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**Local administration funding and
regional disparities in Italy before WW1**

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1 Introduction

Numerous studies have been made of regional differences in income and level of development in Italy, and these studies basically differ in the responses they give to the question of whether the said differences were already of a substantial nature prior to Unification, or whether in fact they have widened since then.

The latest estimates regarding production and multifactor productivity in agriculture, manufacturing industry and the service sector, would seem to support the latter of the two theses¹, whereas the majority of previous studies tended towards the former².

The present essay is going to examine this problem from a completely different point of view, by focusing on the local administrative system adopted after Italian Unification, in order to ascertain the existence of a different approach to public intervention at the local level, and thus to the existence of disparities in local public spending.

At the time of Unification, one of the main problems that the new centralised state was faced with was that of establishing the relationship between different levels of government, in a context characterised by very different traditions: the two ends of the “spectrum” in question were represented by the Lombardy region’s local municipalities, which performed a variety of functions and enjoyed a considerable degree of autonomy, and the Kingdom of the Two Sicilies, the administration of which was highly centralised³.

Before going on to analyse the local administrative system adopted, we need to introduce a number of definitions. From the legal point of view, a system⁴ may be defined as federal if there is a division of powers between the centre, federal government and the peripheral units, and if constitutional safeguards are provided - by the Supreme Court, a second Chamber or popular

¹ Felice 2005 & 2007; Fenoaltea 2003; Daniele and Malanima 2007.

² Zamagni 1987; Giuntini 1999; Esposito 1997.

³ Volpe 1962.

⁴ Brosio 1994.

referendum – for the powers exercised by the aforesaid peripheral units. If such safeguards are not present, then the system may be defined as regional. However, economists tend to use the term “fiscal federalism” in the broad sense, as Wallace O. Oates points out: “The term federalism for the economist is not to be understood in a narrow constitutional sense. In economic terms, all governmental systems are more or less federal; even in a formally unitary system, for example, there is typically a considerable extent of de facto fiscal discretion at decentralized levels”⁵. This observation enables us to offer the last definition we promised, namely that of fiscal independence: this term refers to the existence of degrees of freedom, enjoyed by local government, in the choice of tax base or (at least) in the fixing of tax rates. In fact, Oates’ definition suggests that political federalism is not necessary in order to have fiscal federalism (or fiscal independence).

This rather lengthy foreword serves two principal purposes: firstly, to present one of the fundamental decisions taken at the time of Italian Unification; and secondly, to try and understand what many have considered a contradictory feature of the political class of that time, which despite its liberal character decided to construct a centralised state system in Italy. The intentions of this political class were clearly summarised by Cavour, when he stated that “administrative centralisation is one of the most disastrous institutions of the modern day ...”, and on another occasion that “we are not federalists, but neither are we in favour of a centralised state..”⁶. The latter claim became a leitmotif, which emerged once again in the report by Rattazzi on the new municipal and provincial system, published in 1859⁷. In other words, while plans for a federal system, and then a regional one, were rejected, this did not mean that the ideas of administrative decentralisation and municipal/regional fiscal autonomy were rejected outright. Nor is it true to say that the fiscal principle most dear to the liberalists of that time was rejected, that is, the idea that each municipality should only finance its own public works, or those works which it enjoyed to some degree. This was the principle underlying the decentralisation of tax revenue, which was already a feature of the majority of pre-Unification states, and upon which the local system was based following Unification and up until the end of the 19th century (at the very least).

Despite the decentralisation of fiscal revenue, historians (in particular those specialised in the field of political administration) have repeatedly highlighted the centralising tendencies of local and provincial legislation in the Kingdom of Italy⁸, particularly with regard to the control mechanisms in place at that time. On the other hand, economic historians, more interested in local public

⁵ Oates 1991.

⁶ Petracchi 1962.

⁷ “Thus the more the law hinders any federal tendency, the more it guarantees local freedom”. Report on the new municipal and provincial system, presented to His Highness by the Minister for the Interior on the 23rd October 1859, and published in volume 3 of Petracchi 1962.

⁸ Numerous observers have lent their support to the centralisation hypothesis, including: C. Pavone 1964; Ruffilli 1981; Zanni-Rosiello 1976.

spending mechanisms, have always offered a very different interpretation of things. Back in 1962, G. Volpe wrote the following: “an examination of the laws that regulated local authorities in Italy’s former states, and a comparison of the functions performed by such local authorities before and after Unification, as shown by the respective financial statements, enable us to reduce the polemical reference to ancient autonomies which appear substantially scaled down by the superimposition of Napoleonic laws and by the Restoration”⁹. In 1981 a second essay by P. Frascani underlined the important role that municipalities play in certain key sectors of public spending, such as education, healthcare and the road network¹⁰, in terms both of their powers and their levels of expenditure. Finally, certain economists such as F. Cavazzuti (1967) and Brosio and Marchesi (1987), have used the ratio of local revenue to total revenue to suggest that following Unification, the Italian state was centralised to a far lesser degree than traditional theory would have us believe¹¹.

The following pages are designed to offer an analysis of the actual working of the post-Unification administrative system in Italy, in terms both of the powers attributed to Italy’s municipalities and provinces, and of the degree of autonomy they had in deciding on funding methods. This analysis aims to ascertain whether the chosen strategy could have been maintained in a state characterised by strong regional differences, and to establish the kind of impact such a strategy had on the regional differences themselves.

2. Local public expenditure and its funding prior to Unification

From the middle of the 19th century onwards, the need to separate local government powers from those of central government became increasingly evident, as shown by the approval of special laws to this effect: in Lombardy-Veneto in 1832, in the Grand Duchy of Tuscany in 1849, in the Papal States in 1850, in the Kingdom of Savoy in 1859 (the Rattazzi Law, which was to be applied to the entire Italian peninsula after Unification). In the Duchy of Parma, on the other hand, the separation of powers was established by two decrees, issued in 1819 and 1831. In general, local municipalities were entrusted with certain public works (such as waterworks, roads and cemeteries), and with the management of public healthcare and primary-school education, albeit in accordance with differing degrees of power and autonomy. At the time of Unification, there was only one state

⁹ Volpe 1962.

¹⁰ Frascani 1981; Mozzarelli 1992 and Battilani 1997, all point to the considerable efforts made by local administrations to create more modern infrastructures, accompanied by a substantial increase in local public spending, between the end of the 19th century and the beginning of the 20th century. Another series of studies underline the fact that pro-capita municipal expenditure in Italy’s southern regions was lower: Bonomi 1903; Tenerelli 1913; Repaci 1936.

¹¹ Cavazzuti 1967; Brosio and Marchese 1986.

that did not have any specific law establishing local government powers, and that was the Kingdom of the Two Sicilies¹².

In order to get a clearer idea of the role of the municipalities in the pre-Unification states, we can compare their balance sheets¹³, using the year 1858 as a benchmark where possible, or 1860 otherwise. We are going to analyse the entity of local government spending and the degree of fiscal decentralisation in 1858 (Table 1), and the methods of funding employed in 1860 (Tables 2 and 3).

The aforesaid figures show that municipal spending was highest in Lombardy-Veneto, followed by the Grand Duchy of Tuscany and the Kingdom of Savoy (excluding Sardinia), but was very low in the Kingdom of the Two Sicilies (with the exception of those municipalities situated on the island of Sicily itself), in the Papal States and in the Emilian Duchies (Table 1). Furthermore, while the Kingdom of Savoy, the Papal States and Lombardy-Veneto were characterised by a rather high level of central state spending, in the Two Sicilies this form of expenditure was once again very limited. If we sum central state spending and local municipal spending, what we get is a considerable gap between one state and another, and in particular between Lombardy-Veneto (35.7 lire overhead) and the Kingdom of the Two Sicilies (22, 7 lire overhead).

We are going to use the ratio of municipal revenue to total revenue (that is municipal plus central state) as our index of fiscal decentralisation¹⁴(Table 1). This index shows that the two most decentralised states were Lombardy-Veneto and the Grand Duchy of Tuscany, while the least decentralised (most centralised) states were the Kingdom of Savoy, the Papal States and the Kingdom of the Two Sicilies.

The weight of the various taxes levied also varied considerably. As a rule, municipal tax revenue came from two main different sources: “indirect taxes” such as municipal custom duties and “direct taxes” such as over-taxes on land or income central state taxes. In order to analyse this aspect of the question, we are going to take the year 1860 as our benchmark, since we do not have any disaggregated figures for 1858¹⁵.

The comparison of the various states’ finances shows that the land over-tax, which were based upon cadastral records, were of prime importance everywhere except in the Kingdom of the Two Sicilies. Furthermore, several states levied various forms of municipal tax some way

¹² Scialoja 1857, pp. 114-116.

¹³ Correnti and Maestri 1857-58.

¹⁴ We have excluded the Duchy of Parma from our comparison, since municipal revenue derived from central state transfers. Moreover, we should point out that we are not taking district and provincial revenue into consideration, and thus the level of decentralisation is underestimated by our indicator (except in the case of the Grand Duchy of Tuscany).

¹⁵ Despite the fact that the process of unification of Italy was already at an advanced stage in 1860, no municipality had changed its system of surcharges, while as far as customs duty was concerned, the only changes were those made by the Grand Duchy of Tuscany and the Kingdom of the Two Sicilies, where the two states’ municipalities were assigned those shares of such revenue that would normally have gone into the coffers of the states themselves.

connected to income: in the Papal States, this took the form of a livestock tax and a focatico, a sort of family tax that could remind the English hearth tax; in the Kingdom of Savoy, a license tax was levied; in Lombardy, there was a crafts and trades tax; and in the Duchies of Parma and Modena, there was a tax on industry and trade. Once again, the Kingdom of the Two Sicilies constituted the exception to the rule, as there were no such taxes¹⁶.

Indirect taxation was based upon municipal excise duties on consumer goods and certain manufacturing taxes (Table 2). The said duties were split between central government and the municipalities, on a percentage basis which varied from one state to another, and which was not modified during the first few years of the newly-unified Italian state (except in the Grand Duchy of Tuscany and the Two Sicilies, where all such tax revenue was assigned to the local municipalities¹⁷). In the Grand Duchy of Tuscany, in the former Kingdom of the Two Sicilies (as a result of a decree issued in March 1860 by the provisional governments), and in certain regions of the Papal States (such as Umbria), the only duty levied was the municipal one; in the Duchy of Parma and in other provinces of the Papal States (the Marches), a substantial share of this tax revenue was assigned to the municipalities; in the Kingdom of Savoy, customs duty revenue was shared equally by the central state and the municipalities; while in Lombardy, the Duchy of Modena and other provinces of the Papal States (Romagna), nearly all customs duty went to the central state.

With the help of Table 3, we can now compare the municipal tax policy adopted by the various states prior to Unification. The composition of municipal tax revenue varied enormously from one state to another. For example, in the provinces of Lombardy and in the Emilian Duchies, two-thirds of such revenue was accounted for by land over-tax, whereas this figure was about 50% in the Kingdom of Savoy; in the Grand Duchy of Tuscany, land over-tax constituted more than 60% of all municipal revenue, even after the assignment of all municipal excise duties on consumer goods to the municipalities themselves; in the Papal States there were considerable differences between one province and another, given that over-taxes were of primary importance in Romagna, whereas duties were more important in the Marche and in Umbria; finally, in the Kingdom of the Two Sicilies, the only tax revenue was that yielded by excise duties.

Summing up then, the importance of the municipalities, the level of fiscal decentralisation, and tax policy in general, varied considerably from one former state to another, although they also had certain features in common as well. There was only one state that was completely different from the others, and that was the Kingdom of the Two Sicilies.

¹⁶ In Sicily there was only a very small provincial over-tax on loaned capital.

¹⁷ G. Parravicini 1858; Volpi 1952.

3. Local public expenditure and its funding after Unification

Thus at the time of Unification, Italy's local arrangements were not part of a particularly decentralised system. The extension of the Rattazzi decree was designed to achieve both political unity (by mediating between Lombardy and Piedmont), and a certain degree of administrative decentralisation, as Rattazzi himself highlighted when submitting his decree to Parliament¹⁸. In general, as far as electoral procedures went, the Piedmont model was preserved (albeit with the extension of the electoral base), whereas in terms of power, the Lombard model was adopted; with regard to funding of local expenditure, on the other hand, the chosen model was a mix of the previous Piedmontese and Lombard systems (Piedmontese as far as duties were concerned, but Lombard with regard to the land over-tax)¹⁹. The second important legislative measure taken was the 1865 law on municipal and provincial administrations, whereby municipal and provincial tax revenues were standardised²⁰ (this law had been preceded by Law no. 1827 governing excise duty on consumer goods, approved on the 3rd July 1864).

The effects of these measures can be partly seen in Table 4, which compares an index of tax revenue decentralisation (the ratio of the Italian state's average revenue to that of the municipalities within the various regions) calculated for 1863 and 1868, with the one for the year 1858. This comparison reveals that legislation after Unification aimed at providing the country's municipalities with increased powers, as shown by the widespread increase in fiscal decentralisation: those regions that were previously characterised by low levels of fiscal decentralisation, subsequently witnessed a considerable growth in their fiscal status (especially the Neapolitan provinces), unlike those regions which had previously boasted high levels of decentralisation, such as Lombardy and Emilia. These changes were particularly marked in the case of the Kingdom of the Two Sicilies, where local councillors were elected for the first time, and municipalities were bestowed a series of specific functions. For example, in the field of education measures were taken to organise a network of primary schools throughout the former state, rather than simply rely on the payment of the odd school teacher here and there, as had been the case up until then. Such data show why it was that in the Kingdom of the Two Sicilies, given its previous lower levies (compared to the rest of the country), there was such an outcry at what was now perceived as excessive taxation.

¹⁸ That year, Rattazzi had presented a first bill regarding municipal and provincial administration, which would have given the country's municipalities a greater role, and would have reduced the supervisory role of the central state; this bill, however, was opposed by the Subalpine Government.

¹⁹ Rattazzi's interest in the situation in Lombardy was confirmed by the heed he paid to the Giuliani Commission, some of the findings and proposals of which were directly transposed to the Rattazzi Law (Petracchi 1962).

²⁰ During the first few years following Unification, Italy's municipalities were left the power to levy their previous taxes, despite implementation of the Rattazzi Law.

However, the process of standardisation proved to be slower than it ought to have been if fiscal revenue was to be established at a uniform level in the various regions. In fact, 36 years proved too short a period of time for the municipalities in the more backward areas of Italy to be able to dispose of the same resources as those municipalities situated in the country's wealthier areas. Figures 1 and 2, together with tables 5 and 6, show that in 1863, per capita tax revenue in the Kingdom of the Two Sicilies was one half that of the Papal States, the Kingdom of Savoy and Tuscany, and only just over one-third of that of Lombardy. In order to bring it up closer to the national average, those areas that once belonged to the Kingdom of the Two Sicilies increased tax revenue by 124% between 1863 and 1899. Despite the considerable efforts made, tax revenue in the former Kingdom never reached the level of that in the other former states. Regions such as the Abruzzo, Molise, Calabria and Campania itself (if the city of Naples is excluded), boasted a negative record in terms of fiscal revenue, which they continued to hold every year thereafter.

Two things should be pointed out here: one is the difference in the role played by municipalities in the diverse areas belonging to the pre-Unification states; the other is the persistence of this homogeneity over the course of forty years subsequent to Unification. These results are hardly surprising, especially given that the essence of fiscal decentralisation is to allow local communities to choose its taxes and public goods: this "good" form of non-homogeneity derives from local communities' diverse propensities towards public intervention. However, the differences in per-capita revenue between one Italian region and another during the first fifty years of unification, also derives from their diverse tax capabilities and, at the end of the day, from the differing levels of income: this form of non-homogeneity could be defined as "bad", since it describes a situation in which the lower level of public involvement is not accompanied by a correspondingly higher level of private investment, but rather by a lower level of overall aggregate demand. If we consider the poorer availability of public goods in Italy's southern regions, and the consequent need to support higher levels of expenditure in order to bridge the gap between these southern regions and the country's richer regions, then the limitations of an administrative system based upon the pure decentralisation of tax revenue are clear for all to see.

4. Local governments' fiscal policy

As we have already said in section 2, there were marked differences in the municipal fiscal policies of Italy's various former states. There was a particularly clear difference in the way that land over-tax were utilised, and once again the greatest gap was between the Kingdom of the Two

Sicilies and the other states. In fact, while over-tax constituted around 40% of ordinary municipal revenue throughout the nation, only indirect taxes were levied by local government in the Two Sicilies²¹.

The 1865 Law encouraged a greater degree of uniformity of local municipalities' fiscal policy. In general, the importance of the over-tax increased considerably in the Kingdom of the Two Sicilies (by 1899 it had risen to 24% of all fiscal revenue), whereas its share of total tax revenue tended to fall in the other states (in the Kingdom of Savoy it fell from 41% in 1865 to 27% in 1899); however, this still failed to bridge the existing gap between the former states.

The lesser degree to which land over-tax were resorted to in the southern Italian regions was, of course, due in part to the technical nature of such taxes: given that they were proportional to presumed income (based on cadastral records), they yielded far less in the poorer parts of the country. Nevertheless, a more detailed analysis would suggest a second hypothesis, and one that is linked to the fiscal policies of those administering the Kingdom of the Two Sicilies. In fact, from 1866 onwards a whole series of laws and decrees were passed imposing specific restrictions on the country's municipal administrations with regard to their additional rates²²; these restrictions were necessary in order to distribute the fiscal burden among various types of tax - so that all citizens had to bear that burden in one way or another – and in order to protect landowners from the excessive use of land over-tax by local councils. However, not all municipalities observed the said restrictions all the time (see Table 9), and an interesting difference between North and South emerged on this point, since the legal limits were often exceeded in central and northern regions (in 1899, this was the case in 80% - 90% of all municipalities), whereas this was only sporadically the case in the former Kingdom of the Two Sicilies (where no more than 50% of all municipalities failed to observe the said restrictions).

How should such data be interpreted? Given the extreme difficulty that the municipalities had in carrying out all those functions envisaged by law, during the 1880s and '90s, the exceeding of the legal limit for land over-tax represented a genuine political choice, namely that of using all margins for manoeuvre granted by fiscal decentralisation – and indeed of exceeding the said margins – in order to satisfy the increased demand for public goods. That this constituted a genuine political decision is partly confirmed by the fact that those municipalities who went beyond the aforesaid legal limits were more numerous in those very areas where municipal revenue was highest. On this

²¹ In practice, a provincial surcharge was levied in the Kingdom of the Two Sicilies (the “*grana addizionali*” – additional duties or surcharges), but this item was entered in the accounts of the central state, since the revenue from this surcharge was made available to the Minister of Public Works. Scialoja 1857.

²² The following are the laws in question: no. 3022 of the 28th June 1866 and no. 3023 of the 26th July 1868; no. 5784 of the 11th August 1870; no. 1961 of the 14th June 1874; no. 3682 of the 1st March 1886; no. 340 of the 23rd July 1894.

point, it is interesting to note the difference between the Kingdom of the Two Sicilies and the Veneto. While pro-capita tax revenue from land taxes attributed to the central state was almost identical in both states (both in 1884 and 1899), there was an enormous difference between the two in terms of revenue from municipal over-taxes: the municipalities situated in the Veneto collected exactly twice as much tax revenue as those situated in the South.

As far as excise duties were concerned, on the other hand, things were very different; in fact, there was no significant difference between the southern provinces and the other areas of Italy (see Table 8 and Figs. 5A and 5B). In 1868, the first year for which figures for municipal excise duties are available, the per-capita duty collected in the former Kingdom of the Two Sicilies (even excluding the province of Naples) was greater than that collected in Lombardy, in the Emilian Duchies, and in the former Papal States, but was lower than the pro-capita revenue recorded in the former Kingdom of Savoy and in Tuscany. A similar picture emerges from an examination of the figures for 1895.

A comparison of the tariffs applied to the main products offers further food for thought. We have figures for 1895 regarding the excise tariffs applied by each municipality. If we limit our analysis to 14 large municipalities (those with over 50,000 inhabitants) and 49 medium-sized municipalities (those with a population of between 20,000 and 50,000)²³, and we limit the sample to be examined to 25 products, then no significant differences emerge between one area and another. Of course there were certain towns and cities which applied higher tariffs, but these towns were fairly evenly distributed among the various geographical areas of the country (see Figs. 5A and 5B).

To sum up then, the municipal and provincial system adopted after Unification, increased the level of fiscal decentralisation of Italy's municipalities compared with the previous period in history (prior to Unification), perhaps with the sole exception of Lombardy, and produced (or rather, preserved) substantial differences in the level of per-capita municipal revenue. Those municipalities that had previously belonged to the Kingdom of the Two Sicilies, operated for the entire 40-year period in question with much lower revenue levels than the rest of the country as a result of the smaller amount of income available. This difference may be partly ascribed to the tax system that had been adopted, and partly to the preservation of older habits. More specifically, the land over-tax was used to a lesser degree in the South of Italy than in other parts of the country (the centre and north)²⁴, and municipalities did not make any attempt to play a more important role in fiscal matters.

²³ The excise duties levied by these municipalities represented 58% of all such income within the Kingdom.

²⁴ Nitti and Gini ????

5 Financial equalisation mechanisms

The analysis that has been carried out up to this point enables us to confirm what Frascani²⁵ deduced some time ago with regard to the decentralisation of tax revenue in Italy's administrative system following Unification. In addition to this conclusion, we would like to add two further considerations, both of an economic nature. The main limitation to pure federal systems is generally acknowledged to be that of providing inadequate financial means to poorer areas. This limitation also characterises those decentralised systems that fail to implement automatic equalisation mechanisms. In the Italian case, such mechanisms did not exist at all. In fact, if we consider the government subsidies granted to Municipalities and Provinces, we can but conclude that that not only were they too small to bridge the massive gaps present in Italy, but also their distribution was not designed for the purpose of financial equalisation. As Table 11 shows, the subsidies²⁶ granted to local municipalities and provinces never exceeded 2 or 3% of total municipal or provincial revenue, right up until the end of the century.

An analysis of the geographical distribution of these subsidies is even more revealing. In fact, if they had been designed to equalise wealth, those municipalities with the lowest pro-capita revenue (or with the lowest levels of expenditure on public works or education) would have collected greater pro-capita subsidies than they actually did. The regressions²⁷ we performed for the year 1873 display positive coefficients for the main items of pro-capita municipal revenue. In other words, the areas that enjoyed the highest revenue were granted the highest government subsidies. Thus for this period at least, the distribution of subsidies led to the accentuation of geographical differences. Unlike in the cases of the other years for which the regression was performed, the results for 1873 were good, with an R^2 of 40%. In fact, the regression failed for 1884 and 1899; in other words, those variable factors we took into consideration are not able to explain the geographical distribution of the subsidies, which were evidently granted on the basis of criteria other than the spending and tax capacities of the various geographical areas in question. We can only conclude, therefore, that the few subsidies granted to municipalities were not designed for equalising purposes, and that the municipalities' varying tax capacities were not balanced out by means of this instrument.

²⁵ Frascani 1981.

²⁶ These subsidies were entered in the accounts of local administrations under the heading of extraordinary revenue. They were special subsidies in that they were granted for the purpose of funding public works or schooling.

²⁷ In practice we regressed pro-capita government subsidies to local municipalities on pro-capita municipal spending on public works and education, and on pro-capita revenue. The figures we used were of a provincial nature, and thus we could avail ourselves of a total of 69 observations.

Before we reach any final conclusion regarding the equalisation system (or lack thereof), we need to consider one further item, namely subsidized credit. Table 13 presents two indicators: the first indicator is the percentage of residual debt owed to the *Cassa Depositi e Prestiti* (the Deposits and Loans Fund – a public body that issues state funds to local authorities in Italy) against total municipal debts; the second indicator is the pro-capita debt due to the *Cassa Depositi e Prestiti*. These two indicators have been taken into consideration with the aim of evaluating the regional distribution of this form of state funding. In fact, given that the interest rates applied by the *Cassa Depositi e Prestiti* are 2 or 3 percentage points lower than the market rates, the pro-capita debt due to this body may provide us with an approximate idea of the entity of the granted subsidy.

Table 13 shows that in 1877 this body still had a limited presence, and the regions that benefited most from its services were Sardinia, Sicily and the Marche. This distribution would seem to suggest some form of equalising mechanism, given that the two islands at least were characterised by below-average levels of municipal revenue. However, it should be said that of the southern regions as a whole, Sardinia and Sicily were not the ones with the lowest levels of revenue (this negative “honour” went to Calabria and the Abruzzi, which both had very limited debts with the *Cassa Depositi e Prestiti*). During the 1880s and ‘90s, the importance of this body in relation to municipal debt as a whole increased enormously, to the point where by 1900 it covered more than half of all municipal debt. While it is clear that the central and southern regions frequently resorted to this source of funding, its equalising design is not so clear given that the major recipients of funds included municipalities situated in the regions of Liguria and Tuscany (which were certainly not among those areas with the lowest municipal revenue), whereas Calabria and Basilicata remained somewhat at the margins of this funding process.

We can thus conclude that the subsidies granted to municipalities and provinces had no real equalising effects, and were probably not designed for such purposes. A little more was achieved through the issue of subsidised credit, although once again this was also utilised by the wealthier areas of Italy.

6 Conclusions

The first conclusion we would like to offer is that the 1865 Law did not reduce the previously-existing level of fiscal decentralisation: it failed to do so in the Grand Duchy of Tuscany, where the Restoration had established very different constraints upon local municipalities’ freedom; it also failed to do so in Lombardy-Veneto, which in fact saw part of its own

administrative traditions being extended to the rest of Italy²⁸. Those regions that were radically affected by the provisions of the 1865 Law were mainly those belonging to the former Kingdom of the Two Sicilies, which were subjected to a degree of decentralisation which they were not used to.

Having said this, we ought to remember some of the reasons that led the governing class of the newly-unified Italian state to adopt a centralised system of controls and a decentralised tax system. Firstly, there was the awareness that the Italian electoral system, together with the low level of schooling, made it impossible for the country's citizens to control the working of the country's local administrators. Hence the need to entrust surveillance of the workings of municipalities and provinces to central government bodies, or to establish constraints on tax rates. Secondly, there was the belief that an efficient public administration, and thus a solid bureaucratic apparatus for the surveillance of local authorities by the central state, was a prerequisite for economic growth²⁹. Hence the "obsession" of the governing classes, following Unification, with standardising the administrative system and rationalising those structures that had been put in place in previous centuries³⁰.

However, this is the very point on which the political plans of the historical right-wing forces governing Italy during the initial post-Unification period floundered. The right-wing opposed the introduction of a federal-type or regionalist model, since it did not believe in the southern governing classes, and because it deemed such a model unsuitable within the context of such strong regional differences. While it standardised bureaucratic rules and apparatuses in order to render Italy more homogeneous, at the same time it decentralised municipal revenue in order that the country's local authorities assume responsibility for their expenditure. However, it failed to understand the importance of combining fiscal decentralisation with equalisation mechanisms in order to avoid any further impoverishment of the nation's less developed areas.

In fact, Italy's municipalities and provinces were assigned important functions in the fields of primary and technical education³¹ and of services to the weaker sections of the population. It was clear that this decentralisation of tax revenue would mean high levels of spending in the wealthier areas, and much lower levels of investment in the poorer areas. Furthermore, it also stimulated the efforts of those municipalities that had been used to a certain degree of autonomy, such as those situated in Lombardy-Veneto and Tuscany, whereas it encouraged a certain passiveness in areas

²⁸ See Ruffilli ??? on this point. As far as regards the analysis of local administration within the pre-Unification states, see Toth ???; Tonetti 1987; Pansini 1956; Casini 1953-54; Lodolini 1959; Rotelli 1979.

²⁹ See V. Zamagni 1996.

³⁰ Ruffilli ????

³¹ Zamagni 1997

that had traditionally been used to depending more on the central state, such as the Kingdom of the Two Sicilies³² .

However, there appears to have been little awareness of this fact. This is highlighted by the bill for the reform of municipal and provincial administrations, presented in 1852 by the then Minister of the Interior for the Kingdom of Savoy, Gustavo Ponza di San Martino. One of the articles in this bill most heavily criticised by the Council of State was the one concerning the setting up of a permanent common fund to be shared out according to the Provinces' needs, and to be augmented by an additional tax on the provincial surcharge. The unacceptable aspect of this plan, according to the principles of the Piedmontese Council of State, was that it failed to observe a basic principle of Piedmontese law, according to which "each province is bound to finance solely its own works or those works which in some way are beneficial to it"³³, whereas the common fund meant that the richer provinces were to finance part of the works of the poorer provinces. San Martino's awareness of the fact that in order to rebalance the level of infrastructures in place in the various regions of Italy, equalising instruments needed to be included in the local authority system, was never taken any further. Minghetti himself, when presenting his project for Italy's regions, remarked that the said task could only be carried out through the discretionary intervention of the central state. "Just as there are some provinces in which available wealth falls substantially short of existing needs and of those difficulties to be overcome, and in such cases the region or the state may supply such needs, there are also regions which by nature or inclination, or as a result of the ill-will of past governments or of adverse fortunes, find themselves still lacking in those structures, those roads, those waterworks that elsewhere have been organised and completed for some time. Reason tells us that this is why the nation needs to come to their assistance ..."³⁴.

Not even the continued existence of the aforesaid geographical imbalances managed to dent politicians' faith in this solution; indeed, at the end of the 1880s, when it became clear that different measures were needed for different regions, Italy's government and parliament chose first to introduce special laws, and then to set up special bodies; in other words, they opted for instruments which are, by definition, temporary. Giolitti's era was characterised by a constant series of commissions, advisory and technical bodies, designed to facilitate the institutional link between the prefect and the various local forces³⁵. Historians have interpreted this turnaround as the abandonment of the pursuit of uniformity that had characterised the first forty years of the newly-unified Italian state. Perhaps it would be more accurate to see it as the acknowledgement of the

³² Battilani 1997 and Zamagni 1997

³³ Petracchi 1962

³⁴ M. Minghetti, Bill submitted to the Chamber on the 13th March 1861.

³⁵ Ruffilli ??

failure of an administrative system that was completely decentralised in terms of revenue. At this point, there were only two options left: the introduction of automatic equalising instruments that would increase the financial resources of the poorer areas of Italy, or direct state intervention. The setting up of government commissions clearly went in the latter direction which, in the absence of any reform of local finances, was really the only remaining option.

We would like to make one further observation regarding the much-debated question of regional differences or gaps. Disparities in public spending (including both local and central spending) between the Kingdom of the Two Sicilies and the other regions of Italy, appear so great that they cannot be explained solely in terms of different fiscal policies. Were this the case, lower public spending would have been accompanied by a higher level of private consumption or investment, which no study has in fact observed as yet.

Tables

Table 1 Per-capita municipal revenue and spending in the Italian peninsula before Unification and index of fiscal decentralisation (ratio of municipal revenue to total – municipal and stata- revenue), 1858, lire.

	Municipal revenue	Municipal spending	State revenue	Index of fiscal decentralisation
Kingdom of Savoy	6,8	9,4	26,3	20%
Piedmont	7,5	10,1		
Liguria	8,2	9,9		
Sardinia	3,3	5,8		
Lombardy- Veneto	16,9	16,9	27	38%
Lombardy	16,9	17,3		
Veneto	16,8	16,4		
Duchy of Parma and Duchy of Modena (and some Papal state's provinces)				
Emilia	7,4	7,4		
Papal state *	6,6	6,4	24	22%
Umbria	6,1	5,8		
Marches	6,9	6,7		
Grand Duchy of Tuscany	11	11	19,1	37%
Kingdom of the Two Sicilies	5,5	5,5	17,2	24%
Abruzzi e Molise	3,4	3,4		
Campania	4,2	4,2		
Puglie	3,5	3,5		
Basilicata	3,3	3,3		
Calabrie	2,7	2,7		
Sicily	11	11		

Sources: Our elaborations of data from *Statistica del Regno d'Italia, Amministrazione pubblica, bilanci comunali del 1866 e bilanci provinciali del 1866-68*, Firenze, 1868; Felisini , *Le finanze pontificie e i Rothschild 1830-1870*, Napoli, 1990.

Table 2. Per capita municipal and central government excise duties on consumer goods, 1861, lire

	Central state revenue before Unification	Central state revenue in 1861	Municipal revenue in 1861	Ratio of municipal revenue to total revenue in 1861 %
Provinces of Piedmont and Liguria	1,30	1,44	1,97	58%
Provinces of Lombardy (Mantova excluded)	2,97	2,58	0,61	19%
Provinces of the former Duchy of Parma	0,85	0,36	2,45	87%
Provinces of the former Duchy of Modena	0,83	0,88	0,20	18%
Provinces of Romagna	2,86	2,29	0,87	28%
Marches	2,58	0,51	1,69	77%
Umbria	3,05	0,00	0,81	100%
Tuscany	2,46	0,00	2,88	100%
Naples city	1,05	0,05	1,12	96%
Sicily	6,75	0,00	2,23	100%

Notes: The duties revenue for Marches, Umbria and Sicily includes the corn tax.

Sources: Our elaboration of data from Parravicini 1958

Table 3 Per capita municipal revenue and expenditure, lire, 1860

Provinces of	Total expenditure	Total revenue	Tax revenue	Tax revenue (excise duties on consumer goods excluded)	Excise duties on consumer goods	Ratio of duties revenue to tax revenue %	Ratio of land over-taxes to tax revenue %
Piedmont and Liguria	10,3	9,8	5,8	3,6	2,2	38%	49%
Sardinia	6,6	6,4	3,2	2,6	0,6	20%	74%
Modena	6,2	6,2	4,0	3,1	0,8	21%	75%
Lombardy	9,8	9,7	5,3	4,7	0,6	12%	82%
Parma	7,6	7,7	5,9	4,6	1,3	22%	75%
Romagna	9,3	10,3	8,8	6,9	1,9	22%	54%
Tuscany	8,5	11,4	6,3	4,0	2,3	36%	61%
Marches	4,9	5,4	4,9	3,2	1,7	34%	28%
Umbria	3,6	3,4	2,8	2,0	0,8	29%	28%
Naples	3,6	3,1	1,5	0,4	1,1	76%	11%
Sicily	5,2	4,0	2,4	0,05	2,3	98%	0%

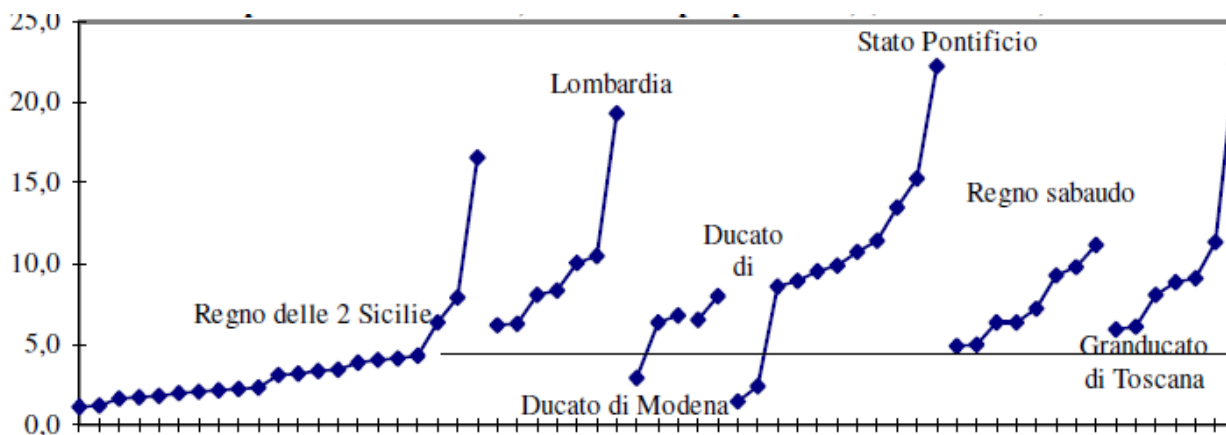
Source : Our elaborations of data from Atti parlamentari, Camera dei deputati, Progetto Minghetti, cit.

Table 4 Consequences of the Rattazzi decree and of the 1865 law on the decentralisation level (measured by ratio of municipal to total tax revenue).

Regions and former states	1858	1863	1868
Piedmont		42%	35%
Liguria		46%	56%
Sardinia		28%	32%
Kingdom of Savoy	20%	41%	38%
Lombardy		49%	37%
Veneto			34%
Lombardy-Veneto	38%		36%
Emilia (Parma e Modena)	----	45%	33%
Umbria		34%	32%
Marches		38%	32%
Papal state	22%	37%	32%
Tuscany	37%	36%	47%
Abruzzi e molise		14%	16%
Campania		21%	35%
Puglie		18%	26%
Basilicata		14%	16%
Calabrie		11%	15%
Kingdom of Naples		17%	25%
Sicily		27%	31%
Kingdom of the two Sicilies	24%		
National average		33%	33%

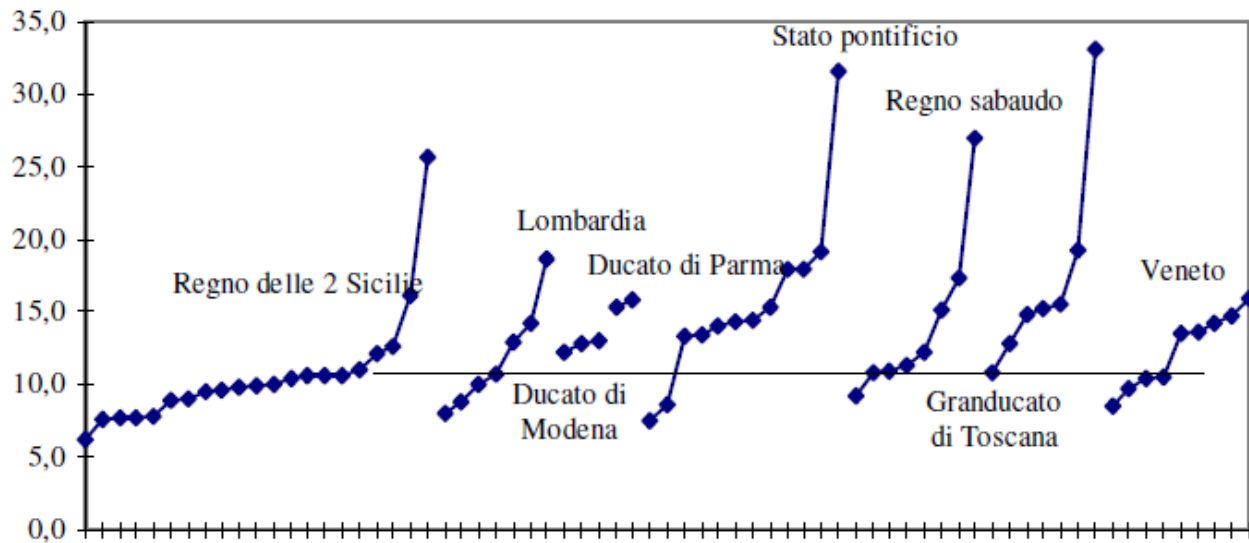
Sources: Our elaborations of data from *Statistica del Regno d'Italia, Amministrazione pubblica, bilanci comunali del 1866 e bilanci provinciali del 1866-68*, Firenze, 1868.

Fig. 1 Per capita municipal and provincial tax revenue in 1863



Sources: our elaborations of data from Ministero dell'agricoltura, dell'industria e del commercio, *Statistica del Regno d'Italia, bilanci comunali e provinciali, anno 1863*, Firenze 1865, and *Bilanci comunali 1884*, Roma.

Fig. 2 Per capita municipal and provincial tax revenue in 1899



Sources: our elaborations of data from Ministero dell'agricoltura , dell'industria e del commercio, *Statistica del Regno d'Italia, bilanci comunali e provinciali, anno 1863*, Firenze 1865, and *Bilanci comunali 1884*, Roma.

Table 5. Per capita municipal revenue, years 1863-1999, at constant prices (1890).

Provinces of the former Italian states	1863	1865	1868	1884	1891	1895	1899	Rate of growth 1863-1899
Pr. Napoletane	4,6	9,6	8,4	10,3	10	10	12,7	176%
Pr. Sicily	7,4	10,3	9,8	11,2	10,1	10,4	11,4	54%
Regno .2 Sicilie	5,5	9,8	8,8	10,6	10,1	10,2	12,3	124%
Lombardy	14,5	23,9	13,0	12,2	12,3	11,2	14,4	0%
Duchy of Modena	7,7	11,4	8,0	9,2	10,1	9,9	11,2	45%
Duchy of Parma	9,3	13,0	10,1	11,1	11,7	12,3	13,2	42%
Papal state				15,2	17,4	17,5	18,5	
Roma excluded	11,0	13,7	10,2	12,2	12,8	12,5	13,8	25%
Kingdom of Savoy	11,3	14,8	12,5	12,8	13,2	13,3	15,3	35%
Toscana	10,3	14,3	14,5	14,7	14,9	14,0	16,7	62%
Veneto	----	----	8,6	11,6	10,5	11,4	12,8	*49%
National average	9,2	13,8	10,6	12,2	12,2	12,3	14,1	53%

*years 1868-1899 for Veneto.

Sources: our elaborations of data from *Annuario statistico italiano*, years 1861,1871,1884,1892,1896,1898; from Maic, *Bilanci comunali*, years 1863, 1868, 1884, 1891,1895, 1899 and from *Annuario del Ministero delle finanze*, 1867.

Table 6. Per capita municipal revenue, 1863-1899, at constant prices (1890).

Regions	1863	1884	1899	Rate of growth 1863-1899
Piedmont e Liguria	11,9	13,2	16,0	42%
Lombardy	14,5	12,1	14,2	5%
Veneto	-----	11,7	12,8	
Emilia	12,6	13,0	14,1	9%
Marches	10,7	11,9	14,5	35%
Tuscany e Umbria	9,8	13,7	15,7	51%
Roma		25,9	34,1	
Abruzzi e Molise	3,8	6,8	8,7	124%
Campania	5,8	13,0	15,4	138%
Naples excluded	4,2	7,9	9,4	117%
Apulia e Basilicata	4,7	9,8	11,2	136%
Calabria	3,1	7,1	8,4	171%
Isole	7,5	11,1	10,9	32%

Sources: see table 5

Table 7 Ratio of land over-tax to municipal revenue

Former Italian states	1863	1865	1868	1884	1891	1895	1899
Kingdom of the Two Sicilies	8%	21%	16%	24%	22%	26%	24%
(senza Napoli)	10%		17%	25%	22%	28%	25%
Lombardy	42%	36%	48%	48%	44%	51%	41%
Duchy of Modena	56%	59%	60%	46%	40%	42%	40%
Duchy of Parma	59%	70%	56%	55%	51%	50%	49%
Papal state					29%	31%	30%
(Roma excluded)	46%	60%	45%	41%	36%	39%	36%
Kingdom of Savoy	41%	43%	33%	33%	28%	31%	27%
(Torino excluded)	46%		40%	35%	29%	34%	29%
Tuscany	40%	37%	36%	41%	38%	42%	39%
(Firenze excluded)	34%		43%	43%	40%	44%	41%
Veneto			74%	55%	50%	51%	46%

Sources: see table 5

Table 8 Per capita municipal excise duties on consumer goods (or indirect taxes for the years 1861-1865) and municipal land over-tax, at constant prices (1890).

Former Italian states.	1861 indirect taxes	1861 land over-taxes.	1865 indirect taxes	1865 land over-taxes.	1868 duties	1868 land over-taxes	1884 duties	1884 land over-taxes	1891 duties	1891 land over-taxes	1895 duties	1895 land over-taxes	1899 duties	1899 land over-taxes
Kingdom of the Two Sicilies	2,3	0,1	5,4	2,1	5,1	1,4	4,5	2,6	4,8	2,2	5,4	2,7	5,6	2,9
Naples excluded	2,4	0,1	3,9	2,1	3,7	1,3	3,4	2,3	3,8	2,0	4,2	2,4	4,2	2,6
Lombardy	0,9	5,5	6,8	8,6	4,1	6,2	3,1	5,9	3,4	5,5	3,7	5,7	4,0	5,9
Duchy of Mod.	0,5	3,4	2,5	6,8	0,9	4,8	1,5	4,3	2,1	4,1	2,6	4,2	2,6	4,5
Duchy of Parma	1,6	4,8	1,5	9,0	3,1	5,6	3,0	6,1	3,3	5,9	3,8	6,2	4,1	6,5
Papal state							4,6	5,2	6,1	5,1	6,4	5,5	6,4	5,5
Roma excluded	3,4	3,2	4,0	8,2	3,0	4,6	2,4	5,0	3,0	4,6	3,2	4,9	3,3	5,0
Kingdom of Savoy	3,0	3,0	5,1	6,3	5,3	4,2	4,5	4,2	5,5	3,7	6,0	4,1	6,5	4,2
Torino excluded	2,7	3,2	4,2	6,3	4,8	6,4	4,0	4,4	5,1	3,7	5,6	4,2	6,1	4,3
Grand Duchy of Tuscany	0,2	4,3	7,2	5,3	7,2	5,3	4,9	6,0	5,4	5,7	5,5	6,2	5,7	6,5
Firenze excluded	0,2	4,5	7,6	4,9	5,2	5,3	4,1	6,0	4,6	5,6	4,4	5,9	4,7	6,2
Veneto					0,5	6,4	2,3	6,4	2,6	5,2	3,0	5,8	3,5	5,9

Sources: see table 5

Table 9 Municipalities exceeding legal restriction on land over-tax rates, (%).

Stati preunitari	1884, % of exceeding municipalities	1884, % of municipalities exceeding for 200 cent.	1884, ratio of municipal land over-tax to central state land tax	1891, ratio of municipal and provincial land over-tax to central state land tax	1895, % of exceeding municipalities	1895, ratio of municipal and provincial land over-tax to central state land tax	1899, % of exceeding municipalities	1899, ratio of municipal and provincial land over-tax to central state land tax
Kingdom of the Two Sicilies	46%	1%	0,87	0,94	40%	0,96	47%	0,98
Lombardy	72%	13%	0,96	1,04	82%	1,03	84%	1,04
Duchy of Modena	74%	6%	0,96	1,17	73%	1,17	74%	1,25
Duchy of Parma	51%	8%	1,27	1,40	92%	1,42	94%	1,42
Papal state	64%	14%	1,11	1,14	64%	1,14	66%	1,19
Kingdom of Savoy	65%	19%	0,99	0,99	60%	1,03	61%	1,04
Tuscany	92%	13%	1,36	1,36	96%	1,42	97%	1,47
Veneto	91%	16%	1,36	1,47	93%	1,51	92%	1,50

Source: see table 5

Table 10 Per capita land tax and land over-tax in 1884 and 1899, constant prices (1890)

Former Italian states	1884 Municipal land over-tax	1884, Provincial land over-tax	1884, Central state land tax	1884, Total	1899, Municipal land over-tax	1899, Provincial land over-tax	1899, Provincial land over-tax	1899, Total
Kingdom of the Two Sicilies	2,6	3,0	6,4	12,0	2,9	2,8	5,8	11,4
Lombardy	5,9	2,7	8,8	17,4	5,9	2,4	8,0	16,3
Duchy of Modena	4,3	2,7	7,2	14,1	4,5	3,7	6,6	14,8
Duchy of Parma	6,1	4,2	8,1	18,3	6,5	4,1	7,5	18,1
Papal state	5,2	3,2	7,6	16,0	5,5	3,4	7,5	16,5
Kingdom of Savoy	4,5	2,8	7,5	14,9	4,2	2,9	6,9	14,0
Tuscany	6,0	2,7	6,5	15,2	6,5	3,0	6,4	15,9
Veneto	6,4	2,5	6,6	15,5	5,9	2,7	5,7	14,4

Source: see table 5

Fig. 3 Per capita municipal land over-tax in 1861.

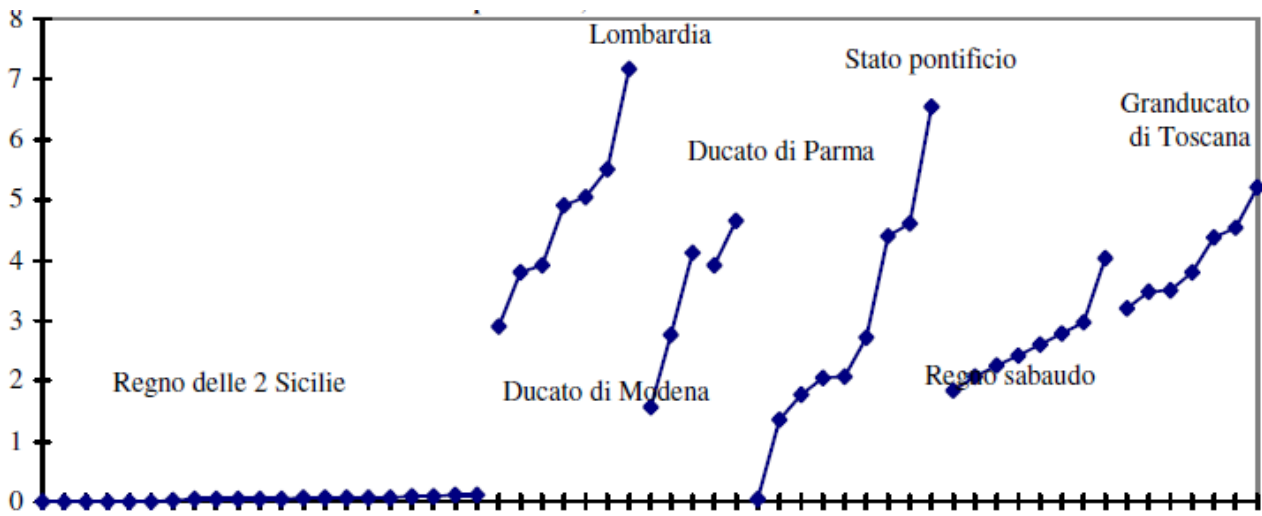


Fig. 4 Per capita municipal land over-tax in 1899

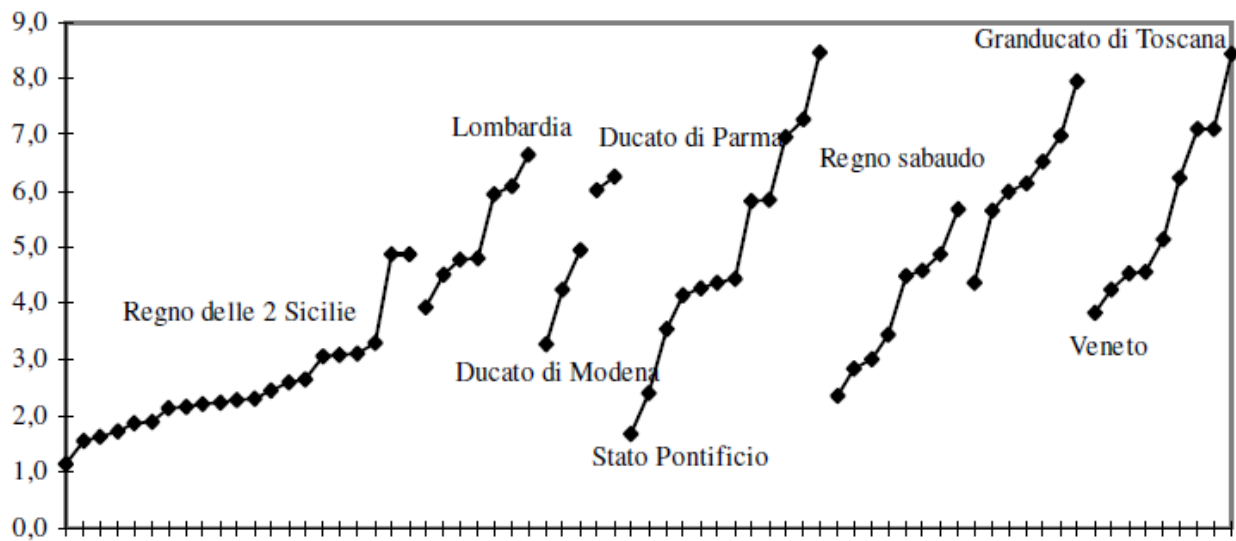


Figura 5.A Average tariffs applied in 1895 by the 49 municipalities with a population of between 20.000 and 50.000.

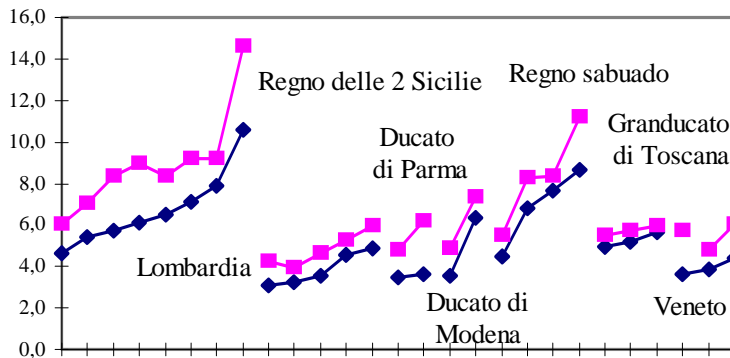
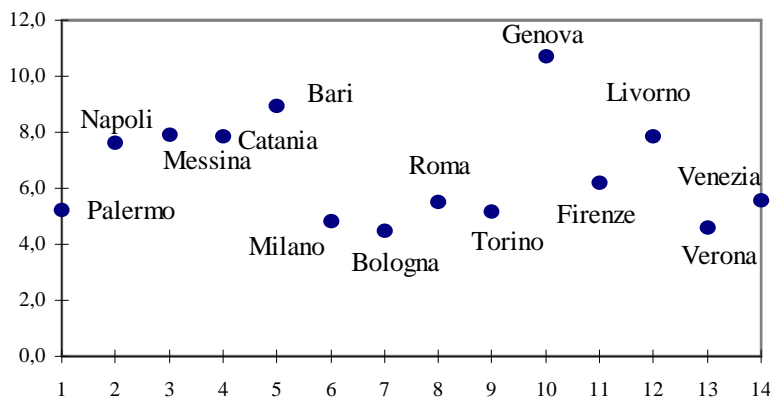


Figura 5.B Average tariffs applied in 1895 by the 14 large municipalities (those with over 50.000 inhabitants)



Source: our elaborations of data from Maic, Dirstat, Bilanci comunali e tariffe daziarie dei comuni chiusi, 1895.

Notes.

1. Customs duties are on the following goods: Flour (2 different kind), bread, pasta, butter, ice, chicken, eggs, cheese (3 different kind), milk, coffee and similar (3 different kind), fresh fish (3 different kind) dry beans, coal, candle, soap, salt.

Table 11 Government subsidies on education and public works

Years	Municipalities (000 lire)	Provinces (000 lire)	Municipalities (% of total revenue)	Provinces (% of total revenue)
1869	1635	-	1%	-
1870	1618	-	1%	-
1871	1107	-	1%	-
1872	1374	-	1%	-
1873	3526	486	2%	1%
1874	2167	446	1%	1%
1875	4122	435	2%	1%
1876	7764	709	3%	1%
1877	6861	-	3%	-
1878	6836	-	2%	-
1879	7081	-	2%	-
1880	7482	-	3%	-
1881	7516	-	3%	-
1882	9916	980	3%	1%
1883	8975	1061	3%	1%
1884	10288	1479	3%	2%
1885	9329	2688	3%	3%
1886	9191	1322	3%	1%
1887	9049	-	3%	-
1888	6487	-	2%	-
1889	9913	2044	3%	2%
1890	-	3234	-	3%
1891	10092	2276	3%	2%
1895	9917	-	2%	-
1899	6723	-	2%	-

Source: our elaborations of data from Statistica dei bilanci comunali e provinciali, several years.

Table 12 Regression on government subsidies granted to Municipalities and Provinces

Dependent variable	const	Mun- expenditure	Mun-revenue	Population	R ²	F
Gov-subsidy 1873	-0,8 (-1,93)	0.139 (1,76)	0,11 (3,38)	-0.002 (-3.04)	0,44	16,8
Gov-subsidy 1873	-0.15 (-1.78)		0,15 (6,5)	-0.002 (-2.87)	0,39	
Gov-subsidy 1884	-0,001 (-0.007)	0.07 (2,34)	-0,0005 (-0.09)	-0.00014 (-0.72)	0,08	2
Gov-subsidy 1899	-0.11 (-0.99)	-0.043 (-1.43)	0.03 (3.71)		0,19	6
Gov-subsidy 1899	-0.17 (1.9)		0.03 (4.0)		0,18	16

Legenda:

Gov-subsidy = percapita government subsidies

Mun-expenditure = per capita municipal expenditure on education and public works (government subsidy excluded)

Mun-revenue = per capita municipal revenue (government subsidy excluded)

const = constant

pop = population

T test in bracket

Table 13 Percentage of residual debt owed to the *Cassa Depositi e Prestiti* (the Deposits and Loans Fund) against total municipal debts and per-capita debt due to the *Cassa Depositi e Prestiti* at constant prices (1890)

	1877 ddll	1877 per capita debts, lire	1884% ddll	1884 per capita debts	1900 per capita debts	1900% ddll
Piedmont	5%	0,6	14%	2,4	4,9	22%
Liguria	1%	0,8	4%	3,1	24,0	21%
Lombardy	4%	1,1	4%	1,2	2,0	5%
Veneto	2%	0,2	9%	1,1	3,1	22%
Emilia	8%	0,9	18%	2,4	6,4	29%
Tuscany	1%	1,4	20%	42,7	20,5	40%
Marches	28%	3,8	44%	3,9	19,9	73%
Umbria	0%	0,0	40%	4,6	20,0	73%
Lazio	0%	0,0	39%	32,4	68,1	28%
Abruzzo	8%	0,3	59%	3,0	11,7	63%
Campania	4%	1,5	28%	33,4	26,8	33%
Apulia	5%	0,7	18%	7,8	10,2	47%
Basilicata	24%	0,8	57%	5,0	9,4	64%
Calabria	0%	0,0	51%	5,6	8,2	66%
Sicily*	27%	2,6	24%	3,7	11,7	56%
Sardinia	39%	3,5	34%	7,8	26,0	97%

Source: our elaborations of data from Maic, dirstat, *Debiti comunali e provinciali, anni vari*.

Notes: For the year 1900 the municipal loans include borrowing from the Sezione di credito comunale e provinciale and from Cassa di soccorso per le opere pubbliche.

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