out of fear of a political catastrophe. According to Natale Sorvillo, one of the bank's governors, only a ban on specie exports could stop the bleeding:

while new and good piastres are demanded today, once these run out, the old ones will be requested, and, finally, small coin, leaving our Royal Banks stripped of cash and our notes exposed to sure

¹⁶ Alberti, A., Marcora, G., Montalcini, C., eds., *Le assemblee del Risorgimento: atti raccolti e pubblicati per deliberazione della Camera dei deputati*, 6: *Sicily*, 4 vols. (Roma, 1911), I, pp. 82–4; *ibid.*, II, pp. 102–7, 124; *ibid.*, III, pp. 329–34; *ibid.*, IV, pp. 86–8, 938–9, 948.

¹⁷ RD 13 Aug. 1850, no. 1818, in *Coll. LL. DD.* (Napoli, 1850).

¹⁸ RD 15 Sept. 1859, no. 331, in *Coll. LL. DD.* (Napoli, 1859).

¹⁹ DD 16 Sept. 1860, no. 51, in *Coll. LL. DD. Ditt. Prov. Na.* (Napoli, 1860), and L 27 Sept. 1860, no. 218, in *Racc. Atti Gov. Ditt. Prod. Sic.* (Palermo, 1861).

²⁰ It is, however, worth noting that price fluctuations on international markets were still relatively mild. For a thorough analysis of that period and the workings of the bimetallic system, see Flandreau, M., *The glitter of gold: France, bimetallicism and the emergence of the international gold standard, 1848–73* (Oxford, 2004).

²¹ Bianchini, *Le finanze delle Due Sicilie*, pp. 613–8.

depreciation. And an example of this truth can be clearly seen in the proceedings of the House of Rothschild [sic].²²

In late June the situation had deteriorated to such an extent that, following Sorvillo's advice, a temporary ban on specie exports was imposed.²³ As Garibaldi was advancing towards Naples, the provincial system of note conversion fell apart. Most of the available cash had to be used by local treasurers to pay the troops, not to convert notes. The only branch on the mainland, Bari, lost tens of thousands of ducats in a bank run in a matter of days. After a few weeks, its silver reserves only consisted of bad coin which nobody would accept, while *fedè* were rapidly depreciating and people lacked decent coins to buy everyday necessities. In just one year, the Bank of the Two Sicilies lost two-thirds of its total reserves. Although in the following years money began to flow in again, £30m (7m ducats) were lost forever. In Sicily, on the contrary, losses were initially less severe (Figure 4).

²² ASBN, PBDS, AD, App., b. 31 (ex 53), f. 5, Sorvillo to the Director General, 10 June 1860.

²³ RD 23 June 1860, no. 930, in *Coll. LL. DD.* (Napoli, 1860).

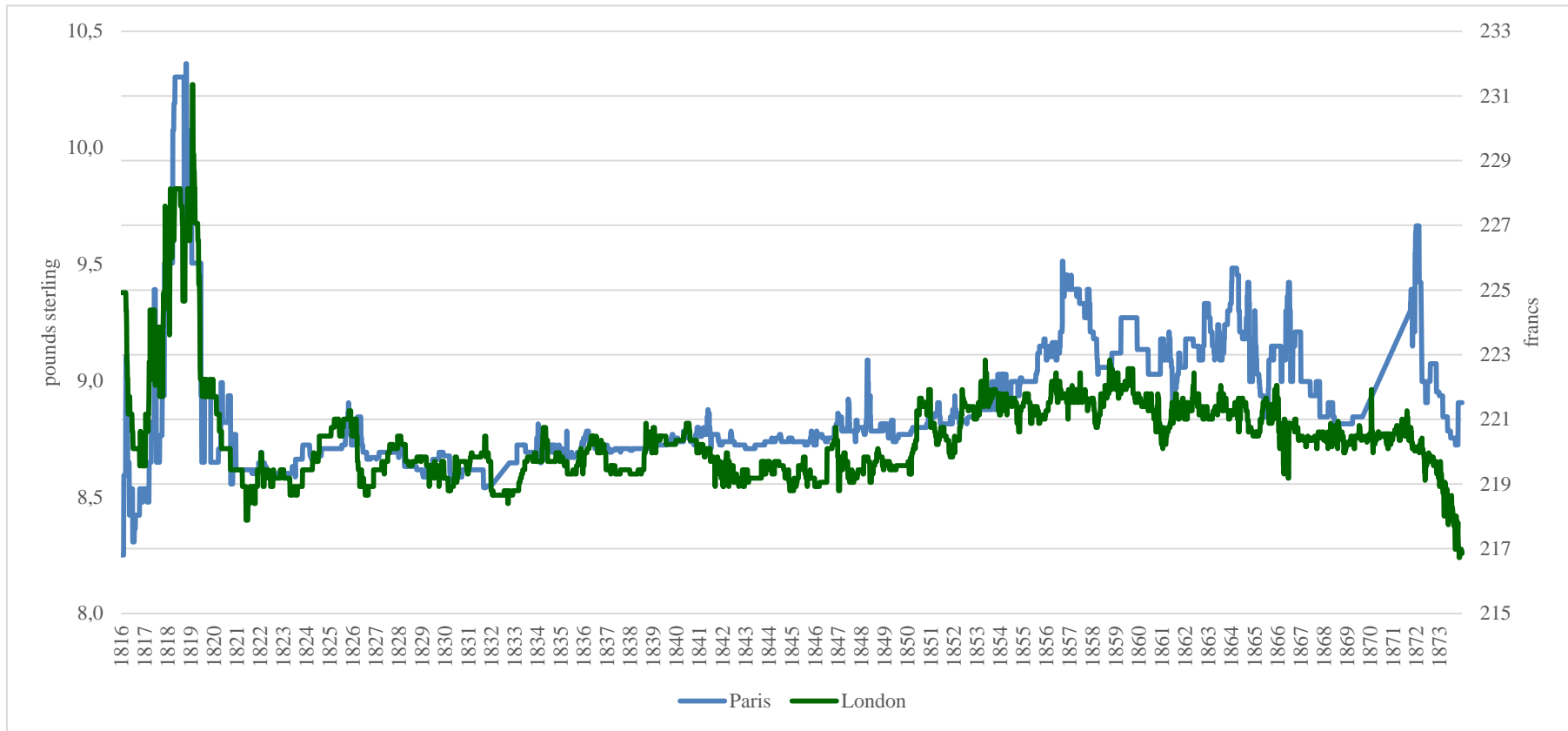


Figure 3. Price of silver in Paris and London, 1814–73. Source: Banque de France, ‘Exchange rate and gold and silver prices’, <https://www.banque-france.fr/en/node/33770> (accessed on 13 May 2018).

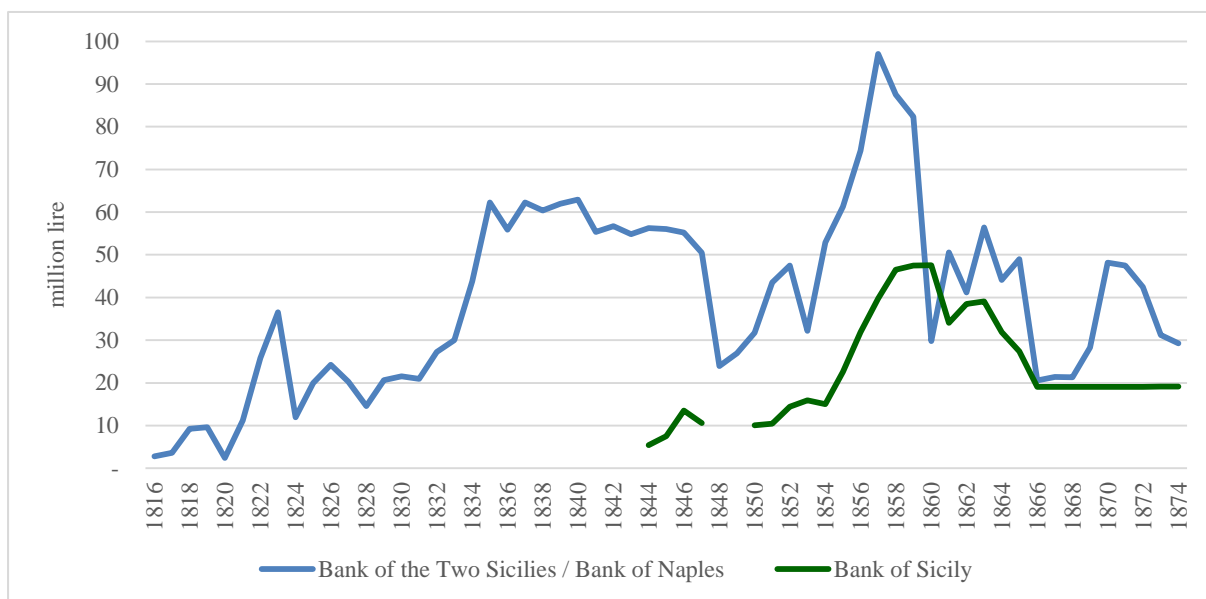


Figure 4. Metal reserves of the Bank of the Two Sicilies, later Bank of Naples, and of the Bank of Sicily, 1816–74. Note: end-of-year values. Sources: Demarco, ‘Il Banco delle Due Sicilie’, App. I; De Mattia, R., ed., *Studi e ricerche sulla moneta, I: I bilanci degli istituti di emissione italiani dal 1845 al 1936, altre serie di interesse monetario e fonti*, 2 vols. (Roma, 1967), II, Tab. 19; Giuffrida, *Il Banco di Sicilia*, I, pp. 117–8.

Unification in the South brought at first, rather than unity, legal disruption. To please the Sicilians, the mainland and the island were put under two different administrations. Between May 1860 and January 1862 both regions were thus ruled separately by a series of temporary governments issuing different monetary provisions. The silver lira – the currency of the conquering power – was immediately declared legal tender in both Sicily and Naples. On the mainland, the law maintained the silver standard, while on the island it introduced bimetallism.²⁴ Making gold legal tender in Sicily did not correspond to any theoretical consideration about the monetary future of Italy. It was merely the result of ‘political necessity’: since his volunteers had come with nothing but gold, Garibaldi had no choice other than to declare it legal tender. Apparently, however, his decree was largely ignored, especially in the countryside. Moreover, the wording of the decree was so ambiguous that, apart from those who had promulgated it, until 1862 it was still unclear to many – including Sicilian Filippo Cordova, then Minister for Agriculture, Industry and Trade – whether the decree actually provided for a bimetallic standard or simply allowed gold coins to be minted without making them legal tender.²⁵ Matters were further complicated by the fact that, since the legislation pre-dated actual recoinage, by necessity in Southern Italy old coins continued to be legal tender as well. Furthermore, as money usually follows armies, shopkeepers could not but accept foreign currency brought in by the Piedmontese soldiers, be these Austrian or Papal coins.²⁶

²⁴ DD 24 Sept. 1860, no. 71, in *Coll. LL. DD. Ditt. Prov. Na.* (Napoli, 1860); L 17 Aug. 1860, no. 159, in *Racc. Atti Gov. Ditt. Prod. Sic.* (Palermo, 1861).

²⁵ API, CD, Discussioni, VIII leg., sess. 1861, 26 and 28 Feb. 1862, pp. 1411, 1447, 1457–8.

²⁶ ASN, MF, I rip., II carico, b. 13608, correspondence between the Governor of Capitanata and the Finance Minister, Oct. 1860.

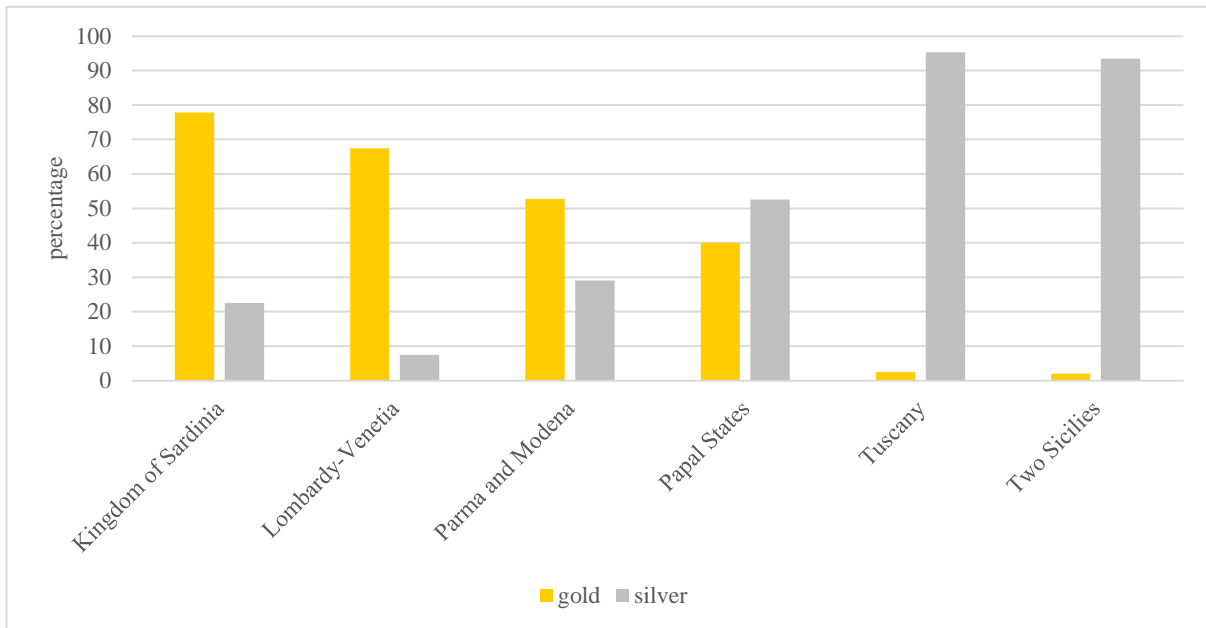


Figure 5. Gold and silver coin as percentage of total coin circulation, 1859–61. Source: De Mattia, ‘Unificazione monetaria’, App. C, p. 172.

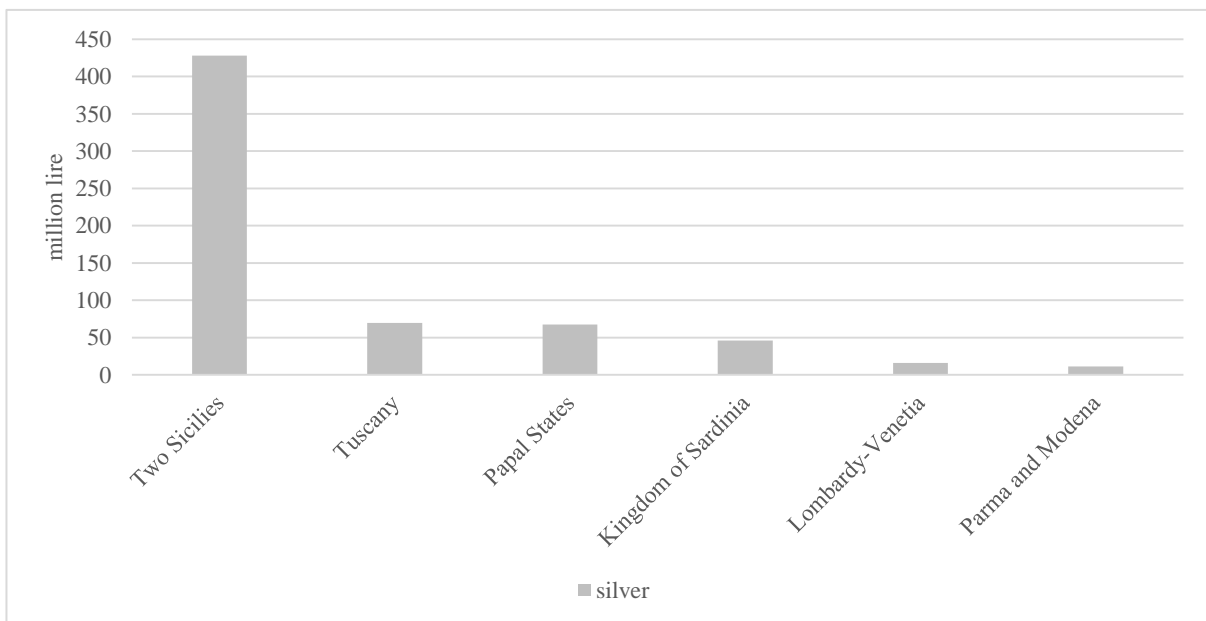


Figure 6. Total silver circulation, 1859–61. Source: *ibid.*

More worrying than the temporary – and unavoidable – increase in the variety of money circulating was the division of Italy into a ‘gold area’, the North, and a ‘silver area’, including Tuscany and the South (Figure 5). Due to the high price of silver, gold had already become predominant in the North,²⁷ where it was interchangeable with silver at an official rate (the standard 1:15.5 rate of the franc system) that no longer matched market prices. In an attempt to protect the last large reservoir of silver available in the country, namely Southern Italy, gold was therefore not declared legal tender there

²⁷ API, CD, Discussioni, VIII leg., sess. 1861, 26 Feb. 1862, p. 1410.

(Figure 6).²⁸ However, this created literally golden opportunities for arbitrageurs, who could sell the silver they had bought in the North at the lower legal rate in the South, at high market prices. The increasing polarisation between a gold and a silver area brought about by legislation was partly and incoherently contrasted by the state itself, once again out of necessity. Conquering – and, what is more, retaining possession of – the South had been a particularly bloody and expensive business. For years the region was ravaged by brigandage and armed rebellion against the new regime. Trade was disrupted.²⁹ Tax collection dropped. Administrative expenses soared as each temporary government was more concerned with forging consensus and rewarding its supporters than with balancing budgets. In just one year, the South's deficit increased fourfold, contributing by 80 per cent to the national total (Figure 7). From France, Italy's main creditor, and Northern Italy gold flowed to the South to pay soldiers, civil servants and public debt holders.³⁰ Meanwhile good Bourbon coins continued to be exported abroad, a trend which the American Civil War, by spurring a quest for alternative cotton suppliers worldwide and particularly in the East, would only reinforce.³¹ 'Everywhere' in the South – a newspaper complained – '[only] old, worn coins' were to be found, while good and new piastres had long since disappeared.³²

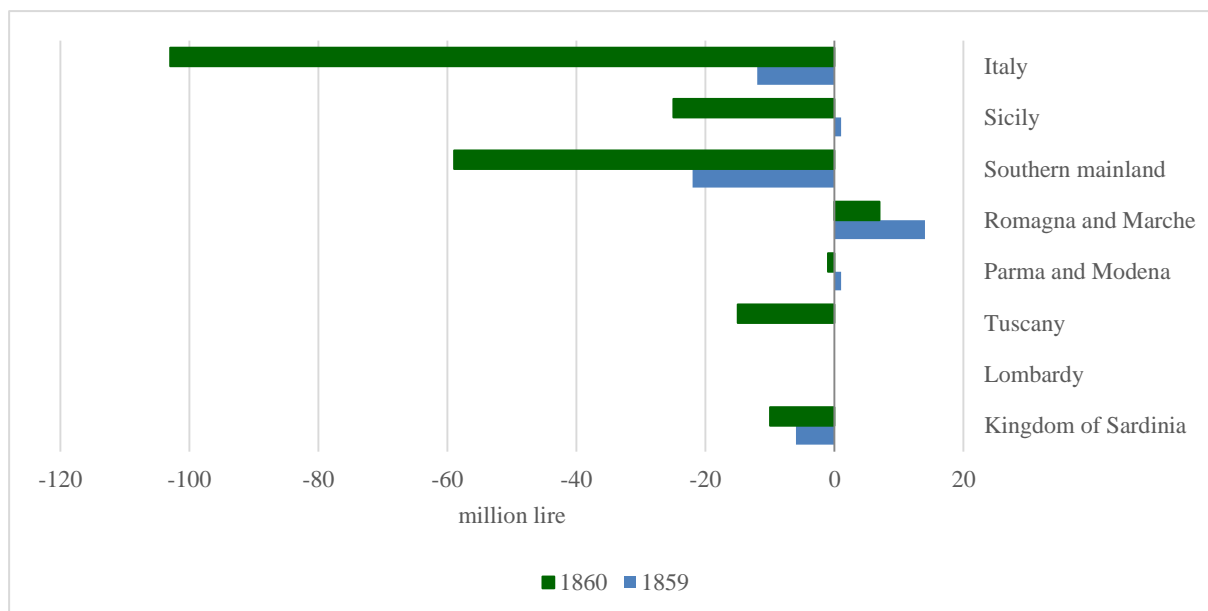


Figure 7. Italy's ordinary deficit per region, 1859–60. Note: own corrections for Tuscany. Source: Sachs, I., *L'Italie: ses finances et son développement économique depuis l'unification du royaume, 1859–84* (Paris, 1883), p. 162.

While silver was being hoarded or exported, Southerners 'constantly refuse[d] the Italian currency', since gold was not legal tender,³³ and those who were forced to accept it, like public employees, had to change it with moneychangers to do the shopping.³⁴ The military, paid in gold, 'found itself as if in a

²⁸ Fratianni, M. and Spinelli, F., *Storia monetaria d'Italia: lira e politica monetaria dall'Unità all'Unione Europea* (Milano, 2001), pp. 137–40.

²⁹ API, CD, Discussioni, VIII leg., sess. 1861, 27 Feb. 1862, p. 1437.

³⁰ *Ibid.*, p. 1445.

³¹ On the changing geography of cotton trade during the war, see Beckert, S., *Empire of cotton: a global history* (New York, 2014), pp. 246–58.

³² 'La questione monetaria', *Il Pungolo*, 16 Aug. 1861, p. 901.

³³ ASBN, PBDS, AD, App., b. 24 (ex 46), Avitabile to the Finance Minister, 7 Oct. 1861.

³⁴ API, CD, Discussioni, VIII leg., sess. 1861, 28 Feb. 1862, p. 1445.

foreign country, paid in the currency of its home country'.³⁵ Moreover, the Bank of the Two Sicilies was forced by the government to accept, besides the silver lira, gold as well as old coins from other Italian provinces, neither of which it could legally redistribute to its clients. As mentioned above, in just one year after Garibaldi's expedition the bank lost two-thirds of its metal reserves. What was worse, however, was that in the following years a large amount of the remaining reserves was made up of eighteenth-century coins needing to be recoined, other clipped and worn coins, and small change that the public was reluctant to accept: in September 1862 these even accounted for two-thirds of total reserves.³⁶ Figure 8 shows the relative composition of metal reserves of the Southern banks and of the National Bank. In 1865, the first year for which figures are available, the share of gold and silver in the reserves of the Bank of Sicily was as low as 35 per cent. The Bank of Naples fared relatively better, although statistics do not properly take into account the poor quality of much of the bank's silver reserves.

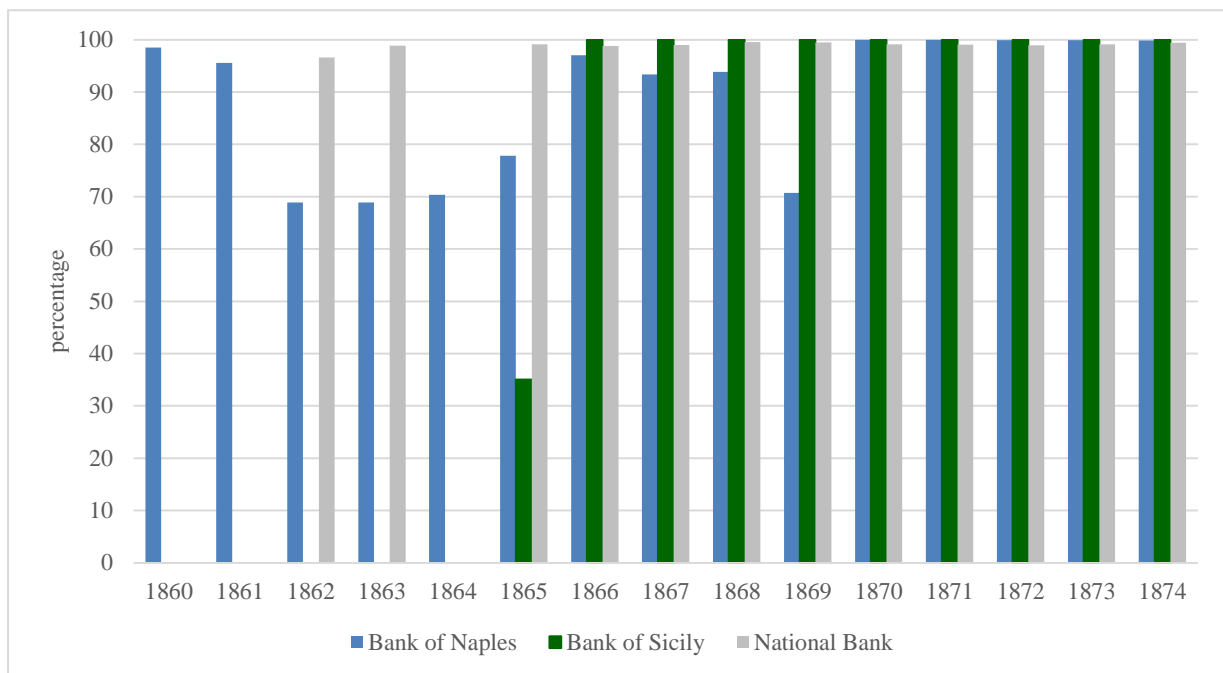


Figure 8. Gold and silver reserves of the three banks of issue operating in the South as percentage of their total metal reserves, 1860–74. Note: end-of-year values. Sources: Demarco, D., *Banca e congiuntura nel Mezzogiorno d'Italia, 1809–63* (Napoli, 1963), p. 428; De Mattia, *I bilanci degli istituti di emissione*, II, Tab. 13.

To add to confusion, while in the South small-denomination coins were made of copper, the new Italian ones were made of bronze (96 per cent copper and 4 per cent tin). Official rates, however, disregarded the different purity of the Bourbon and Piedmontese coins, so that, in exchanging old for new coins, for 6.237 g. of copper Southerners received only 3.84 g. of the same metal. It therefore comes as no surprise that in 1863 Naples was still awash in copper coins, which Neapolitans were very reluctant to part with.³⁷

³⁵ Ibid., p. 1429.

³⁶ ASBN, PBDS, AD, App., b. 24 (ex 46), minutes of the sitting of the Bank's board, 21 Sept. 1862; De Rosa, L., *Istituto di emissione nell'Italia unita, 1863–1926*, I: *L'espansione, 1863–83*, in Direzione Generale del Banco di Napoli, *Storia del Banco di Napoli*, III (Napoli, 1989), p. 82.

³⁷ Bovi, G., 'La monetazione napoletana nel 1859 e negli anni seguenti', *Archivio storico per le province napoletane*, LXXIX (1961), p. 317.

After fierce disputes at national level, bimetallists prevailed and the law of 24 August 1862 finally imposed the same monetary standard on the whole country.³⁸ To prevent the immediate exportation of the new shiny silver coins, the purity of those smaller than £5 was lowered from 900/1000 to 835/1000, while 5-lira coins, whose purity remained 900/1000, were only coined upon request.³⁹ However, the official exchange rate between the ducat and the lira, previously correctly set at 1:4.25, was left unchanged. One ducat, whose silver content was 19.119 g., thus had to be changed with £4.25, equal to 17.535 g. of silver.⁴⁰ Compared to lira-holders, Southerners were thus disadvantaged in the exchange of both large and small-denomination coins.

Southerners did not suffer only from the unfavourable exchange rates but also from the wrong timing in the minting of the new currency. Newly minted bronze coins were put into circulation before the new silver coins, equivalent to circulating eurocents but not euros in a market still full of French francs. Even the denominations of small change were ill-chosen. Instead of 10-cent coins, the South was swamped with 1, 2 and 5-cent lira coins which, due to their lower intrinsic value, were ill-suited to replace the old copper coinage. The lowest-denomination bronze coins, whose value was further decreased by their very abundance and the speculations of shopkeepers, who continued to price their merchandise in the old currency, were dumped on the treasuries and the Bank of Naples, as the Bourbon bank was now called.⁴¹ The bank thus collected between £10m and £12m in bronze coins which, until the 1866 crisis, ‘nobody wanted’ (Figure 9).⁴² The government had long disregarded the bank’s advice and seemed to believe – Director General Avitabile complained – ‘that decrees were endowed with the magical power of withdrawing the old currency by their own virtue’. When the government finally realised that the Southern market needed 10-cent coins, it hurriedly ordered them from Milan and Strasbourg.⁴³

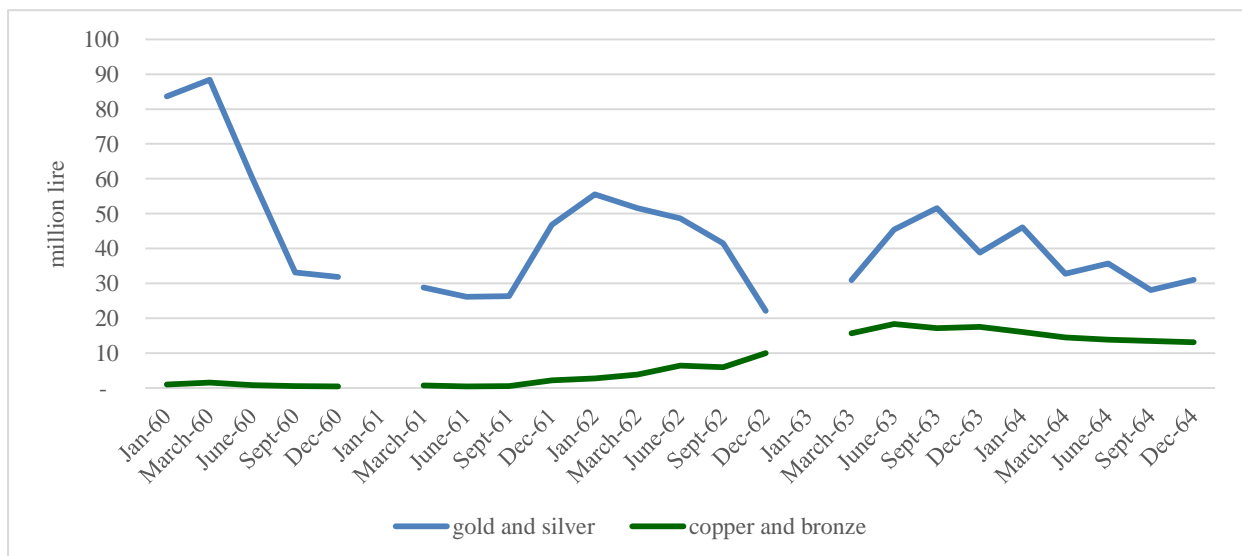


Figure 9. Reserve composition of the Bank of Naples, 1860–4. Source: Demarco, *Banca e congiuntura*, p. 428.

³⁸ L 24 Aug. 1862, no. 788, in *Racc. Uff. LL. DD.*, 4 (Torino, 1862).

³⁹ De Mattia, ‘Unificazione monetaria’, pp. 55–7.

⁴⁰ Cf. Bovi, ‘Monetazione napoletana’, pp. 315–8. Since the 1-ducat piece was not coined, however, the actual loss could be even larger.

⁴¹ ASBN, PBDS, AD, App., b. 24 (ex 46), Avitabile to the Finance Minister, 26 Aug. 1863.

⁴² Avitabile in Camera dei Deputati, *Inchiesta sul corso forzoso*, III, p. 99. Note that the figures reported in Fig. 9 are higher because they include both copper and bronze coin.

⁴³ ASBN, PBDS, AD, App., b. 24 (ex 46), Avitabile to the Finance Minister, 26 Aug. 1863.

While recoinage was trailing behind, it was made mandatory for public administrations to keep accounts in lira as of 1 January 1862, to give at least a flavour of monetary unification.⁴⁴ For the first years after annexation, the South therefore found itself under two overlapping regimes, one largely imaginary based on the lira, and the other reminiscent of the old rule – quite literally, since pending a full monetary reform, the defeated but unresigned King Francis continued undisturbed to fund the loyalist guerrilla from his exile in Rome with forged Bourbon coins.⁴⁵ Decrying the speculations of moneychangers and the mockery of being forced to use a new unit of account for the old currency, a newspaper asked rhetorically:

Why should the unity in figures, in bookkeeping not reflect an actual unity of money? Why should we speak of lire and cents here where there is nothing other than ducats, *carlini* and *grana*? Why should sums denominated in lire be collected in piastres, ducats, and *grana* ... ? Why is a sordid speculation, fed by this currency exchange, preserved ... ? ... [H]ow can you expect to force people accustomed to giving credit only to realities ... to reckon in lire and cents, while they neither have nor see lire or cents?

Southerners were such die-hard materialists and mulish localists – the columnist suggested, embracing a stereotype that national unification had, rather than dispelled, viciously reinforced – that they would regard only coin minted in Naples as national currency, while scorning lire pouring in from France or Northern Italy as ‘exotic merchandise’.⁴⁶ ‘The old currency, destroyed *de jure*, circulates, in fact, alone’, warned Avitabile, and there was a risk that it would strike at the heart of the new order. To make his case heard in foggy Turin, he too had to exploit prejudice, insisting on the ‘inborn character’ of Southerners, ‘so very different’ from that of rational Northerners:

Southerners – with their fevered imagination, especially the populace – need to completely lose sight of the old regime in order not to become enmeshed in the scheming of the wicked who do not cease to long for the resumption of the suppressed habits. The complete replacement of the old currency with the new one is therefore politically no less than economically imperative. ... In this way, these Provinces will truly achieve monetary unification, which is the main symbol of the unity of the Italian Kingdom.⁴⁷

In many ways, monetary disunity disturbingly mirrored political precariousness.

National money, national bank?

In the South, besides introducing a new currency alongside the old one, the Italian government also introduced a new bank. Aptly named National Bank, the Piedmontese bank of issue quickly extended its branch network to the whole peninsula, acquiring a few regional banks of issue and threatening the survival of all others. The expansion of the National Bank soon proved even more divisive than the introduction of a new currency, which was very much needed, as everyone agreed. Like in Europe and the United States, there was sharp disagreement on whether monopoly of issue should be preferred to other arrangements. In Italy, however, the question became soon deeply political, especially in the South, where from the very beginning the National Bank worked hard to replace its old-fashioned competitors. The expansion of the National Bank has often been portrayed with colonialist overtones that overshadow the crucial contribution it made to the Southern economy in terms of economic development and the support it found in the South for its expansionary project. Through its branch

⁴⁴ RD 19 Sept. 1861, no. 578, in *Coll. LL. DD. L. Prov. Na.*, 2 (Napoli, 1862).

⁴⁵ ‘La questione monetaria’, *Il Pungolo*, 16 Aug. 1861, pp. 901–2; ‘La questione monetaria II’, *ibid.*, 18 Aug. 1861, pp. 909–10; *Il Popolo d’Italia*, ‘Falsi monetarii’, 9 April 1861, p. 378.

⁴⁶ *Il Pungolo*, ‘Della moneta’, 7 Jan. 1862, p. 21.

⁴⁷ ASBN, PBDS, AD, b. 290, f. 6, Avitabile to the Minister of Agriculture, Industry and Trade, 25 Jan. 1862.

network it not only provided credit to many towns which had until then been devoid of any bank, but it laid the foundations for a truly national payment system. It also introduced a new means of payment in the form of banknotes, in addition to the deposit notes issued by the Southern banks. These merits notwithstanding, its overt hegemonic ambitions, furthered by a government whose centralising character was widely resented in most of the country, contributed to monetary uncertainty and an increasing factionalism.

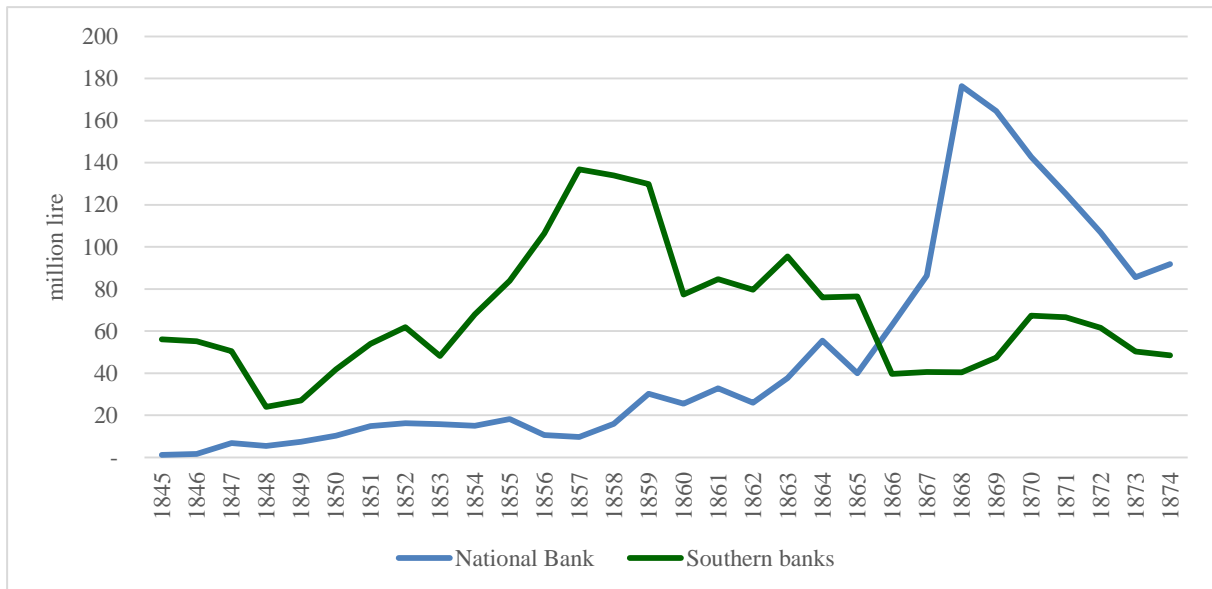


Figure 10. Metal reserves of the National Bank and the Southern banks of issue, 1845–74. Notes: end-of-year values. Metal reserves include both coins and ingots owned by the bank except metal for the Mint. The National Bank was the direct heir of the Bank of Genoa, founded in 1844. Sources: see Figure 4.

While its repeated attempts to get rid of the Banks of Naples and Sicily – whose reserves, however depleted, greatly surpassed those of the National Bank until 1865 (Figure 10) – were eventually foiled, the National Bank scored a point when in 1862 it was entrusted with the management of the Mints. Aiming at rationalising production, in late 1861 the government concentrated its minting activities in only three of the pre-existing regional Mints, namely Turin, Milan and Naples, run by the National Bank since 1862.⁴⁸ For a bank of issue, controlling the Mint was a convenient way to increase its metal reserves, boost its circulation by paying Mint clients with its own notes whenever they were willing to accept them, and even speculate on the international specie market.⁴⁹ Before Unification, this privilege was enjoyed in Southern Italy by the Bank of the Two Sicilies, whose director was in charge of both the bank and the Mint. Soon after Unification, the Director General of the Neapolitan bank, Marquis Avitabile, had been able to secure a contract for the badly needed recoinage of small silver coins for a total value of £12m. However, pending the law on monetary unification, recoinage was suspended. In 1864, most Bourbon coin was still circulating for an estimated value of £400m. The Bank of Naples alone had three-quarters of its reserves in old coin.⁵⁰

In a bold attempt to regain the upper hand with the National Bank, the Bank of Naples made an offer to the government to reconvert all of the still existing Bourbon currency for a pittance, largely bypassing the Mint. The plan was to simply sell it abroad and import francs, while the Bank of Naples would issue its own *fedi* to withdraw the old currency. Since *fedi* remained in circulation for an

⁴⁸ RD 9 Nov. 1861, no. 326, in *Racc. Uff. LL. DD.*, 2 (Torino, 1861); De Mattia, ‘Unificazione monetaria’, pp. 77–82.

⁴⁹ Camera dei Deputati, *Inchiesta sul corso forzoso*, I, p. 259; Avitabile in *ibid.*, III, pp. 102, 115.

⁵⁰ Avitabile in *ibid.*, III, pp. 116–7.

average of three years, this time span would allow the bank to retain much of the new coin as its own reserves. Had this plan succeeded, the reserves of the Bank of Naples might have reached £200m at a time in which those of the National Bank were around one-fourth of this figure (Figure 10). While immensely profitable for the bank, this operation would also have spared the government roughly one-third of the sum already budgeted for the recoinage. After a complex bureaucratic procedure, however, the contract, although attractive to the Finance Minister, was eventually turned down by the Council of State and the Court of Auditors.⁵¹ In retaliation and to save the few good, new coins the bank still had, Avitabile ordered clients to be paid with the old currency. As a result, amid public outcry he was unceremoniously sacked and replaced by the uninspiring, pro-government Mayor of Naples Colonna.⁵²

Losing control of the Mint in favour of the National Bank, besides being a hard blow for the Bank of Naples, further complicated the spread of the lira in Southern Italy. While the whole coining process had previously been performed in Naples, under the new rule it was segmented and centred in the North. In order to reduce costs, for instance, the National Bank ran only two refineries, in Turin and Milan, which implied sending metals back and forth between North and South.⁵³ Moreover, as the Turin Mint, with its hydraulic engine, was cheaper to operate than the one in Naples, equipped with a steam engine, the National Bank was keen to mint the 50-cent lira coins for the Southern market there as well. This would have burdened the government with the risks and costs of sending the old Southern coin to Piedmont and would have further delayed the distribution of the newly minted coins across the South. Permission to do this was revoked only at the last moment.⁵⁴ The National Bank's lengthiness in coining was not due merely to logistic challenges across the whole national territory, but also – apparently – to its 'lack of experience' and 'excessive desire to save'. 'Believing it possible to go undamaged from thrift to miserliness' the National Bank – as the Bank of Naples was only too ready to report to the Minister – 'incurred greater expenses and wasted much time'. 'After several mistakes and delays', half a million newly struck lire had to be reminted, so bad they were and the Bank of Naples was ready to sue the National Bank in the case of any further misdelivery.⁵⁵ Unfortunately, this was not just a question of Southern malevolence. The National Bank was inefficient by its own admission: behind closed doors it complained – strangely enough in a country that was undergoing a root-and-branch monetary reform – about the numerous and overstaffed minting mills with which it was burdened compared to the scarce workload, although it also had to acknowledge the 'lack of dexterity' of its inexperienced workers.⁵⁶

Moreover, although the National Bank tried to cut expenses even to the detriment of quality, this was not reflected in the national budget, which was still loaded with expenses relative to previous engagements with other contractors. As a result, for the personnel of the Royal Mints alone, in 1863 Italy paid 30 per cent more than France, which minted half the coinage circulating in Europe. Despite these higher expenses, only two-thirds of £30m bronze coins – minted in Milan, Naples and even Strasbourg – had been put into circulation by that time. Similarly, by admission of the Minister for Agriculture, Industry and Trade, 'almost nothing' of a minting of £150m silver small change had

⁵¹ API, CD, Discussioni, IX leg., sess. 1866, 4 May 1866, pp. 1991, 1995–6; Avitabile in Camera dei Deputati, *Inchiesta sul corso forzoso*, III, pp. 116–7; Banco di Napoli, *Atti del Consiglio Generale del Banco di Napoli, 1863–4*, 2: 1864 (Napoli, 1865), 23 Feb. 1864, pp. 116–20; Nisco, N., 'Relazione circa i mezzi per la conversione delle monete', in *ibid.*, pp. 132–5.

⁵² De Rosa, *L'espansione*, p. 23.

⁵³ In Genoa there was a third refinery but no mint, cf. De Mattia, 'Unificazione monetaria', pp. 78–9; Camera dei Deputati, *Inchiesta sul corso forzoso*, II, p. 274.

⁵⁴ API, CD, Discussioni, IX leg., sess. 1866, 4 May 1866, p. 1991.

⁵⁵ ASBN, PBDS, AD, b. 282, f. 7, Colonna to the Finance Minister, Dec. 1864.

⁵⁶ ASBI, Banca d'Italia, Verbali del Consiglio Superiore, regg., 16, 12 Jan. 1864.

entered the Southern market. As a result of the insufficient provision of small-denomination coins, speculation in the South continued to thrive.⁵⁷

Monetary matters in the South were further complicated by the uncertainty surrounding the legal status of *fedie* and many Southerners' distrust of banknotes. *Fedie* were no longer accepted without question and kept in public chests as before, so the Bank of Naples had to grant an overdraft facility of £20m at a 3 per cent interest rate to the government to obtain confirmation for such a privilege.⁵⁸ Nonetheless, in spite of this agreement the Bank of Naples notes continued to be rejected by public officials from time to time over the years.⁵⁹ The government, moreover, imposed a stamp and register duty on contracts drawn upon *fedie*, although such duties were often evaded and many Southerners kept their habit of inserting contractual clauses on *fedie*.⁶⁰ *Fedie*, however, continued to be immensely popular not only due to the traditional prestige enjoyed by the Southern banks, but also because, unlike banknotes, which were paid to the bearer, they were registered notes whose payment was made upon verification of the claim. Furthermore, as registered notes, they could also be paid in the event of loss: two crucial advantages in a region ravaged by brigandage and urban criminality and devoid of a decent transport network. The banknotes issued by the National Bank, instead, struggled to find wide acceptance among the general public. In 1863, 15 months after the opening of the National Bank's head office in Naples, its management was forced to admit that the notes of the Bank of Naples were 'sought after even in the farthest corners of the Southern provinces' and 'enjoy[ed] the confidence ... of all classes' in their daily transactions. As a result of such confidence, 'the progress made by banknote circulation ... ha[d] been almost nil'.⁶¹

The National Bank banknotes became common currency in the South only when they were declared inconvertible legal tender on 1 May 1866 against a £250m loan to the government at a 1.5 per cent interest rate.⁶² The suspension of note convertibility (*corso forzoso*), which ended only in 1881 to be re-enacted between 1891 and 1901,⁶³ was a hotly debated issue and a constant source of complaint in the decades to come. There was bitter disagreement at the time on the causes that had led to note inconvertibility and still today scholars prefer to avoid this issue rather than explore it. Public debt had risen constantly after Unification. A large part of this debt was in foreign hands, mainly French: as a result, Italy was particularly vulnerable to financial contagion and flight-to-quality in the event of monetary tensions on the international markets. Debt, moreover, was expected to increase further, as the new country never concealed its ambitions to rule over the whole peninsula, including Rome and Venetia. Some therefore explained the suspension of note convertibility as the last resort of an overindebted government that was no longer credible on international markets and that would soon wage war against Austria to conquer Venetia.⁶⁴ Others pointed to the banking crisis looming over Genoa and Turin as a result of the tightening of financial conditions in Europe in late 1865 and the need for the National Bank to bail out some of its main debtors while avoiding a national credit crunch.⁶⁵ For others, including the majority of the Parliamentary Commission of Inquiry into Note Inconvertibility, the National Bank – whose hopes of ever obtaining the note monopoly from

⁵⁷ API, CD, Discussioni, VIII leg., sess. 1861–2, 30 Jan. 1863, pp. 4866–8.

⁵⁸ De Rosa, *L'espansione*, pp. 33–4.

⁵⁹ E.g. ACS, MAIC, DGCP, IBS, b. 435, f. 2237, Colonna to the Banking Supervisory Authority, 17 Jan. 1868.

⁶⁰ ACS, MAIC, DGCP, IBS, b. 432, f. 2232, Finance Minister to the Minister of Agriculture, Industry and Trade, 26 May 1863.

⁶¹ ASBI, Banca d'Italia, Verballi del Consiglio Superiore, regg., 14, Regents of the Naples head office to the Superior Council, 23 Jan. 1863.

⁶² RD 1 May 1866, no. 2873, in *Racc. Uff. LL. DD.*, 15 (Torino, 1866).

⁶³ Full convertibility on demand, however, was restored only between 1881 and 1886.

⁶⁴ This interpretation is also echoed in Fratianni and Spinelli, *Storia monetaria*, p. 154.

⁶⁵ This aspect is particularly emphasised by Di Nardi, G., 'Le banche di emissione in Italia nel secolo XIX', in P. Jannaccone, ed., *Storia e dottrine economiche* (Chieri, 1953), pp. 126–7.

Parliament were at that time rapidly fading – had just cunningly exploited the crisis to extort an ‘exorbitant privilege’.⁶⁶

Note inconvertibility was universally bemoaned, except by a few industrialists in Piedmont, for whom it acted as a sort of protective tariff.⁶⁷ For the lower classes, that is to say for most Italians, it was a disaster: prices rose, while salaries did not,⁶⁸ forgery and speculation were rampant and even small change disappeared rapidly, while banknotes of small denominations had yet to be issued. To overcome this problem, all sorts of people (from local administrations to bankers and shopkeepers) began issuing their own means of payment. Note inconvertibility contributed, on the one hand, to a perverse form of monetary integration by forcing the circulation of banknotes across the whole country. On the other, however, it rekindled regional hostility towards the National Bank and, paradoxically, contributed to new forms of monetary divergence. Whatever the real causes of the *corso forzoso*, they mattered little for the South. The annexation of Venetia was of greater importance for Northern than Southern Italy, while the banking crisis was more severe in the North, not least because of the South’s relative financial backwardness.⁶⁹ Moreover, note inconvertibility downgraded the Southern banks, which now had to tie up at least two thirds of their metal reserves in exchange for banknotes. Their own notes were declared legal tender in their respective regions (southern mainland and Sicily) but continued to be redeemable on demand, either in specie or notes of the National Bank.

The financial crisis triggered by the suspension of convertibility revealed how partial coinage unification had been nationwide. The South was still, and would for a long time remain, full of Bourbon currency. In Lombardy, Emilia, Tuscany, Umbria and the Marche monetary conversion had been accomplished by the end of 1865; in the South, on the contrary, only £86m of the estimated £458m of old coinage had been withdrawn. By that time only the substitution of copper small change had progressed significantly, while thereafter the monetary chaos caused by note inconvertibility seriously hindered further recoinage.⁷⁰ As if that were not enough, newly minted coins, instead of being redistributed across the South, were used by the government to pay for the war in the North-East.⁷¹ Speculation also conspired against monetary integration. When in 1866 the value of Italian *rentes* began to plummet (Figure 11), many Southerners took their ducats from under the mattress to buy them for next to nothing, given a 12 per cent premium on specie and a 60 per cent depreciation of *rentes*. International transactions, on the contrary, including arbitrage on *rentes*, had to be settled in Italian lire, the only currency recognised internationally within the Latin Monetary Union.⁷² As a result, even fractional coins were driven out of the country, while good, old ducats remained.⁷³

The greater abundance of specie in the South than in the North led, again, to the development of two distinct monetary areas. While in the North most trades were now settled in paper, in the South they were still settled in coin and, when they were not, the premium on specie, depending on the region, could even reach 18 per cent. As the Commission of Inquiry reported in 1868, the ‘coexistence of two measures of value, equal for the law, but different in fact’, ‘bad faith and fraud’ had fanned discontent especially in the South, where, before 1866, banknotes were ‘virtually unknown’.⁷⁴ This North-South monetary divide impinged, however, upon monetary conditions throughout the whole

⁶⁶ Camera dei Deputati, *Inchiesta sul corso forzoso*, I, pp. 418–20.

⁶⁷ *Ibid.*, p. 325.

⁶⁸ *Ibid.*, pp. 312–19.

⁶⁹ *Ibid.*, pp. 293–4. But see De Rosa, *L’espansione*, pp. 93–7.

⁷⁰ De Mattia, ‘Unificazione monetaria’, pp. 66–7, 172.

⁷¹ Sachs, *L’Italia*, p. 584.

⁷² The Latin Monetary Union was launched by France together with Italy, Switzerland and Belgium in 1865.

⁷³ Avitabile in Camera dei Deputati, *Inchiesta sul corso forzoso*, III, p. 99.

⁷⁴ *Ibid.*, I, pp. 305–12.

country. Despite many more millions of bronze coins had been minted to make up for silver exports,⁷⁵ these were hoarded mainly by Southern households, further aggravating the overall dearth of small change. Southern provinces, distrustful of paper, eagerly swallowed bronze coin and small-denomination notes could be traded at a discount on bronze as high as 15 per cent.⁷⁶ The growing appetite for bronze coins was also due to the bad quality of small notes. Only too late had the National Bank and the government realised the urgency of issuing notes of lower denominations and when these were finally issued, their quality was very poor. To salvage the situation, the Bank of Naples also began issuing its own small notes payable to the bearer, whose quality, however, was hardly better, encouraging forgeries and therefore further increasing the premium on bronze.⁷⁷

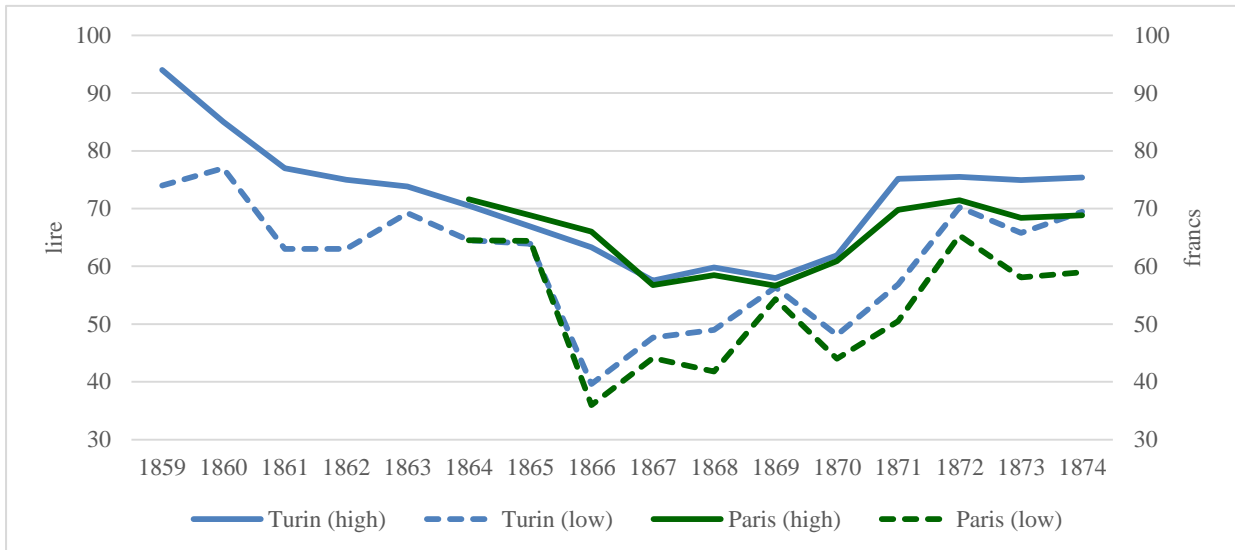


Figure 11. Highest and lowest prices of the Italian 5 per cent *rentes* at the Turin and Paris stock exchanges. Source: Sachs, *L'Italie*, p. 475.

Italian silver coin, Bourbon currency, gold, bronze, notes of small and large denominations and scrip issued by private operators were all traded at different prices. As the former Director General Avitabile remarked, the South suffered from speculation both ‘between coin and coin’ and ‘paper and paper’.⁷⁸ Monetary circulation in the South was further complicated by the coexistence of three competing banks of issue. The mutual acceptance of notes between Sicily and the southern mainland had been re-established soon after Unification as highly symbolic of renewed unity within the South. A similar agreement had also existed since 1863 between the National Bank and the Bank of Naples. Since neither of these could get rid of the other for political no less than economic reasons, they had come to a truce, which did not last long, however. In 1864 the National Bank insisted that the *fedi* it had collected must be paid in gold, while the Bank of Naples, in an attempt to defend the quality of its reserves, wanted to pay in Bourbon coins of small denominations. An agreement was reached by which the Bank of Naples would pay only one-third in small Bourbon coins, while no limit was placed on the total amount of old currency – a sign of the latter’s omnipresence.⁷⁹ For the National Bank, collecting *fedi* was not only the unpleasant result of their large circulation but also a convenient means to transfer funds across the country. Instead of sending specie to its Southern branches, it just had to

⁷⁵ Resulting from imports of goods, interest payments abroad, and international arbitrage on *rentes*.

⁷⁶ *Ibid.*, p. 362; Avitabile in *ibid.*, III, p. 99

⁷⁷ Avitabile in *ibid.*, III, p. 105.

⁷⁸ Avitabile in *ibid.*, p. 99.

⁷⁹ *Ibid.*, I, p. 199.

sell government bonds in the South against specie or *fedi* to be changed by the Southern banks. Unfortunately, under Avitabile's management the Bank of Naples had been very careful to protect its reserves, by converting *fedi* into either small change or banknotes, which it collected in large amounts.

Once Avitabile was removed from office, the National Bank, which needed to move large sums to continue with the withdrawal of Bourbon currency in Sicily, asked for the conversion of several million *fedi* of the Bank of Naples in Palermo and Messina. The Bank of Sicily paid because of the clearing agreement with Naples and then asked for reimbursement. Due to the negative balance of trade between Naples and Sicily, the Bank of Naples was constantly in debt to the Sicilian bank. It was not, however, willing to send its reserves to Sicily just to spare the National Bank the costs of moving its own reserves (see Figure 12). Since March 1865 the note clearing between island and mainland was therefore definitively suspended. As a result of the meddling of a third bank of issue – however rational from its own perspective –, the cashless payment system within the South was again disrupted as had already happened under the Bourbons: ‘a great misfortune for the Bank of Naples, the Bank of Sicily and the business community’.⁸⁰ Moreover, the episode sowed discord not only between the National Bank and the Southern banks but between the Southern banks themselves. It was even argued that the whole manoeuvre had been aimed at spoiling their mutual relations or, more plausibly, simply at depleting the reserves of the Neapolitan bank.⁸¹

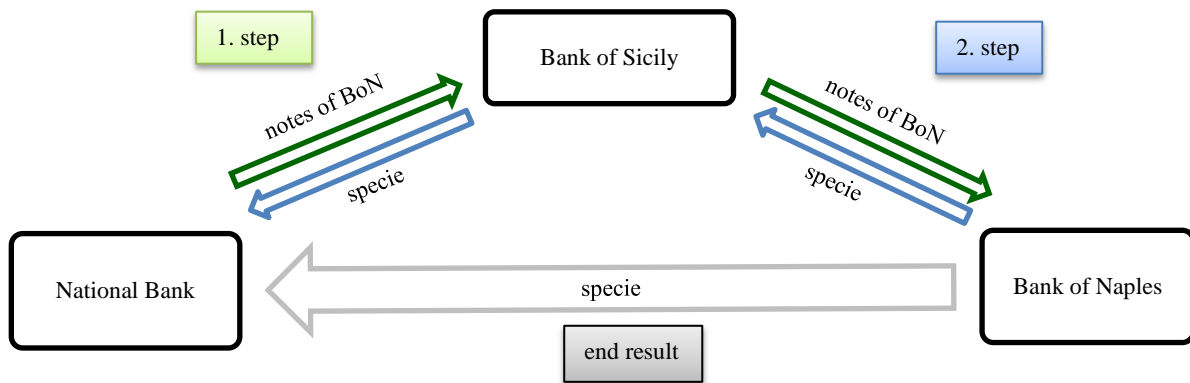


Figure 12. How to exploit the *riscontrata* before 1866.

Tensions between the National Bank and the Bank of Naples concerning note clearing continued to rise until the suspension of convertibility. Due to their larger circulation, the National Bank was awash with *fedi*, which it was reluctant to give to its clients as if it was acting as a sort of branch of the Bank of Naples, but which the latter was unwilling to exchange. Once released from the obligation to exchange its notes on demand, the National Bank tried to cash in as many *fedi* as possible. The decree on note inconvertibility prevented the National Bank from asking another bank of issue to change in one day more than one-twelfth of the reserves this was required to tie up and which it could convert in banknotes. This provision clearly aimed to shield the other banks of issue from the aggressions of an all-powerful National Bank. As an additional safeguard, the Bank of Naples withdrew only a small amount of banknotes from the National Bank, arguing, unlike the latter, that the daily limit set to the clearing of notes only applied to this amount, not to the total amount of tied-up reserves. After a confused bureaucratic battle, the Bank of Naples carried the day. Since the National Bank could refuse neither to accept *fedi*, which were legal tender, nor to exchange them for larger amounts than those unilaterally set by the Bank of Naples, it was partly forced to put them into circulation again.⁸²

⁸⁰ Avitabile in *ibid.*, III, p. 103.

⁸¹ *Ibid.*, I, p. 207; Avitabile in *ibid.*, III, pp. 102–4.

⁸² *Ibid.*, I, pp. 199–205.

Nevertheless, no expedient, however ingenious, was enough to stop the rise of a bank whose notes were universally accepted and the inevitable decline of the Southern banks (Figure 13).

The defeat of the Bank of Naples in 1866 was mortifying for an institution whose reserves had always largely exceeded those of the National Bank and which up to a few years before had still had the means to increase them beyond imagination. The amount of Bourbon currency to withdraw was so large and the trust the notes of the Neapolitan bank enjoyed so boundless that, had it been entrusted with the conversion of the old currency in 1864, its size would have dwarfed that of any other credit institution in the country. With reserves of over £200m – an amount the National Bank would not command until the 1880s – it would have been of invaluable help to the Italian government, which could have thus avoided the harsh necessity of the *corso forzoso*. Or this, at least, was what Avitabile thought, when a few days after the suspension of convertibility, he publicly denounced the autocratic ambitions of the National Bank as well as the government’s complicity in trying to ‘exterminate’ the Bank of Naples.⁸³ To be sure, there were many good reasons for the government to prefer the monopoly of issue or to favour the National Bank in the way it did. From a monetary point of view, it could be argued that a system based on only one type of notes, though less flexible, was more transparent for the public and easier to manage. From the point of view of credit supply, while in principle markets could be subject to the whims and fancies of a monopolist bank, in practice it had to be acknowledged that, under Bourbon rule, Southern banks had been rather restrictive and of no great advantage in the provinces. In contrast, it was the National Bank which had fostered credit development in the South, both by creating its own branch network and by spurring competition within the Southern banking system.

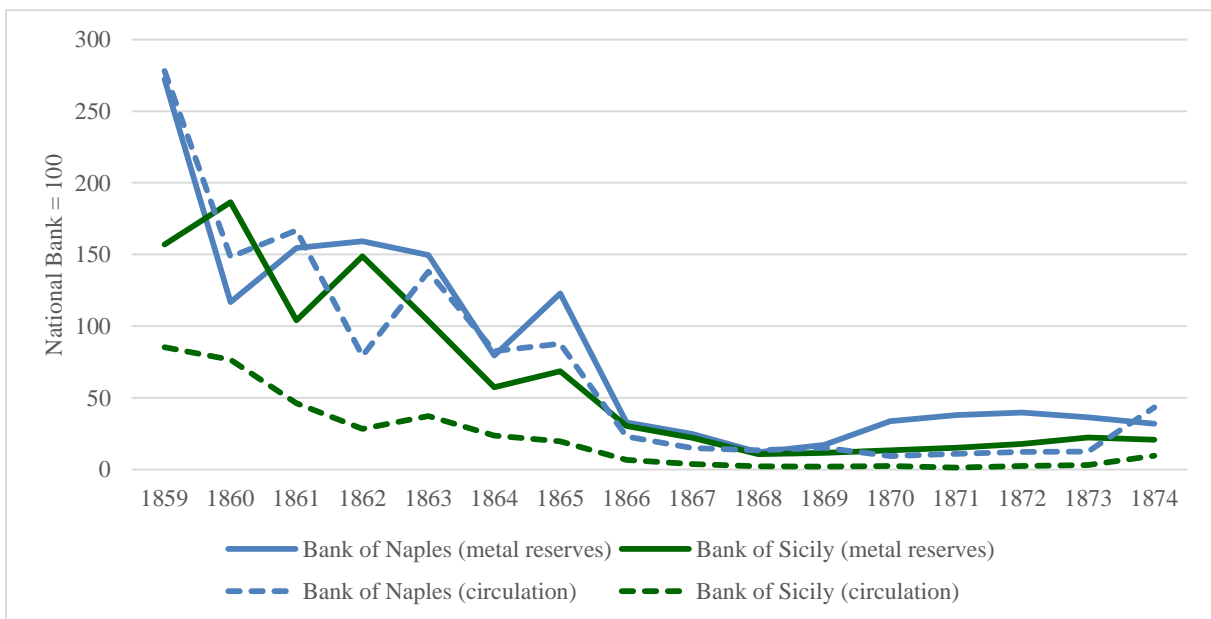


Figure 13. Total metal reserves and total circulation of the Southern banks as percentage of those of the National Bank. Note: circulation of the Southern banks includes both bearer and registered notes. Source: see Fig. 4 and De Mattia, *I bilanci degli istituti di emissione*, I, Tab. 2.

Rightly or wrongly, this was not, however, the predominant view at that time. There was a strong resistance to monopoly of issue, a resistance which grew even stronger after the havoc caused by note inconvertibility.

⁸³ API, CD, Discussioni, IX leg., sess. 1866, 4 May 1866, pp. 1989–91.

Nowhere less than in Italy can one speak of a *Single Bank* [italics in the original]: in a country, like Italy, where business is so greatly fragmented across the various Provinces of the Kingdom rather than concentrated in one single centre, that only few and tenuous links have developed between them ... ; where ... too many intellectual, civil, economic forces have their own orbit ... because there is a sort of instinctive repulsion towards centralisation

pontificated the Commission of Inquiry on Note Inconvertibility, only to conclude that:

During the *corso forzoso*, people became even more accustomed to considering the note issue of the National Bank nothing else than a *privilege* or a *monopoly* [italics in the original].⁸⁴

What was perceived as the unfair treatment of the Southern banks on the part of the government, while weakening them economically, raised them to the status of political victims. Portrayed as champions of the Southern economy since before Unification, they came to embody both the aspirations of the South to having greater influence at national level and its bitterness towards a central government perceived as authoritative and uncaring. Slow recoinage and the privileges lavished on the National Bank provided ample reasons to blame the governments of the Historical Right, paving the way to the ascent of the Historical Left, more sensitive to regional claims. In eight years note inconvertibility had not only turned the National Bank into a market hegemon, it had also turned monopoly of issue into a political impossibility. In 1874 the monetary regime was reformed once again and this time the privilege of inconvertibility was granted not to the notes of the National Bank but to those of a banking consortium formed by all of the six banks of issue (the National Bank and the Southern banks plus two Tuscan banks and the Roman Bank). Even after the banking crisis of the early 1890s, the liquidation of the Roman Bank and the creation of the Bank of Italy from the merger of the National Bank and the two Tuscan banks of issue, monopoly could not be achieved. It was only under Mussolini in 1926 that the Southern banks lost their note-issue privilege. For years thereafter they would continue to mourn it, or even dream of regaining it, as happened in Sicily when the island was occupied by the Allies at the end of the Second World War.⁸⁵

Bourbon money took almost as long as the notes of the Bourbon banks to disappear from Italy. In the 1870s, with the progressive depreciation of silver on international markets (Figure 3),⁸⁶ the Bourbon currency resurfaced again in the South, probably re-imported from abroad, where it had been stored during the previous decade.⁸⁷ In 1885, it eventually ceased to be legal tender,⁸⁸ while the last large recoinage of Bourbon silver took place as late as 1894.⁸⁹

Conclusions

In the mid-nineteenth century, people were no less aware of the symbolic value of a national currency than they are today. Monetary unification in the South was a political test that the Italian government miserably failed. While German unification was preceded by no fewer than three coinage treaties stretching over more than three decades, monetary unification in Italy was patchy, to say the least. In the South, the introduction of a new currency, which was hoped to mould national identity, soon turned into yet another source of estrangement. A mixture of colonisation – in the form of new coins and later of the inconvertible notes of the National Bank – neglect and bureaucratic

⁸⁴ Camera dei Deputati, *Inchiesta sul corso forzoso*, I, p. 443.

⁸⁵ Cf. Asso, P. F. and Nerozzi, S., 'L'Istituto di credito di diritto pubblico, 1926–91', in P. F. Asso, ed., *Storia del Banco di Sicilia* (Roma, 2017), pp. 175–7, 183–7.

⁸⁶ See also Flandreau, *Glitter of gold*.

⁸⁷ Re-importing the silver currency was profitable since this was overvalued at the Mint.

⁸⁸ RD 1 Oct. 1885, no. 3370, in *Racc. Uff. LL. DD.*, 3rd ser., 77 (Roma, 1885).

⁸⁹ De Mattia, 'Unificazione monetaria', pp. 68–73.

incompetence stood in sharp contrast to the balance achieved under the Bourbons, despite the disparity between capital cities and provincial towns. In the aftermath of Unification, North and South were split into a gold and a silver area, a division replaced after 1866 by that between a paper and a coin area. Also the blatant – though understandable – preference accorded to the National Bank, both as the contractor of the Royal Mints and the only bank of issue released from the obligation to redeem its notes, contributed to the growing disaffection towards the new government. Unification, in spite of its flaws, was most certainly not the source of all evil in the South, not even in the monetary domain. Without it, the South would still have been subject to monetary tensions, as witnessed by the specie exports in the 1850s, and it might have shifted towards gold sooner or later, as most countries did. Moreover, although recent research goes so far as to question the benefits to the South of losing its monetary independence, contemporaries tended to emphasise the trade advantages from a larger, common market based on a single currency.⁹⁰ And yet monetary unification was not only remarkably slow but undoubtedly painful for most Southerners, with the exception of speculators. Italian unification thus ushered in a golden age in which the silver one was by many sorely missed.

⁹⁰ Nisco, 'Conversione delle monete', p. 125.

List of abbreviations

ACS	Archivio Centrale dello Stato, Rome
AD	Affari diversi
API	Atti del Parlamento Italiano
App.	Appendice
ASBI	Archivio Storico della Banca d'Italia, Rome
ASBN	Archivio Storico del Banco di Napoli, Naples
ASN	Archivio di Stato di Napoli, Naples
CD	Camera dei Deputati
<i>Coll. LL. DD.</i>	<i>Collezione delle leggi e de' decreti reali del Regno delle Due Sicilie</i>
<i>Coll. LL. DD. Ditt. Prov. Na.</i>	<i>Collezione delle leggi e de' decreti emanati nelle provincie continentali dell'Italia meridionale durante il periodo della dittatura</i>
<i>Coll. LL. DD. L. Prov. Na.</i>	<i>Collezione delle leggi e de' decreti emanati nelle provincie continentali dell'Italia meridionale durante il periodo della luogotenenza</i>
DD	dictatorial decree
DGCP	Direzione Generale del Credito e della Previdenza
IBS	Industrie, banche e società
L	law
leg.	legislatura
MAIC	Ministero dell'Agricoltura, Industria e Commercio
MF	Ministero delle Finanze
PBDS	Patrimoniale del Banco delle Due Sicilie
<i>Racc. Atti Gov. Ditt. Prod. Sic.</i>	<i>Raccolta degli atti del governo dittatoriale e prodittatoriale in Sicilia</i>
<i>Racc. Uff. LL. DD.</i>	<i>Raccolta ufficiale delle leggi e dei decreti del Regno d'Italia</i>
RD	royal decree
regg.	registri
rip.	ripartimento
ser.	series
sess.	sessione

