

## Management of the Neapolitan Public Banks' Crisis in the Late XVIIIth Century: The Model of "Banco Generale" as an Instrument of Going Concern Settlement

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### Abstract

The troubled political and financial events of the Kingdom of Naples under the Bourbon dominion in the late 18th century outline the environmental perimeter in which the business phenomenon, subject of this investigation, will be deepened: the unification of the Neapolitan public banks under the shared aegis of “National Bank of Naples” in 1794. The analysis will aim to examine thoroughly the complex reasons underlying the last and irreversible crisis of the ancient Neapolitan public banks highlighting how the structural, functional as well as conceptual characteristics of these institutes changed in response to the socio-economic scenario shifts. Particularly, the contribution intends to critically discuss the social and political implications of the extensive reform promulgated by the central government, under King Ferdinand IV, for the restoration of the Neapolitan banking system.

The normative corpus was reconstructed basing on a large collection of primary sources, collated through meticulous archival research, and secondary ones, arising from historiographical and academic literature. For this purpose, the work integrates into the research unit of History of Companies and Public Institution, by adopting a theoretical perspective of historical-administrative

origins. According to the examined sources, the inadequacy of the royal measures led to a deep systemic crisis, which resulted to be fatal for the ancient Neapolitan banks.

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**Keywords:** Neapolitan public banks, Crisis, Going concern, recovery plan, Ferdinand IV

## Introduction

Since their foundation, the *luoghi pii* played an institutional role of fundamental importance for the city and the Kingdom of Naples, accompanying the political, economic, commercial, and productive renewal. In the complexity of different material and ideal pressures, they gradually combined original welfare activities with banking and were acknowledged as public-law credit institutions. As a result of their dual personality, divided between the religious aspect (*Monte*) and the economic one (*Banco*), the abovementioned institutes were thus custodians of very diversified instances (Muzzarelli, 2001) and ended up representing the majority stake of the city profitable market.

This contribution focuses on the decades between the 18th and 19th centuries and will emphasise the contextual factors that resulted in the irreversible crisis of the ancient Neapolitan banks and the early attempts made for its resolution. The time span considered in our study, despite being limited, was the scene, in Europe, in Italy and in the Bourbon dominions, of troubled events and great changes in the geopolitical, social and economic field, outlining a highly complex environmental perimeter in which credit and its control became a crucial element for the preservation of the delicate system balance.

In the name of “real and useful benefit of the Public”, the Bourbon government became the promoter of an extensive reformative work aimed at restoring the compromised economy of the Neapolitan public banks and ensuring the appropriate operational conditions to continue business.

The establishment of *Banco Nazionale di Napoli* in 1794 represents the culminating event of a deep economic crisis and aims at resolving permanently the previous operational and managerial criticalities of individual institutes through the assurance of a supportive protection of credit expectations. Actually, the aristocratic effort was unsuccessful in its ambitious intention, namely that of giving the banks the public’s trust back, and the accreditation body had no autonomous life as surveillance authority of the seven banks. Nevertheless, the intervention of Ferdinand IV was useful to outline the essential characters of a business governance model that would later lead the organisational transformation and the administrative rationalisation of the banking functions of the Kingdom of Naples and the whole Kingdom of Italy throughout the following century in the alternation of Bourbon and French dominions.

Thus, the objective of this work is to reconstruct the complex cause at the origin of the gradual decline of the Neapolitan public banks, assessing simultaneously impact and flow of the administrative-accounting and organisational innovations introduced by the reformative action of the Sovereign.

Considering how the issue of banking governance and its quality in contexts of crisis is still strongly debated in both academia and professional practice, the chosen topic seems, therefore, to be able to arouse considerable interest.

Through an in-depth documentary analysis based on primary and secondary sources, our investigation aims to offer an element of originality in the epistemological route around the Neapolitan public banks and to enrich the existing literature, hitherto focussed mainly on records content and on how the institutes under examination managed accounting. In fact, while not neglecting strictly accounting and budget aspect, the investigation will give particular prominence to the analysis of royal measures and documents bearing evidence that concerns the implementation of managerial activity and governance choices, in order to envisage a wider economic-business framework of the company crisis phenomenon being monitored and the chosen way for its resolution.

The contribution is designed as follows. After clarifying the methodological approach and the range of sources collected, a brief historical excursus on the creation and flowering of *Monti di pietà* of Naples is provided. The following part of the work is dedicated to the identification and examination of the causes that produced the dysfunctional behaviour of the Neapolitan public banks in the late 18th century, taking properly into account the repercussions of the particular and adverse economic situation that had arisen in the reporting period. The management of banks' crisis is afterwards critically observed through the reconstruction of the articulated terms of regulations arranged by the Bourbon Regency to reorganise the efficient functioning of the Neapolitan financial and credit system. Finally, research findings are discussed.

## **Method and sources**

This study adopted the historical method to offer a diachronic interpretation (Servalli, 2007) of the complex events that mark the last years of the ancient Neapolitan public banks bankruptcy in the late 18th century.

Our reflection was fostered by the collection and analysis of both primary and secondary sources.

Numerous primary sources were collected by drawing on the documentary heritage stored in the Archivio Storico del Banco di Napoli, the Archivio di Stato di Napoli and the Biblioteca della Società Napoletana di Storia Patria.

The synergistic combination of primary sources enables us to reconstruct the normative *corpus* arranged by the Bourbon government in the late 18th century to regulate and reform the complex running of the public banks. The study and

consultation activities concerned documentary sources of various kinds. We are talking about measures of legislative nature, such as Royal Dispatches, Royal Decrees, and Regency Regulations as well as some records of administrative and accounting nature, such as letters and official records (included in the so-called *borri*), governing bodies' meetings minutes, regulations, and handbooks useful to appreciate fully the governance reorganisation and banks functioning.

Conversely, the secondary sources include records on the history of the Kingdom of Naples, the banks, and the public accounting functioning. Thanks to the study of historiographical and academic, it has been possible to observe the banks reality depending in the socio-economic reference framework. An inductive approach was adopted with the purpose of reconstructing the environmental trends, moving from the particular to the general, to acquire a critical comprehension of the main evolutionary tendencies and make consistent comments.

Hereafter, the results of our analysis will be presented retracing the main events that marked the phase of decline of the banks life.

## **Historical background**

### ***Birth and flowering of the Neapolitan public banks***

Since the 15th and 16th century in the city of Naples public banking was almost exclusively carried out by *luoghi pii*, namely private charity associations that were meant to provide needy people belonging to the same social or professional group with economic assistance, through confraternities, conservatories and religious-type bodies (Avallone, 2007; Avallone & Salvemini, 2020).

The Capital suffered from lack of money circulation and absence of credit institutions that provided lending operations, leading to the spread of disproportionate usurious praxis by private banks (Avallone, 2007; Broggia, 1743; Filangieri, 1782; Galanti, 1793). For these reasons, the *luoghi pii* played a fundamental role when they started to grant loans<sup>(1)</sup>, free but secured by pledge, for the sole philanthropic purpose. Two *Monti di pegni*<sup>(2)</sup> were the first among all in the city of Naples: *Monte della Pietà*, established in 1539<sup>(3)</sup>, and *Monte dei Poveri* established in 1563 (Tortora, 1890). Thus, a phenomenon of hybrid characterisation

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<sup>(1)</sup> The pledge-free loan service was applied by *Banco della Pietà* and by *Banco dei Poveri*, the interest-bearing loan developed only after 1628 (Demarco, 1996, pp. 258-259).

<sup>(2)</sup> For further details with regard to the spread of the *Mounti di Pietà* between XV and XVIII centuries: Garrani, 1957, pp. 139-174; Avallone, 2007, pp.79-83. It is interesting to observe that the spread of such associations was not positively welcomed by all. Some criticised the phenomenon believing that it was a tool aiming at reducing the misery of the city rather than enabling the development of productive initiatives, in this respect see De Rosa, 1987, pp. 45-48.

<sup>(3)</sup> Generally, the establishment of the *Monte della Pietà* is led back to one of the expulsion of Jewish people from the Kingdom, in particular to the most effective of them, namely the one ordered by the Edict of Charles V dated 10<sup>th</sup> November 1539 (Filangieri, 1940, p. 31).

began to take form, halfway between religious-welfare and economic aspects (Avallone, 2007, p. 71) <sup>(4)</sup>

The *Sacro Monte e Banco della Pietà* was declared public bank in 1584 (Tortora, 1890), while the *Sacro Monte e Banco dei Poveri* was identified as public institute in 1585 <sup>(5)</sup>.

These institutions did not play the role of banking institutes but, instead, of charity institutes, whose main goal was to contrast the phenomenon of usurious credits granted by private banks <sup>(6)</sup>. The Neapolitan public banks, whose origin is attributable to a series of motivations widely investigated in doctrine, were born from such a proven need (Filangieri, 1940; Demarco & Nappi, 1985; Demarco, 1996; De Matteo, 2005). The decline of private banks, the need for these philanthropic entities to be competitive compared to “non-institutionalised” economic-financial operators (Avallone, 1995, p. 69) and, moreover, the growing and spasmodic research by the state of alternative credit sources for war expenses in which Spain was involved (Avallone, 2007). Enlivened by the same philanthropic determinism, other pre-existing *luoghi pii*– such as *Casa dell’ Annunziata e di Sant’Eligio*, and *Ospedale degli Incurabili*– and newly established – such as *Conservatorio dello Spirito Santo* and *Ospedali di San Giacomo e della Vittoria*– decided to request authorisation to carry on the business of public banking.

Other five public banks were established in the city of Naples: the *Banco della Santissima Annunziata* or *Ave Gratia Plena* (1587), the *Banco di Santa Maria del Popolo* (1589), the *Banco dello Spirito Santo* (1590), the *Banco di Sant’Eligio* (1592) and the *Banco di San Giacomo e Vittoria* (1597). Also, the eighth bank, the only merchant bank open in Naples, namely the *Banco del Santissimo Salvatore* (1640) <sup>(7)</sup> was established further in time on the initiative of contractors of the tax on flour.

The banks operated as depository, currency issuance and transfer banks (Avallone, 2007). Compared to other public national banks, their peculiarity was

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<sup>(4)</sup> On this point, see also Maragi M., (1956). *Cenni sulla natura e sullo svolgimento storico dei Monti di Pietà*, estratto dall’opera: Archivi storici delle aziende di credito, Vol. I, Associazione Bancaria Italiana, Roma and Barbieri G., (1961). *Origini ed evoluzione dei Monti di Pietà in Italia*, in *Economia e Credito*, Palermo.

<sup>(5)</sup> The first acknowledgement of the *Banco dei Poveri* occurred through a charter granted by Viceroy Duke of Ossuna, but, for a series of vicissitudes, only in 1600 was legally acknowledged as bank. Historians referenced the establishment of the Bank, taking into account the operations carried out up to 1585; for this reason, historians define it as the second public bank established in Naples (Tortora, 1890, pp.42-61; Demarco, 1996, pp. 17-18; Filangieri, 1940, pp.47-48).

<sup>(6)</sup> For further details on the motivations underlying the decline of private banks, see Demarco, 1996, pp. 12-14.

<sup>(7)</sup> About the origins of Neapolitan public banks: Somma A., (1884). *Trattato de’ banchi nazionali del regno delle Due Sicilie*, Di Barnaba Cons. Publisher, Napoli.

the issue of *fedi di credito*, namely debts securities received as cash that could be changed in money at all the desks of the banks existing on the territory (Ferrandino, 2013; De Matteo, 2005)<sup>(8)</sup>. Naples, as the Capital of the Kingdom, represented the epicentre of the serious difficulties and problems that the Country was facing (De Matteo, 2005; De Rosa, 2001). It was catalysed repeatedly, because of its political and economic role, as well as its population size, moments of economic and social crises in whose management the public banks played a fundamental role<sup>(9)</sup>.

The Neapolitan public banks – all except for the *Banco della Santissima Annunziata* that went bankrupt in 1702 (Demarco, 1996) – kept running their business operating for two and a half centuries. This could happen thanks to a wise organisation, their functioning and capability to provide the Court and the city of Naples with prompt responses, managing to overcome extremely harsh monetary public crises, *mala gestio*, political wars, pandemics and adverse events clarified by the most illustrious historical authors<sup>(10)</sup>. “They achieved all their aims so fully (...) they balanced the distribution of wealth and regulated its circulation” (Filangieri, 1940, p. 133).

### ***The outbreak of the Neapolitan public banks’ crisis***

Until 1792, the conditions of the banks were flourishing (Filangieri, 1940; Dello Joio, 1942; Maiello, 1980), continuing to operate prosperously until the French Revolution (1789), or rather until the effect of this Revolution did not develop and marked a deep political-financial crisis in Europe and irremediably in the Kingdom. In effect, the reputation of the banks had already begun to falter in 1771, before the events of the French Revolution, with the scandal occurred in the *Banco dello Spirito Santo* in which the Delegate, a man named Giovanni Pallante, reported to the King the waste of money and the irregular behaviours carried out by the banks itself. That event led the King to order a reform for all the banks: through dispatch, dated 28<sup>th</sup> October 1771, he delegated to the *Real Camera di Santa Chiara* to examine statutes, charities and investigate on the abuses and unnecessary expenses incurred by all the banks. Undoubtedly, the reform would allow bringing to light the real situation of the banks, enabling a timelier intervention of reorganisation of them, but it was never completed. Indeed, Tortora, believing that “the demanded reform (...) would have accelerated of thirty years the downfall of the banks” but “there is nothing on file that concerns the compilation of the plan”, claims that the cause of that would be due to the inertia of the Royal Chamber

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<sup>(8)</sup> For an overview of the main operations carried out by the banks, see Demarco, 1982, pp. 291-293.

<sup>(9)</sup> For details, see Bianchini, 1839; NAPPI, 1999.

<sup>(10)</sup> Among the most meaningful moments of crisis, the monetary crisis of 1621-1622, the anti-Spanish revolt of 1647 (so-called Revolution of Masaniello) and the plague that hit the Kingdom in 1656 (Filangieri, 1940, p. 65 and ff.; Tortora, 1890, p. 111 and ff.; Demarco, 1996, p. 253 and ff.) are remembered.

(Tortora, 1890, p. 39). Another attempt, in this regard and in the same period, was the establishment of the *Giunta degli Abusi*. Even this initiative was not carried forward because, according to the claims by Filangieri, the reports collected proved to be valid (“good”) blurring any suspicion about the business of the banks themselves. However, the outbreak of the banks’ crisis could not be connected to an event of managerial inefficiency, which may be natural in a context of increasing operational complexity, but rather derives from a series of events that have occurred in a time span that arises from 1792 to 1796 until their extinction occurred in 1806<sup>(11)</sup>.

In fact, the news of the French Revolution aroused anger and fear in the Kingdom, because of the close kinship that bound the respective families – Maria Carolina, wife of Ferdinand, was the sister of Marie Antoinette, wife of Louis XVI (Maiello, 1980, p. 32) – as well as the threatening news from Paris. In this atmosphere of turmoil and concern, the King decided to join the coalition against France, promoted by Austria (Tortora, 1890). That choice led to the imposition for the Kingdom to meet significant expenses for armaments and military equipment, which impacted negatively, and irremediably, both reputation and funds of the Neapolitan public banks<sup>(12)</sup>.

The Royal Court did not have a favourable economic situation and, to cope with war expenses, devised plans to obtain the necessary amounts since it was not easy to obtain the money needed for the rearmament. The government, in need of instant cash, attempted to increase state revenue through the disposition of new taxes and sourcing precious metal to be converted into money<sup>(13)</sup> by ordering the banks to carry out checks in their coffers about the possible presence of foreign coins to be melted and recoined<sup>(14)</sup>. That decision allowed to detect, in the *Banco di San Giacomo*, a treasure that was sent to the *Giunta per la monetazione* with the purpose of being converted into money<sup>(15)</sup>.

In this regard, even private individuals were asked to offer on loan the precious metal they own to the Royal Court, in exchange of an annual interest of

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<sup>(11)</sup> From 1803 onwards there was, indeed, a slow clearance of their business, so that when the French arrived, the *Banco di Corte* and the *Banco dei Privati* were established, the succession was only formal since the old banks remains were the only thing left (Maiello, 1980, p. 97).

<sup>(12)</sup> It seems, actually, that the King was unwilling to intervene in war, for both the relevant expenses to deal with and the fear that rumours of war could cause doubts on the safety of the money in the banks (Maiello, 1980, p. 34).

<sup>(13)</sup> At that time, in the Kingdom existed two *giunte della monetazione*, whose task was to collect metal to convert into money: the *giunta della monetazione del rame* (for copper coinage) and the *giunta della monetazione dell’argento* (for silver coinage). They jointly formed a sort of “Council of coinage” in the Kingdom of Naples (Maiello, 1980, p. 33).

<sup>(14)</sup> A.S.B.N./B. POP. /A.P., *Dispacci e rappresentanze*, matr. 44, fasc. 92.

<sup>(15)</sup> A.S.N./M.F., A.S.N./M.F. Ministero delle Finanze, *Lettera del Consiglio di finanze al Banco di S. Giacomo, Napoli*, 15 November 1792, fasc. 2138. The treasure at issue consisted of 80,000 “hard pieces” from Spain (Maiello, 1980, p. 33).

three percent on the value corresponding to the loaned metal. The Court itself wanted to set an example by offering all the silverware of the Royal set for the conversion into money (Maiello, 1980).

Nevertheless, those attempts did not have the desired effects because the coinage timing was too slow since the *Zecca di Napoli* (Mint of Naples) could only coin a hundred thousand ducats per month at most (Maiello, 1980) – and, in the meantime, a deposit that permitted to guard the metal offered by private individuals was not available. For these reasons, the director of the *Zecca*, a man named Antonio Planelli, proposed to send the metal of private individuals to the banks asking them to guard it in exchange of monetary consideration. The Royal Court accepted that proposal <sup>(16)</sup>.

Despite the sums received for the decisions implemented, the Court failed to restore its financial situation and consequently the King and the government, driven by the need of obtaining money, took the decision to benefit from the credits available in the banks and, thus, attack these latter. That decision represented a culminating event for the outbreak of the crisis. In fact, it was the beginning of a real haemorrhage of cash from banks coffers (Demarco, 1982) whose ratio was to support the Royal Court in incurring public expenses.

The first real trauma for the banks happened on 25<sup>th</sup> November 1792, following the issue of a dispatch by the Council of Finance. It ordered the Delegates of the banks to deliver all the tied money available in the coffers with the purpose of using it for the benefit of the State, offering to the capital holders an interest of 2% <sup>(17)</sup>.

Thus, the Real Court partly succeeded in increasing the number of men for the army in 1793, but that measure was not enough to compensate for military expenses and scarcity of wheat harvest of the last two years <sup>(18)</sup>.

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<sup>(16)</sup> As indicated in a letter of the Council of Finance to the Director of the Mint, the Court considered that measure neither harmful for the banks nor suspicious for the public, believing that the metal stored represented “substance that would become money within a few days”. Archivio di Stato di Napoli. Ministero delle Finanze, *Lettera del Consiglio di finanze al Direttore della zecca*, Napoli, 10 December 1792, fasc. n. 2138. See also Maiello, 1980, p. 34.

<sup>(17)</sup> The dispatch at issue did not expressly refer to the banks and reported this statement: “all the different sums, by any magistrates, are into the power of presidents Marchese Porcinari and Bisogni and the tax lawyer Cianciulli, so that they are, until new Royal provision, exclusively deposited. This gives them the right to call the sums back from anyone’s hands in order to use the money for the benefit of the State. As a precaution for the sums, all effects of the Royal Patrimony and, especially the fund repurchased batches, remained”. However, considering that conditioned and secured deposits existed almost exclusively in the banks’ coffers (and were, mostly, represented by certificates of credit), the initiative affected these latter bodies the most (Tortora, 1890, pp. 318-319).

<sup>(18)</sup> It should be remembered that the banks anticipated, free of charge, every year the sums required for the supply of wheat (in July 1789, 1790, and 1791 the banks loaned every year two hundred thousand ducats to the city). The famine of 1792 and 1793 made the banks



For this reason, the Royal Court on 4<sup>th</sup> February 1793 ordered that the public money available in the coffers was loaned to the treasury and the town hall, withdrawing the sum total of 1,980,023.55 ducats, with the promise of returning, as soon as possible, the sums borrowed<sup>(19)</sup>. This return occurred gradually with *fedi di credito* (so with a mere certification) and never with actual money (Tortora, 1890; Maiello, 1980).

The withdrawals made in those years entailed a shortage of cash in the banks coffers, also in more solid ones – as the *Banco di S. Giacomo* or the *Banco dello Spirito Santo* (Maiello, 1980)<sup>(20)</sup>.

As a result, the situation of the banks at the beginning of the summer of 1794 was quite severe, since money in the coffers became increasingly scarce. The trust in the public was henceforth affected because the scarcity of cash, according to many, was due to maladministration of the banks (Maiello, 1980). In this context the King and the government implemented further, and more incisive, measures to restore the financial situation of the banks and, especially, their good reputation among the population.

## Results

In the context of turmoil and concern described, the King took a decision that laid the foundation of the enslavement of the banks to the government and significantly reduced their autonomy. According to the analysis performed, the complex reform promulgated by Ferdinand IV for the restoration of the Neapolitan banking system consisted into two decisive legislative acts: the establishment of a supervisory body, the so-called *Giunta dei banchi* and the institution of a central bank, “*Banco Nazionale di Napoli*”, resulting from banks’ merger and concentration. The perusal of unpublished archival sources has supplied interesting information on the actual functions and attributions of the *Giunta* as well as on the unifying role actually played by the new institution.

Until 1794 the Royal Court controlled the banks business through the Protector Delegates<sup>(21)</sup>, but with a royal dispatch dated 17<sup>th</sup> September 1794 these

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situation worse so that they, due to poor wheat harvest a, had to loan to the city and the Court over three million ducats in all, mostly in cash (Maiello, 1980, p. 35).

<sup>(19)</sup> The letter sent by the director of the Finance of the Kingdom (Mr. Corradini) to the delegate of *Banco del Popolo* (Mr. Porcinari) Naples, 4<sup>th</sup> February 1793 read: “*the sums that the banks respectively gave, for specified need, shall be returned to them, as soon as current conditions will permit it*”, A.S.B.N./B. POP. /A.P., Dispacci e rappresentanze, matr. 44. See also Tortora E. (1890), *New documents (...)*, Ibid., p. 319.

<sup>(20)</sup> The Author reports also negative results related to account books and patrimonial budgets examination, to banks closure on 31<sup>st</sup> December 1793 and to the general state of them on 10<sup>th</sup> May 1794, in which he shows an evident worsening of the patrimonial and economic situation.

<sup>(21)</sup> The Protector Delegates were the seven banks’ directors. For further details on the functions and the structure of Neapolitan public banks at that time, see Avallone, 1991, pp. 489-546.

latter were fired and immediately lost their roles. All the duties were assigned directly to a committee, the *Giunta dei banchi* (a sort of a general Council of Banks), composed of illustrious personalities directly appointed by the King himself, managing to deprive the banks of their autonomy and obliging them to the sovereign approval<sup>(22)</sup>. In effect, at the setting-up, it was not entirely clear what the powers of the new committee should be. These were clarified only several months later, assigning to the *Giunta* an inspection and supervisory function.

The establishment of this body was the first real and serious attempt by Ferdinand IV to return to the banks the usual necessary public's trust and boost the operations and effective verifications on them (Tortora, 1890). Despite what the King explicitly stated in the dispatch, that measure represented the first of a series of acts by means of which they tried to destroy the banks independence and make the money deposited in their coffers available for the government (Maiello, 1980, p. 42).

However, this intervention was not enough to revive the banks situation<sup>(23)</sup>. The Royal Court continued to incur excessive expenses to damp the political and financial negative effects of the French Revolution, hence attacking the banks. Due to the "*malice of someone, a panic fear conceived by others and the greed of many of taking advantage unlawfully of coin trade*", King Ferdinand IV decided to intervene again incisively (Nappi, 1999, pp. 33-37).

The royal firmly believed that "*the disasters occurred to the banks had derived from considering them as being seven institutions disjointed and separated from each other*" (Tortora, 1890, p. 331). Therefore, the King decreed on 29<sup>th</sup> September 1794 through the pragmatic sanction *XV de Bancis*, that all the banks, hitherto considered as seven political and moral bodies, totally disjointed and separated from each other, were to merge in a unique state-run institute named "Banco Nazionale di Napoli" (Giustiniani, 1804, pp. 67-68)<sup>(24)</sup>.

The King explicitly clarified the motivations underlying this decision in the pragmatic sanction at issue, in which he tends to recall the institution ratio and the continuation of the banks business. Their business had to be solely and exclusively for the benefit of public service, regardless of the venue and the name of the bank in which their possessions were deposited and that the assets owned by the banks coming for the public itself were to be dedicated and employed to its advantage. Finally, he believed that if any of them had failed, this would have led to a

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<sup>(22)</sup> The governors could not take up any employment without the sovereign approval (Tortora, 1890, pp. 329-330; Maiello, 1980, p. 42).

<sup>(23)</sup> It is not possible to know exactly the financial situation of every single bank in 1794, because, although the *Giunta* had asked each of them to send a report on their general state, the only one found was that of the *Banco del Popolo* (Filangieri, 1940, p. 142).

<sup>(24)</sup> There are those who believe that it was thought to save from bankruptcy the least solid banks making them solidly debtors (Filangieri, 1940, p. 143). Others, instead, believe that such choice was made in order to "have a greater freedom in plunging hands in the banks coffers" (Demarco, 1982, p. 298).

significant damage for the whole community (Giustiniani, 1804; Tortora, 1890). That institute envisaged, thus, “for greater convenience for citizens” (Giustiniani, 1804, p. 68), the subdivision of the seven banks in seven separate coffers and branches with different denominations, whose only interest was not only the capital and the Kingdom, but also the whole nation (Tortora, 1890, p. 331).

In this regard, banks structures were reorganised, including five governors for each coffer to be substituted each semester, deprived of all their ancient authorities<sup>(25)</sup>, and the responsibility *in solidum* among banks was introduced. The *Giunta* was instructed to proceed with the organisation of the seven banks evenly and this was implemented through the following restructuring plan: *Piano per le Officine della Razionalia, Ruota, Archivio e Revisione; Piano per i Giornalisti; Piano per l’Officina delle Casse; Piano per le Officine dei Pegni con interesse, vendita dei pegni, portieri, facchini, avvocati e procuratori; Piano per i Revisori dei Pegni*<sup>(26)</sup>

Furthermore, the powers of the *Giunta dei banchi* were better specified, making it “the absolute master of the banks” (Tortora, 1890, p. 332). The creation of the *Giunta dei banchi* allowed the King to deny the banks their autonomy, while their concentration in the *Banco Nazionale* wanted to ensure that they would also lose their distinct legal personality, but the unification never actually happened, since it was only on paper. In fact, the seven institutes continued to maintain a separate management and a distinct accounting system, generating a situation in which the governing bodies of each bank ignored one another (Maiello, 1980).

Finally, the institution of the *Banco Nazionale* represents, indeed, one of the first examples of banking concentration whose purpose was not to make the banks management more efficient, but rather to have greater awareness and cognition of loss. Especially, the concentration allowed the Royal Court to make use of “both banks and public assets comfortably” (Tortora, 1890, p. 331) becoming debtor to the banks themselves<sup>(27)</sup>. However, considering that the Banks continued to carry on their business, we can assume that the King did not want such unification to be operationally working, since a formal status was enough to ensure

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<sup>(25)</sup> Governors were not allowed to incur any expense, the appointment as office workers and, no less, the correspondence with ministers and public official (Tortora, 1890, p. 332).

<sup>(26)</sup> The recovery plan of Neapolitan banks bears the signature of the Prince of Luzzi, the Earl of Policastro, the Marquis of Fuscaldo, the Marquis of Gagliati, the lawyer Antonio Crisafulli and the trader Gennaro Rossi. Archivio Storico del Banco di Napoli. Prima Giunta dei Banchi. *Stabilimenti riguardanti il Sistema di tutti i sette rami del Banco Generale: Piano per le Officine della Razionalia, Ruota, Archivio e Revisione; Piano per i Giornalisti; Piano per l’Officina della Casse; Piano per le Officine dei Pegni con interesse, vendita dei pegni, portieri, facchini, avvocati e procuratori; Piano per i Revisori dei Pegni.*, 1794-1797, matr. 34, ff. 1-38.

<sup>(27)</sup> In the late 1795, the Royal Court was debtor to banks for over 461,189.28 ducats (Filangieri, 1940, p. 143).

the government control. These measures, as we will discuss later, resulted to be fatal for the ancient Neapolitan banks.

## Discussion

Since their inception, the Neapolitan public banks experienced alternate events unavoidably connected to the destiny of the city, contributing, sometimes, to determine its trends. So did the happenings that marked the history of the Kingdom of Naples in the late XVIII century. The European crisis burst with the French Revolution had serious repercussions for the resistance of Bourbon institutions (Rao, 2021, pp. 15-19), already worn out by the difficult modernisation of the management of the *res publica*. In a territorial context difficult for the development of local economy<sup>28</sup>, the news from Paris, also given the family tie, caught Ferdinand IV off-guard. He found himself unprepared to cope with the treacherous difficulties that would soon arise.

Before going into the merits of the measures taken by the Bourbon government aimed at new regulation of credit system functioning, it is useful to perform, preliminarily, a more analytical examination about the origin of the banks malaise. Indeed, a company crisis phenomenon always has a complex of causes that must be sought as necessary premise to obtain a clear understanding of its evolutionary dynamic and achieve a correct interpretation of its consequences.

Table 1 reports a synthetic schematisation of the main causal factors that determined the banks' crisis that sparked in the late XVIII century.

**Table 1.** Causes of the Neapolitan banks' crisis in the late XVIII century

ENDOGENOUS FACTORS	EXOGENOUS FACTORS
<ul style="list-style-type: none"> <li>• Inadequate costs structure</li> <li>• Internal controls weakness</li> <li>• Abnormal/injurious behaviours</li> <li>• Risky lending practices</li> </ul>	<ul style="list-style-type: none"> <li>• Prices increase</li> <li>• Agricultural crisis</li> <li>• Credit demand changes</li> <li>• Currency depreciation</li> <li>• Inefficient model of taxes exaction</li> <li>• Paper inflation</li> <li>• French Revolution</li> </ul>

Source: Original elaboration.

The crisis of Neapolitan public banks is, therefore, due to a wide range of internal and external factors that contextually refer to environmental dynamics, internal managerial and administrative weaknesses, and to their reciprocal influence. In the phenomenon of company crisis herein examined, the exogenous factors become etiological factors of a pathological situation that originates especially from misconducts by those who oversaw the banks' government.

<sup>(28)</sup> In the late XVIII century, the growth of southern economy was restrained by the serious decline of craftsmanship, lack of infrastructures and foreign trade reduction. For details, see Ciasca, 1940, pp. 153-156; Chorley, 1965, pp. 84-89; Croce, 1966, pp.180-187.

In the late XVIII century, in the light of an increasingly complex operating activity (De Marco, 1982; Avallone, 2008), as well as a structure of risks immobilisation tendentially unbalanced, the banks struggled to cover the increasing operating costs and satisfy the increased demand for consumer loans. At the same time, it must be considered that such institutes carried out, besides the credit function, a delicate monetary function and were supposed to support the State in bearing public expenditure that did not find adequate financing through the sole tax collection (Bianchini, 1835; Ostuni, 2007).

At the outbreak of the international political crisis, the banks were, as was natural, overwhelmed by the consequences of the unfavourable economic situation and were crushed by the burden of the Court interference. The unholy debt policy, implemented by the Bourbon government to ensure the participation of the Kingdom of Naples to the coalition against France, forced the institutes to accept lending practices contrasting with the rule of sound and prudent management, exacerbating the patrimonial depletion. Fuelled by paper inflation and currency depreciation, the banks liquidity crisis advanced in the general atmosphere of panic and degenerated soon into evident insolvency. Thus, in a short time, there was the disastrous fall of the ancient Neapolitan public banks that handled the political and economic hardship of the Kingdom for over three centuries.

The reorganisation of the Neapolitan financial and credit system is placed in the complexity of the dynamics described above. As already highlighted, the reform process launched by Ferdinand IV did not have the desired outcome and was unable to remedy the banks' crisis adequately. However, it assumes absolute importance for the range of technical-organisational and administrative innovations introduced, outlining the essential features of a banking governance model that will be resumed in the following reformatory interventions (Dello Joio, 1942) and that found more mature functioning conditions half a century later.

Actually, the establishment of the *Banco Nazionale di Napoli* represents a last resort solution to the crisis of credit institutions that arrives after a long series of measures aimed at coordinating “desired protections to negative consequences” that banks could support<sup>29</sup>. With the dispatch, dated 17<sup>th</sup> September 1794, they tried to remedy banks “disasters” subjecting them to a procedure that we would today call as extraordinary administration.

In fact, the establishment of the *Giunta dei Banchi* helped to redesign hierarchical and functional structure of the banks, with the precise purpose of supporting the possibility of an effective consolidation. The *Giunta dei banchi* was designed as a full-fledged governing body.

Nevertheless, the remodelling of the administrative, accounting, and supervisory system of the Neapolitan banks could not be considered as concluded.

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<sup>29</sup> A.S.B.N./B.P./A.P., *Conclusioni ed ordini originali*, matr. 292 ex 414, ff. 310-315.

After the establishment of the *Giunta*, with the dispatch dated 23<sup>rd</sup> September, there was the issue of a whole series of restrictions, aimed at reordering the banks activity by binding every investment operation to Royal consent<sup>30</sup>.

Finally, the enslavement of the banks to the State became complete through their fusion in a unique political and moral body.

In the pragmatic sanction XV, *de Bancis*,<sup>31</sup> issued on 29th September 1794, the unification of the banks was celebrated as a salvific measure for the financial fortunes of the Kingdom, made in the name and for the protection of the higher purpose of the public interest. It might be thought that the King, looking at the lucky example of the Bank of France, was sincerely convinced of the advantages of such radical restoration of the banking institution. However, according to historians, there is no doubt that the declared intentions were anything but truthful.

Apart from the motivations underlying the reformative design, what is important to note herein is the impact the measure had. The model of *Banco Generale* emerged in a very hostile environment, characterised by a deep mistrust and suspicion from the public. The emphasis for the announcement of the creation of the accreditation body and the increase of fruitful positions only partially, and for a short time, succeeded in easing the tensions.

Actually, the merger process only amplified the effects of the state of disorder. The dysfunctional reality of the institutes, which already suffered from a state of significant malaise, affected irremediably also the events of the stronger banks.

Analysing it, the failure of the reformative action is, hence, due to two main reasons. Firstly, the poor incisiveness of the royal measures is attributable to the misalignment between the Royal governance and formal-regulatory governance of the banks. The new banks system was in fact purely formal, lacking the necessary substance to make a complete transformation of the old banking system. Even if they were subject to the supervision of a single strong-willed power, the banks governing bodies continued to operate without an efficient coordination and an effective control. The *Giunta*, in fact, did not fully perform its inspection tasks and mainly conducted mere administrative and organisational activities.

Secondly, the failure to assess the real causes of the banks' economic suffering made it impossible, indeed, to implement a rational restoration of the Neapolitan financial-credit system. In the exasperated search for popular support, the royal measures aimed at reviving banks credit conditions in the short term, but they did not reflect a coherent project, consistent with going concern assumptions.

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<sup>30</sup> A.S.B.N./B.P/A.P., Volume di Reali Dispacci, *Lettera di Saverio Simonetti al Governo del Banco dei Poveri*, Napoli, 23 September 1794, matr. 177, ff.186-187.

<sup>31</sup> Biblioteca della Società Napoletana di Storia Patria. *Prammatica XV De Bancis*, 29 September 1794, in Giustiniani L., (1804) *Nuova collezione delle prammatiche del Regno di Napoli*, Vol. III, Napoli, pp. 67-68.

The inability to operate effectively on the causes of the crisis and the absence of a long-term programmatic vision led to a deeply flawed legislation framework, incapable of conducting an organic process of banking consolidation.

In the general disarray of the exceptional events, the reformative action, hence, had a confused implementation and failed in the decisional foresight required to offer long-lasting solutions.

## **Conclusion**

The analysis highlighted the special role played by public banks in the Neapolitan economy, focussing on a historical-evolutionary period that was crucial for the institutional stability of the Kingdom of Naples.

In the arduous management of an operability that became more and more complex, the insufficient attention paid to profiles of functionality and rationality of the organisational structure and internal controls caused a structural weakness of the banks, which resulted to be fatal together with the extraordinary range of hostile forces that deployed in the late XVIII century.

In the aftermath of French Revolution outburst, the banks state of order was already partly compromised, showing the initial symptoms of a worrying monetary imbalance. It is reasonable to think that, in a more peaceful period, the latent difficulties would not have had such a degenerative nature and the institutes would have been able to eliminate, without effort, the alterations occurred.

The banks' crisis became, indeed, irreversible due to the exceptional nature of political and social upheaval, worsened by the precarious financial conditions the State lived in.

As we previously mentioned, the generating causes of the banks involitional process had different nature, making it difficult to determine to what extent each of them contributed to their deterioration. Actually, the extraordinary rapidity with which the transition from the stage of decline to that of crisis occurred can be explained only considering reciprocal conditioning among the different and several causal factors.

In an attempt not to succumb to the vehemence of the events, Ferdinand IV took advantage of the credit institutes weakness, increasing gradually the government influence on their business. The reformative intervention appears, hence, aimed at taking control of the banks, rather than to promote a rational reordering in the interest of a long-lasting duration of the activity.

According to the examined sources, the governance model proposed for the banking restoration seems to be based on a strongly centralised administration and control process, conflicting evidently with the well-established functioning criteria of the original structure.

The new banks "form" was not sufficient to unify the corresponding governments also under the material profile.

Consequently, on the one hand, there was the definition of the founding characters of an innovative banking-credit system, which had an effective continuation in the following regulatory intervention. On the other hand, the conditions of the socio-economic context were premature for such a radical restructuring to have real chances of success, since Naples still showed the characteristics features of a semi-medieval reality.

The inadequacy of the royal measures led to a deep systemic crisis, given that the banks' failure accompanied that of government institutions, culminated on 21st December 1798 with Ferdinand IV cowardly fleeing to Palermo with more than two million ducats withdrawn from the coffers of the *Banco della Pietà*.

This study shall be considered as a first effort of reconstruction and analysis of the regulatory *corpus* adopted by the Bourbon government to renew the banking management. Although previous studies analysed the origin and the development of the ancient Neapolitan public banks, focusing mainly on accounting aspects, the historical period considered appears to be under investigated among scholars. In addition, this contribution attempted to delve into the banking crisis following a wider economic-business framework, evaluating, in a contemporary key, the reasons of banks' failure and the impact of normative reform on the accounting system as well as on the organisational structure and the governance model of the Neapolitan banks.

It is worth saying that the work carried out is susceptible to further developments and insights. A more coherent confrontation with the following regulatory interventions, for example, would be remarkably interesting in order to reveal the elements of continuity and discontinuity in the problematic restoration of the Neapolitan banking institution.

### **Conflicts of Interests**

The authors have no conflicts of interest to declare. All co-authors have seen and agree with the contents of the manuscript and there is no financial interest to report. We certify that the submission is original work and is not under review at any other publication.

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