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‘Monetary crisis and reform in seventeenth-century Naples’

In 1622 a major foreign exchange and monetary crisis erupted in the Kingdom of Naples, then part of the Spanish Empire (1504-1707). It was characterized by a collapse of the external value of the currency, rising domestic prices, loss of foreign reserves (in the form of precious metals), and a fast-growing banking sector. A reform demonetized the existing money stock and prescribed a general recoinage. There followed a liquidity crunch and long-lasting deflation.

What was the nature of the crisis? How did it emerge? Was there a "political economy" element at play? What could have been done? To answer these questions, we had to understand monetary policy in Naples in the previous hundred years.

We did extensive archival research in Naples and Simancas to collect quantitative and qualitative information. From the mint registers in Naples, combined with additional sources, we reconstructed nearly continuous annual series of minting volumes from 1536 to 1623. Further information from this source allowed us to understand the workings of the mint and the nature of the metallic flows into Naples. From the accounting records of the monasteries we reconstructed monthly price indices. From a variety of sources we gathered data on foreign exchange rates in international fairs and in Naples, bank balances, and fiscal variables.

We used qualitative information to understand the motivations and actions of the main stake-holders: the Spanish king, the Viceroy and his "assisting" Collateral Council, the Sommaria (the fiscal Court), the representatives of the Neapolitan aristocracy and bourgeoisie, the foreign "nations" that influenced policy in Naples and Madrid. Documents exchanged between these actors, together with other archival and printed sources, help us write the Kingdom's monetary history.

We integrate our empirical results in a theoretical model of commodity money in a small open economy. In this set-up, the price level oscillates within a band around the world price of silver. With multiple denominations, small coins can be in insufficient supply. This problem was operative in the 1570s, when around 10% of the New World's silver was minted in Naples to pay for the war, but much of it in large coins at the request of merchants and war leaders.

We see the roots of the 1622 crisis in a combination between the policy responses to a decreased flow of silver into the mint, and the consequences of "spontaneous fiduciarization" of the currency, in two dimensions: debased and clipped metal, and paper. From the 1580s onward, substantial imports of silver, mostly accounted for by debt restructuring operations, were converted into a flood of debased half-carlini that inexorably invaded the monetary circulation in the Nineties. Also, the Neapolitan "public banks" (deposit-taking, partial-reserve establishments owned and operated by charitable institutions) contributed with their notes to a change in the composition of the money supply. Over time, this change harmed the economy through the balance of payments and a worsening depreciation of the currency. Conflicting interests constrained the government into a sub-optimal reform.