



THREE ESSAYS ON THE ECONOMICS OF PROPERTY RIGHTS WITH
APPLICATIONS TO THE POLITICAL ECONOMY OF ITALIAN UNIFICATION

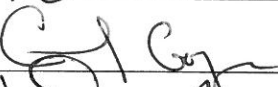
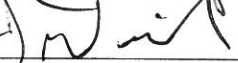
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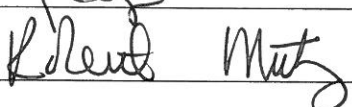
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Three Essays on the Economics of Property Rights with Applications to the Political
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A Dissertation submitted in partial fulfillment of the requirements for the degree of Name
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DEDICATION

This dissertation is dedicated to my loving wife Andreea, and my parents Gaetano and Francesca.

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ABSTRACT

THREE ESSAYS ON THE ECONOMICS OF PROPERTY RIGHTS WITH APPLICATIONS TO THE POLITICAL ECONOMY OF ITALIAN UNIFICATION

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This dissertation consists of three chapters on the economics of property rights with particular application to the political economy of Italian unification during the early 19th century. In the first chapter, I argue that well-defined and exchangeable private property rights yield economic growth by operating as a filter on economic behavior – the establishment of property rights embedded in the rule of law weeds out unproductive entrepreneurship and the corresponding politicized redistribution of property rights with rent-seeking and predation as its consequence, and engenders instead productive entrepreneurship, and a more efficient allocation of property rights, and with that a realization of the gains from trade and the gains from innovation. The fundamental cause of economic development, I argue, is the institution of private property, as it is this institutional framework that results in productive specialization and peaceful cooperation among diverse and disparate individuals. In chapter two, I explore this notion of

institutional resilience for the study of self-governance in Sicily prior to creation of the Italian state. I argue that feudalistic Sicily, rather than being characterized by institutional inertia during this period, illustrates a resilient period of self-governance in the face of successive political changes while under foreign rule. In particular, I focus on the emergence of property rights that structured self-enforcing economic and social relationships. Identifying such resiliency in institutions has implications for the historiography of Sicily and understanding what role the creation of Italian state played in undermined the resiliency of such institutions. In chapter three, I explore the causes of poor institutional outcomes in Sicily relative to northern Italy. I challenge the claim that Sicily's poor institutional performance can be explained by a lack of social capital prior to Italian unification. I argue that economic and political outcomes in Sicily are a function of public policies implemented during the political process of Italian unification. Underlying this political process was a policy of land reform intended to erode the political power of the landed aristocracy in Sicily. However, the result of this policy was regulatory capture by Sicily's landed elites. Due to regulatory capture, the government's inability to secure and enforce of property rights inhibited social cooperation in Sicily, resulting in poor institutional outcomes.

PROPERTY RIGHTS, EXCHANGE, AND THE PRODUCTION OF ECONOMIC DEVELOPMENT

1 Introduction

In the introduction to their book, *How the West Grew Rich*, Rosenberg and Birdzell (1986) argue that little controversy exists that institutions, namely private property right as well as the rule of law and enforcement of contracts, are the fundamental determinant to economic growth. There is a general consensus among economists that the unprecedented gains in labor productivity and innovation beginning in nineteenth century England cannot be attributed exclusively to the proximate causes of growth, such as the expansion of international trade, the accumulation of physical capital, or utilizing economies of scale, all of which by themselves exhibit diminishing returns to scale (Phelps 2013: 5-8; McCloskey 2010: 133-177). Rather, the fundamental cause of modern economic growth is the institutional framework that makes possible the increasing specialization and widening circle of exchange. The “virtuous cycle” is implied in Adam Smith famous dictum that the “division of labor is limited by the extent of the market.” Increased possibilities of trade result in increasing specialization and a more extensive division of labor, which in turn increases the productive capacity of individuals and leads to great trading opportunities. With specialization and trade, there is also great scope for opportunities for innovation.

An understanding of how private property generates economic development also provides a perspective of the processes that emerge from such an institutional environment, which is necessary for prosperity. Observation of countries around the world indicates that those countries with an institutional environment of secure property rights have achieved higher levels of various measures of human well-being, including not only higher GDP per capita, but also lower infant mortality rates and higher rates of education. Private property rights structure human interaction by providing individuals three main mechanisms of social coordination and conflict resolution: (1) excludability; (2) accountability; and (3) exchangeability.

Well-defined and exchangeable private property rights yield economic growth by operating as an entrepreneurial filter. By structuring the costs and benefits of exchange, private property rights economize on the emergence of certain patterns of behavior by 1) filtering in productive entrepreneurship, leading to a more efficient partitioning of property rights and technological innovation as its outcome, and 2) filtering out unproductive entrepreneurship that leads to a politicized redistribution of property rights with rent-seeking and predation as its consequence.

The basic thesis of this chapter is that the process of economic development goes as follows: the only way to achieve sustained increases in real income is to increase real productivity. Such increases in real productivity come from investments and technological innovation that increase and improve physical and human capital. However, because of the heterogeneity of capital, capital accumulation is a necessary, though not a sufficient condition for economic growth. Such capital formation can only

be undertaken through a decentralized price system, which coordinates the particularized insights of entrepreneurs about opportunities for gains from trade and gains from innovation. This manifests itself in technological change by discovering new and improved combinations of land, labor, and capital to satisfy the most valued consumer demands. The production plans of some must mesh with the consumption demands of others and this is accomplished through the guiding influence of monetary calculation and the weighing of alternative investment decisions. Moreover, the allocation of entrepreneurship into productive activities that improve productivity and increase real income depends upon an institutional framework that widens the extent of the market for entrepreneurs “where they can take advantage of increasing returns to ability” (Murphy, Shleifer, Vishny 1991: 510). An institutional framework of secure and exchangeable private property rights is sufficient for the emergence of a decentralized price system that provides profit and loss signals to entrepreneurs to discover new technological opportunities, generating economic growth.

2 We Were All Once Poor

Since at least the days of Adam Smith, economists have debated why certain societies have grown rich while others have remained stagnant and poor. Despite the unprecedented economic growth that has transformed the West, and more recently China and India, many parts of the world today, particularly sub-Saharan Africa, are still poverty-stricken. Many development economists, most notably Jeffrey Sachs, have argued that sub-Saharan Africa has been stuck in a “poverty trap,” resulting in unsustainable levels of economic growth that are not robust enough to bring Africa out of

poverty. Africa's extreme poverty levels lead to low savings rates, which in turn lead to low or negative economic growth, which cannot be offset by large inflows of foreign capital. Therefore, an investment strategy focusing on specific *interventions*, defined broadly as the provision of goods, services, and infrastructure would be required, including improved education, which in turn leads to reductions in income poverty, hunger, and child mortality. The concept of a "poverty trap" has been a long standing hypothesis in theories of economic growth and development (Sachs et.al 2004).

The underlying premise behind the poverty trap hypothesis is that the conditions of poverty are unique to Africa and other developing regions around the world and that the West has been uniquely endowed with economic wealth. The poverty trap hypothesis leads to the presumption that the West can save Africa (Easterly 2009), particularly through increasing transfers of foreign aid. However, development economist Peter Bauer, one of the most outspoken critics of modern development economics in the twentieth century, wrote the following:

To have money is the result of economic achievement, not its precondition. That this is so is plain from the very existence of developed countries, all of which originally must have been underdeveloped and yet progressed without external donations. The world was not created in two parts, one with ready-made infrastructure and stock of capital, and the other without such facilities. Moreover, many poor countries progressed rapidly in the hundred years or so before the emergence of modern development economics and the canvassing of the vicious circle. Indeed, if the notion of the vicious circle of poverty were valid, mankind would still be living in the Old Stone Age (2000: 6).

The engine of growth that transforms a society from "subsistence to exchange" (Bauer 2000: 3) is trading activity, leading to what Adam Smith recognized as "the greatest improvement in the productive powers of labour, and the greater part of the skill,

dexterity, and judgment with which is any where directed, or applied, seemed to have been the effects of the division of labour” (Smith 1776[1981]: 13). The absence of exchange opportunities precludes social cooperation under the division of labor and the emergence of specialized skills and crafts.

Smith pointed out that the division of labor was limited by the extent of the market. By widening its extent, individuals could capture increasing returns from specialization and trade. While Smith had emphasized the role of international trade in promoting economic growth, Bauer focused on the neglect among development economists of “internal trading activity” which in emerging economies leads to “not only the more efficient deployment of available resources, but also the growth of resources (2000: 4). When individuals exercise their comparative advantage, not only are they able to produce goods and services beyond their subsistence level of consumption, but such surplus consumption can be deferred as savings and investment, not only in physical capital but also in human capital. Through increasing investments in physical and human capital economies become more productive.

What is lost among First World observers is that in the developing world, much of this investment takes place in non-monetary forms. As most production in the developing countries is labor-intensive and agriculturally based, “these investments include the clearing and improvement of land and the acquisition of livestock and equipment. Such investments constitute capital formation” (Bauer 2000: 11). Because much of this investment is not calculated in money prices, these forms of investment “are generally

omitted from official statistics and are still largely ignored in both the academic and the official development literature” (Bauer 2000: 11).

The fundamental basis of economic development from subsistence to exchange entails well-defined, enforceable, and exchangeable property rights. Most of the developing world today remains poor because governments are predatory or because governments are unable to enforce private property rights, precluding the advance from subsistence to exchange. Just as Bauer pointed out that the “small-scale operations” of trade and non-monetary investment are required for economic development, analytically speaking, what allowed for the birth of economic development in the West, and in those emerging economies embarking in economic growth today, was the development of various types of property rights arrangements:

We ought not to be surprised if we find that in the relatively short history of man, he has already devised, tested, and retained an enormous variety of allocations and sharing of property rights. The history of the law of property reveals an overwhelming and literally incomprehensible variety (Alchian 1961 [2006]: 33).

The absence of tried and tested mechanisms of private property rights and their enforcement would have thwarted modern economic growth in the West and those developing countries emerging from poverty today.

Within framework of private property rights under the rule of law, individuals are able to form reliable expectations about how their land, labor, capital, and entrepreneurial talent can be permissibly utilized. In rich countries, property rights provide a framework of rules that provide a degree legal certainty so that individuals reliably coordinate their

actions amid the flux and “throng of economic possibilities that one can only dimly perceive” (Mises 2008: 117) over an uncertain economic horizon.

3 Some Development Economics of Property Rights

James Buchanan stated “the economist should not be content with postulating models and then working within such models. His task includes the derivation of the institutional order itself from the set of elementary behavioral hypotheses with which he commences. In this manner, genuine institutional economic becomes a significant and important part of fundamental economic theory” (Buchanan 1968[1999]: 5). However, throughout most of the 20th century, neoclassical economists have largely neglected the framework within which exchange and production takes place.

In the textbook neoclassical model, individuals are presumed to have perfect information and are able to engage in costless exchange without incurring any externalities, or third-party effects, on other individuals. With perfectly competitive markets, are property rights the given background to analysis, but such a theoretical framework also cannot account for the innumerable contractual arrangements, such as firms and money, which emerge in order to reduce the transactions costs of engaging in market exchange.

However, the economic analysis of property rights, although neglected, was not completely overlooked. Scholars working within the property-rights, law-and-economics, public-choice, and Austrian market process perspectives all took property rights out from underneath the cover of the “given background” to analyze the evolution and allocation of property rights and how alternative institutional arrangements of

property rights will have different consequences on the pattern of exchange and production. The leading 20th century economists to emphasize the importance of private property rights to economic theory were Ludwig von Mises, Friedrich Hayek, James Buchanan, Ronald Coase, Armen Alchian, and Harold Demestz. Their research emphasized how different delineations of property rights lead to different economic outcomes. Because of scarcity of knowledge and other resources, competition among individuals emerges in all societies. However, the manner in which competition manifests itself *institutionally-contingent* to the cost-benefit structure of property rights. But as neoclassical economics grew increasingly focused on static equilibrium analysis after the 1930's, what emerged was an institutionally- antiseptic theory of choice. This preoccupation with the properties of static equilibrium shifted theoretical attention away from the institutional context of choice, namely how private property rights structure the marginal costs and benefits of choice that generate a dynamic tendency towards equilibrium (Boettke 1994 [2001]: 236). Economist Svetozar Pejovich defines property rights in this way:

Property rights are relations among individuals that arise from the existence of scarce goods and pertain to their use. They are the norms of behavior that individuals must observe in interaction with others or bear the costs of violation. Property rights do define the relationship between individuals and objects. Instead, they define the relationship among individuals with respect to all scarce goods. The prevailing institutions are the aggregation of property rights that individuals have (italics original, 1998: 57).

Private property rights structure human interaction by providing individuals three main mechanisms of social coordination and conflict resolution: (1) excludability; (2) accountability; and (3) exchangeability. Excludability means that individuals are free to

use and dispose of their property rights over a particular resource and exclude other individuals from utilizing their property rights so long as they do not violate the property rights of other individuals, namely the physical properties of their body and the resources they own.

Accountability assigns residual claimancy over the costs and benefits of an action initiated by an individual. Without private ownership, when a person uses resources, they impose a cost on everyone else in society, leading to a tragedy of the commons.

Therefore, private property rights provide accountability over the costs and benefits of individual's actions through the internalization of positive and negative externalities (Demsetz 1967: 350). Through such internalization, private property rights over resources provides the incentive for individuals to maximize the present value of their resources by taking into account alternative future time streams of benefits and costs and selecting that one which he believes will maximize the present value of his resources. Private property incentivizes individuals to economize on resource use and maintain capital for future production because the user bears the costs of their actions. Poorly defined and enforced property rights leads to over use, and depletion of resources since the decision-maker of a particular action does not bear the full cost of his action.

Exchangeability of property rights not only allows individuals to make trades that both parties believe will make them better off. When rights over private property are transferable, it also provides an institutional framework within which a system of money prices emerge. The emergence of money prices provides the information to calculate the relative scarcity of different resources, such that "prices can act to coordinate the separate

actions of different people” by communicating the dispersed and particular knowledge of millions of individuals (Hayek 1945: 526). People are able to observe prices and determine whether they value the property they have more than the money they could receive for it. Changes in price signals drive the movements in the demand and supply for different goods and services. These price changes provide the information to entrepreneurs as to what products are most urgently demanded and what inputs can be combined to most cheaply produce them. Absent the free exchange of private property rights, this *contextual* information embodied in money prices is not generated (Mises 1920 [1975]). Since entrepreneurs have a property right, or residual claimancy, over their profits and losses, they also have every incentive to use resources to satisfy these most highly valued demands.

The crucial link between private property rights and such unprecedented economic growth lies with increasing returns to the division of knowledge embodied in entrepreneurial activity. As the extent and complexity of the market widens, so does the complexity and specialization of knowledge within the market. The effective partitioning of property rights enables individuals to specialize in applying their particularized knowledge of time and circumstance in the discovery of previously unnoticed profit opportunities conducive to capital investment and technological progress (Alchian 1965[2006]: 63). Through this process, entrepreneurship effectively leads to greater productivity, higher real wages, an expansion of output, and an overall increase in human welfare.

4 Property Rights and Entrepreneurship

Certain institutional frameworks encourage the spontaneous order of the market economy, as well as its entrepreneurial drive towards economic growth, while others erect barriers to growth and pervert the incentives of entrepreneurs towards rent-seeking and predation. Private property rights and their exchangeability ensure the emergence of a spontaneous order, in which entrepreneurs are driven by consumer preferences and encouraged to invest in enterprises that spur innovation and create wealth. Through purposeful actions of entrepreneurs, economic resources and knowledge, which are dispersed and particular to time and place, are coordinated through the incentives of the price system. However, how entrepreneurs coordinate economic knowledge and resources depends heavily on the institutional framework, or the rules of the game, that happen to prevail in the economy.

The prosperity or stagnation of societies rests on the allocation of entrepreneurship (Baumol 1990). The institutions that constrain human behavior within a particular society largely influence how entrepreneurial activity will be allocated and the nature of their purpose, which may be productive or unproductive in result. In prosperous societies, in which exchangeable private property rights have prevailed, entrepreneurship has been driven by consumer preferences and led the market process to more efficient outcomes, leading to economic growth. Poor and stagnating societies are characterized by institutions that are interventionist and arbitrary, leading to the politicization of entrepreneurial activity. Such an environment encourages rent-seeking and predation and discourages innovation, capital investment, and economic growth.

It is not only because individuals have limited means to satisfy their innumerable wants that property rights structure the rewards and costs of human interaction, but more fundamentally because knowledge about how to *discover* such means is scarce as well. Property rights structure the costs and rewards of utilizing particularized knowledge in the application and specialization of particular forms of entrepreneurial talent, both productive and unproductive.

Moreover, private property rights yield economic growth by operating as an entrepreneurial filter. By structuring the costs and benefits of exchange, private property rights economize on the emergence of certain patterns of behavior by filtering in productive entrepreneurship, leading to technological innovation and enhanced productivity, and filtering out unproductive entrepreneurship, which leads to rent-seeking and predation. In a world of uncertainty, the means by which individuals pursue different economic ends are unknown and must be discovered through entrepreneurship.

According to Israel Kirzner (1988: 179), entrepreneurship refers to the process of individuals acting upon profit opportunities “that could, in principle, have been costlessly grasped earlier.” In *Competition and Entrepreneurship*, Kirzner further elaborates on the process of entrepreneurship:

The entrepreneur is someone who hires the factors of production. Among these factors may be persons with superior knowledge of market information, but the very fact that these hired possessors of information have not *themselves* exploited it shows that, in perhaps the truest sense, their knowledge is possessed not by them, but by the one who is hiring them. It is the latter who “knows” whom to hire, who “knows” where to find those with the market information needed to locate profit opportunities. Without himself possessing the facts known to those he hires, the hiring entrepreneur does nonetheless “know” these facts, in the sense that his alertness – his propensity to know where to look for

information – dominates the course of events (Kirzner 1973: 68, italics original).

Kirzner also states “the discovery of a profit opportunity *means the discovery of something obtainable for nothing at all*. No investment at all is required; the free ten-dollar bill is discovered to be already within one’s grasp” (Kirzner 1973: 48, emphasis in original). The entrepreneur’s role in the production process is to earn pure profit based on his “alertness” of where to find market data under uncertainty (Kirzner 1973: 67). It entails that the entrepreneur possess the right knowledge at the right time for discovering new combinations of technological inputs for the production of new goods and services to their most valued uses.

The entrepreneur does not mechanically respond to profit opportunities as a calculative, maximizing *homo economicus*. Rather, he is “alert” to price discrepancies between existing commodities and to discovering previously unknown opportunities for mutually beneficial exchange. It is the entrepreneurial element in each individual “that is responsible for our understanding of human action as active, creative, and human rather than as passive, automatic, and mechanical” (Kirzner 1973: 35). It is through the discovery of profit opportunities that entrepreneurs discover how resources must be allocated to satisfy their most valued uses.

The Smithian growth process that was described above rests not only on passive capital accumulation, but more importantly on the increasing returns to knowledge that enlarge the extent for entrepreneurial activity. The emergence of knowledge externalities through the entrepreneurial pursuit of pure profit opportunities links the fundamental

relationship between private property rights and economic growth (Holcombe 1998: 51-52). Demsetz states that:

Property rights develop to internalize externalities when the gains of internalization become larger than the cost of internalization. Increased internalization, in the main, results from changes in economic values, changes which stem from the development of new technology and the opening of new markets, changes to which old property rights are poorly attuned (1967: 350).

Following Kirzner, Holcombe goes further to state that entrepreneurship drives the changes in relative prices and technology, from which:

Knowledge externalities occur when the entrepreneurial insights of some produce entrepreneurial opportunities for others. Increasing returns occur because the more entrepreneurial activity an economy exhibits, the more new entrepreneurial opportunities it creates (Holcombe 1998: 58).

The key to understanding the engine that drives the market economy towards efficient outcomes is the fact that today's inefficiencies are tomorrow's profit opportunities for entrepreneurs to seize upon such externalities of knowledge. However, this entrepreneurial market process requires that private property rights assign to entrepreneurs residual claimancy over the costs and rewards of their actions in the form of monetary profits and loss.

The consequence of poorly defined property rights will be the destruction of wealth. Without secure property rights, economic calculation will break down as money prices will not reflect the relative economic profitability of using different quantities and qualities of scarce inputs, such as land, labor, and capital. As a result, insecure property rights will shrink the extent of the market for productive entrepreneurship. Murphy, Shleifer, and Vishny (1991) also point out that unproductive entrepreneurship is more

prevalent in countries with poorly defined property rights since the market for rent-seeking is larger and more lucrative there. As they argue, “rent seeking pays because a lot of wealth is up for grabs,” (1991: 519) particularly for those entrepreneurs who are successful at defining property rights through bribery, theft, or litigation. Such entrepreneurial activity is wasteful since entrepreneurs are committing their time, knowledge, and resources not to creating more efficient ways of producing goods and services, but in transferring wealth or resisting other entrepreneurial competitors from capturing their rents (Tullock 1967: 228).

5 Conclusion

Economic development originates from trading activity, specialization, and social cooperation under a division of labor. But the *cause* of economic development is inextricably linked with a framework of well-defined, enforceable, and exchangeable private property rights. Economic growth and development, driven by entrepreneurship, cannot be explained independent of its institutional context, namely private property rights. Entrepreneurship by itself cannot be the fundamental cause of economic development, since scarcity, competition, and entrepreneurship exist in all societies. Rather, the manner in which entrepreneurship manifests itself is a *consequence* of the structure of property rights (Boettke and Coyne 2003). The fundamental cause of economic development is the adoption of well-defined and exchangeable private property rights, which incentivizes entrepreneurship to act on profit opportunities that facilitate increasing gains from exchange and specialization, spurring capital investment, increased labor productivity, and higher real income.

Recognizing the link between property rights, entrepreneurship, and economic growth has important implications not only for economic theory but also for economic policy as well. Assuming away the institutional differences in property rights arrangements across countries leads to misleading policy advice about how poor nations can emerge from poverty. In the wake of the fall of the Berlin Wall and the collapse of communism in Eastern Europe, Peter Murrell asked whether neoclassical economics could underpin the reform of centrally planned economies. As he wrote, “reformers need a filter that interprets the experience of capitalist and socialist systems” (Murrell 1991: 59). Such a filter refers to a comparative institutional analysis of property rights that have emerged to fit the historical and cultural context of a particular time and place.

By focusing the accumulation of production inputs, such as physical and human capital, to increase productivity and real income, economic policymakers have focused on investment as well as research and development to spur economic growth. However, failing to take account of the framework of property rights misleadingly places factor accumulation as a fundamental cause of economic development, rather than as a proximate cause. Capital investment by itself does not cause economic growth, but emerges in response to productive entrepreneurship incentivized by a framework of private property.

THE STRUGGLE TO CONSTITUTE AND SUSTAIN PRODUCTIVE ORDERS IN HISTORY: LESSONS FROM SICILY

1 Introduction

The conventional wisdom in the literature on the history of Sicily emphasizes gross inequality of social, political and economic conditions between the rulers and the ruled, the use of force to settle disputes, and economic stagnation and lack of economic progress in the long transition from feudalism to modernity. I do not dispute this conventional wisdom where it is applicable. Nor do I wish to minimize opportunistic behavior, temptations to free ride, to shirk responsibility, to pursue ambition and dispensation of favor, and to break commitment among the dominating classes. What I argue is that there is more to Sicilian history than individualistic behavior, oligarchic tendencies, institutional weakness and stagnation. I suggest that it is possible to gain a more accurate, even if more complex, understanding of Sicily's past if we take the struggle to constitute and sustain productive orders as the basic orientation used to frame historical inquiries. In fact, the title of the paper is inspired by the title of a book honoring the intellectual contributions of Vincent Ostrom to politics and community living (Sproule-Jones, Allen and Sabetti 2008). That book dealt with present-time public affairs. In this chapter I focus on institutions for collective action and economic growth in premodern times.

We are required to consider that alternative possibilities existed in designing, constructing and maintaining different social realities and the very nature of political and social phenomena over the course of centuries. This orientation to history draws largely on the epistemological perspectives that animate the Ostrom research program and the very orientation used by Carlo Cattaneo (1801-1869) in the nineteenth century to make sense of different historical periods in Italy's urban development (Sabetti 2010). This method of work was also followed by Tocqueville in dissecting the old regime in France. He approached the task "with a view to eliciting the laws of life" and "supply a picture that while scientifically accurate may also be instructive" (Tocqueville [1859]1956: xii). He did not discount the gross inequalities of conditions and the political and economic hierarchies, but whenever he found, beneath the power of fixed social orders and monarchical administrations, a spirit of healthy independence and human creativity he threw them in sharp relief. I follow this method here.

I first sketch the epistemological perspective that informs our understanding of what constitute productive orders. The rest of the paper shows how this perspective can be used as a guide to what to look for in providing a more reliable analysis of the struggle in Sicily than what is currently available in the scholarly and popular literature. The process of economic development requires sustained increases in economic productivity. Such increases in real productivity come from investments and technological innovation that increase and improve physical and human capital. However, the formation of capital is an artifact of the human mind (V. Ostrom 1980: 311), which is the ultimate resource of economic development (see Simon 1981). Moreover, in order for individuals to exploit

the gains from trade under the division of labor and the division of knowledge (Hayek 1937: 49), the extent of the market must be continuously extended to facilitate the transition from small-scale capital accumulation to large-scale capital accumulation. As the extent and complexity of the market widens, so does the complexity and specialization of knowledge within the market. The effective partitioning of property rights, both *de jure* and, more importantly, *de facto*, enables individuals to “take ownership” and concentrate their particular talents and productive abilities in those activities where they exercise a comparative advantage, from which capital investment and technological progress emerges as a by-product of the incentives provided by an institutional framework of property rights (Alchian 1965: 825). Through this process, entrepreneurship effectively leads to greater productivity, higher real wages, an expansion of output, and an overall increase in human welfare. These manifestations of productive orders can be found in Sicily’s past; why these manifestations could not be sustained and flourish over an extended period of time can, I suggest, be largely attributable to the configuration of political and institutional arrangements Sicily acquired.

There is no pretension here to do justice to a complex and rich history encompassing more than 700 years of developments since Norman times; that would be premature and beyond the confines of a single paper. The advantage of stretching the entire period before us is that it allows to spot variations, fluctuations and long-term trends better than a shorter time-span. It also allows us to overcome a persistent problem in social inquiry. When a practice (good or bad) is found operating at any one point, one

of two things happens: either it is assumed by implication that the practice lasts forever, or there is a tendency to project back that practice (or failings in the nineteenth century) without bothering to investigate earlier or subsequent periods. Still, the analysis stretching across such a long time and space carries its own constraints. I draw attention to the historical nature of social scientific knowledge across historical-time periods and offers a way to remove the shadows and false light that have obscured the practice of self-organization and self-governance, including relations based on contractual relations, extended to almost all forms of known collective activity and undertaking. In brief, the chapter suggests a new agenda for comparative historical research and not necessarily definitive results.

2 Basic Conceptions in Framing the Inquiry

In framing the inquiry we are required to confront the nature of political and social phenomena over time. This may be understood as “the choice of conceptualizations, assertions, and information to be used and acted upon in problem-solving modes” (V. Ostrom 1997: 91). There may be a fundamental contradiction between theoretical inquiry and making sense of the observed complexity of human affairs (E. Ostrom 1990: 24-25). Whereas the former privileges the search of regularities, the latter confronts diversity. As a result, too often many analysts in academia and beyond have been doing the equivalent of “‘Forcing Squares, Triangles and Ellipses into a Circular Paradigm’ by using the commons dilemma model without serious attention to whether or not the variables in the empirical world conformed to the theoretical model” (E. Ostrom 1990: 24). A chief strength of the Ostrom research program is that it has

succeeded in meeting this challenge and in developing a method of analysis based on realistic assessments of human capabilities and limitations in a variety of situations. We can assume human beings to be creative agents in the world in which they live and use as starting point the microstructure of human action in different field settings.

This orientation can be extended to the study of struggle to constitute productive orders in different historical periods and treating these periods as the laboratory for providing us with a history of institutions of collective actions. That means offering an internal point of view on action as the agents see it, adopting the reasoning of the agent, and requiring a sympathetic understanding of the perspectives that move agents to action, as much as the historical record permits (Soltan 2016: 4). The main point is less on imposing causal explanations of observed reality and more in explaining changes in actions. As Elinor Ostrom puts it:

As an institutionalist studying empirical phenomena, I presume that individuals try to solve problems as effectively as they can. That assumption imposes a discipline on me. Instead of presuming that some individuals are incompetent, evil, or irrational and others are omniscient, I presume that individuals have similar limited capabilities to reason and figure out the structure of complex environments. It is my responsibility as a scientist to ascertain what problems individuals are trying to solve and what factors help or hinder them in these efforts. When the problems that I observe involve lack of predictability, information and trust, as well as high levels of complexity and transactional difficulties, then my efforts to explain must take these problems overtly into account rather than assuming them away. In developing an explanation for observed behavior, I draw on a rich literature written by other scholars interested in institutions and their effects on individual incentives and behavior in field settings (1990: 25-26).

We take historical periods as a laboratory to study changes in the on-going stream of events, with a focus on what problems in collective action people try to address and

solve and what factors helped or hindered them in these efforts. It is hard to affix a beginning date but we know that the conceptual and computational logic necessary to form organizational arrangements that promoted growth and community governance was deeply rooted in the way of life of people by the twelfth century. For example, Sicilian cities were already vibrant with life as “sites of Roman law courts, municipal night-watch companies, armies of harbor officials, schools, tariff codes, almshouses and hospitals, more tax collectors, tavern, warehouses and urban magistrates endlessly copying, invoking, exercising, and seeking to expand their cities’ cherished and obsessively guarded *consuetudines*. Each community followed its own customs but remained open to outside contact” (Backman 1995: 20).

The local multi-constitutional world thus included considerable diversity in organizational form and scope with common underlying principles of various forms of self-rule, joint rule and one-man rule. These undertakings covered almost all aspects of organized existence: work; goods that had private and public characteristics like food and health; and common-pool resources ranging from woodland to churches and neighborhoods. In varying degrees, it was possible to find in almost any community a public space (*res publica*) that permitted problem solving through the spontaneous creation of joint undertakings of all sorts. One of the best examples of this comes from the work of economic historian Stephan R. Epstein (1992).

He found that, contrary to the conventional wisdom, late medieval and early modern Sicilian economy achieved a high levels of productivity in various sectors. His in-depth analysis started by detailing regional geographic and demographic

differentiation, and then he moved to the organization of different economic ventures in local, regional markets and foreign trades. The capacity of many Sicilians to be active agents in the economic development and social change in late medieval Sicily is neatly conveyed by the book title of his research: *An Island for Itself*. This led him to question the epistemological basis of the received wisdom.

Ever since the Enlightenment criticized the latifundia, large scale farming in Sicily and Southern Italy, has been given a major share of responsibility for the Mezzogiorno's agricultural 'backwardness'. Latifundism is supposed to have bred many social and economic ills, including landlord absenteeism, low investment, lack of innovation and peasant poverty and exploitation. So far no convincing explanations exists, however, as to why such backward and inefficient property rights survived apparently unchanged for nearly a millennium. It is a priori very unlikely that such an allegedly highly inefficient organization should have endured so long; empirical evidence confirms that this is so.

He continues,

In fact, despite the use of seemingly 'archaic' tools (oxen and scratch ploughs) both yields ratios and production per hectare in Sicily up to the eighteenth century seem to have been equivalent or higher than in the most advanced northern European countries (England, Flanders, the Netherlands) and subsequently better than in Northern Italy or the Baltic regions. Whatever Sicilian agriculture's failings during the eighteenth-century 'agricultural' revolution further north, it thus seems that one cannot project such failings unquestionably onto previous centuries (1992: 163; see also Epstein 2000).

Epstein's research challenges the presumption of failure that characterizes so much of the literature on the history of Sicily and directs attention to the importance of charting and surveying the configuration of institutions for collective action since medieval times.

3 Institutions of Governance

The Norman landing near Messina in 1060 signaled the end of two hundred years of Muslim rule in Sicily and the establishment of a new and independent kingdom of

Sicily. By the end of the twelfth century, however, the vicissitudes of Norman dynastic succession exposed Sicily to the competing claims of European princes and swept away its independence. The Sicilian realm became a province of successive European empires. Yet below the power of alternating vice-regal administrations, certain vestiges of Sicilian independence, although half—destroyed, were still distinguishable. Parliament, baronial jurisdiction, and local laws and privileges, commonly described as feudal, kept alive a spirit of independence and self—reliance as well as a sense of the Sicilian nation.

The succession of foreign monarchs ended in 1759 with the proclamation of the third son of the Spanish king as the new ruler of Sicily. While the new king established himself in Naples, his designation as Ferdinand the Fourth of Naples and Ferdinand the Third of Sicily indicated the relative independence of the island from Naples. The change from the Spanish Bourbons to the Neapolitan Bourbons attached Sicily to the South Italian peninsula for the first time in more than four centuries.

The principal features of eighteenth century vice-regal administration dated back to the sixteenth century when Spanish Hapsburg rulers brought to a successful end the efforts of the previous rulers, the Aragonese, to exclude Sicilian barons completely from royal councils. This was achieved by obtaining the consent of the Sicilian parliament¹ to a reform of the two Sicilian supreme courts, the Great Court and the Court of the Royal Patrimony. Too late parliamentary barons realized the implications of their consent.

While holders of the great feudal offices of state were allowed to keep their ranks and

¹ The Sicilian parliament was made up of three houses: the military or baronial, the ecclesiastical and the domanial. The domanial house contained representatives from towns which remained, at least in theory, under royal jurisdiction. There were seldom more than 45 such towns and in part for this reason the domanial house never developed into a house of commons before 1812. The baronial house was the most important and the most powerful of the three.

titles, all effective authority was withdrawn from them and transferred to the viceroy and senior vice-regal officials. The extension of vice-regal authority was designed to harness Sicilian economic resources for the Hapsburg Empire and to insure sole imperial control over Sicilian defense. At that time the empire stretched from North Africa to the Baltic and Sicily was a critically important outpost in the defense of Christendom against the Turks and the Barbary states.²

The Court of the Royal Patrimony, while retaining some judicial functions, took over the Grand Chamberlain's supervision of public finance to become the viceroy's principal administrative agency for bringing under imperial direction, supervision and control all other central administrative agencies. For example, through the Master of the Harbor or Central Customs Office the viceroy came to regulate almost the entire domestic and foreign trade of wheat, one of the most important Sicilian commodity. The reach of the Patrimony over the whole field of government and economy ran, however, against several constraints interposed by other more or less independent political institutions.

First, the Sicilian parliament, smarting from its inability to revert the exclusion of Sicilian barons from royal councils, effectively blocked the recruitment of Spanish ministers and civil servants for the Patrimony by insisting upon the legal and customary practice of filling almost all the governmental positions with Sicilian citizens. Viceroys were thus forced to fill most of the administrative positions with Sicilians whom they regarded as unreliable. Second, the tradition of strong civic independence in the form of

² H.G. Koenigsberger's *The Government of Sicily under Philip II of Spain: A Study in the Practice of Empire* (1951) is perhaps the single best source for this period.

either baronial jurisdiction or communal liberties meant, in effect, that vice-regal edicts and writs ran at the pleasure of parliamentary barons and communal officials. Some parliamentary barons as well as some domanial towns still had tax-free privileges for wheat and other products (like sugar and silk) they exported; some city officials even had the right to reserve and disallow pragmatic sanctions or royal decrees in their jurisdictions. Third, the Spanish monarch enjoyed extensive ecclesiastical authority in Sicily through the Apostolic Legateship, originally conceded by the papacy to Count Roger in 1098, and through the Sicilian Inquisition, established in 1513, but these royal institutions also imposed limitations on the reach of the vice-regal administration.

In order to mitigate these constraints and to cope with the difficulties inherent in controlling the details of the entire central administration, successive viceroys resorted to several strategies. They concentrated all possible authority in the few offices, like that of the auditor general of the Patrimony, which could be legally held by Spaniards. They came to rely increasingly upon selected Sicilian civil servants who toured the island as vice-regal commissioners or inspectors. The consultor, or the viceroy's deputy, and the auditor general of the Patrimony became, as one viceroy suggested, "the pivots" on which hinged the entire central administration (Koenigsberger 1951: 101). These developments led to the transformation of the vice-regal household into a vice-regal secretariat -- in effect, a duplicate chain of command to make the administrative agencies of the Patrimony work "as they should." Thus, by the second half of the sixteenth century centralized administration was established among a crowd of autonomous, uncoordinated and lesser powers. But the protracted imperial wars in Europe during the seventeenth

century exposed Sicily to extraordinary financial demands which soon undermined the very reorganization of vice-regal administration.

The two principal sources of imperial revenues in Sicily were parliamentary donatives or grants and export taxes on wheat imposed without the consent of parliament. Already by the end of the sixteenth century, as a result of rising expenditures for military actions in the Mediterranean, parliamentary taxation had reached the sum of almost 300,000 scudi a year. The tax revenue from the wheat trade had generated as much as 500,000 scudi in a good year (Titone 1955: 321-331). Soon, however, it became increasingly apparent that these two sources were inadequate in meeting increasing military expenditures for European wars (Koenigsberger 1971: 80-93; Petino 1946). As a result, viceroys in Sicily were ordered "to sell everything which can be sold and even which cannot be sold"(quoted in Mack Smith 1968 [1988]: 220).

The practice of selling regalian rights, including the baronial obligation of knight services, was another source of income for the Spanish monarchy in Sicily. But in the course of the seventeenth century, it became "a predatory attack" on vice-regal administration itself (Mack Smith 1968 [1988]: 139). Government offices, ranging from the Master of the Harbor to the Master Notary of the Great Court to the purveyor of coal to the royal mint, were either sold to the highest bidder or leased or pledged to creditors of the Spanish government. Even domanial towns with their taxes and profits of jurisdiction became marketable commodities, although the stiff opposition of local residents prevented the sale to reach the proportions it did under the Aragonese monarch in the early fifteenth century when some towns were sold seven or eight times. In 1621,

the occasional sale of criminal and civil jurisdiction (the *merum et mistum imperium*) to individual barons became an established legal practice, further strengthening the local independence of the aristocracy and the seigneurial courts. Hence, if the financial and military demands of the Spanish empire stimulated the centralization of vice-regal administration, the changing nature of those demands undermined that very effort.

The "predatory attack" did not, however, exhaust Sicilian economic resources. Indeed, the seventeenth century was the period when not only new palaces and churches were built by private individuals but also vast public works projects were carried out by local officials and scores of new villages were established by old and new barons acting as economic and political entrepreneurs. But the secure investment of commercial profits in regalian rights served to reduce the availability of capital for the transformation of Sicilian technological inventions and patents into an industrial revolution.³ Political simony not only took out of beneficial circulation large sums of money but also created additional economic difficulties for the vice-regal administration as holders of new posts and titles claimed exemptions from taxation or other privileges. The succession of Franco-Bourbons, Savoy and Austrian Hapsburg monarchs that followed the disintegration of the Spanish Hapsburg rule of Sicily did not put a stop to the sale of government posts -- it simply increased their prices or made them into inheritable property.

³ This topic has not received the attention it merits, but the research of Adelaide Baviera Albanese (1974) and of Epstein (1992) remains a good starting point. The entrepreneurial activities required to start and sustain successfully, over several centuries, the sugar and silk industries and what made the Val Demone region (Messina and surrounding areas) as the most economically advanced area of Sicily until about the eighteenth century are yet to be fully investigated and remain not well understood.

By the second half of the eighteenth century, the administrative machinery of the Patrimony was still that fashioned by sixteenth century viceroys. But the practice of political simony had built up year by year like so many non- vice-regal "pivots" within the Patrimony that vice-regal administration, while keeping its earlier form, had been drained of its substance (Brancato 1946-1947: 255-265; see Arnolfini 1962). Hence, though the viceroy of Sicily continued to represent and claim the power of sovereign, he enjoyed but a very small portion of it. The parliamentary barons could still flatter themselves, in the words of contemporary jurists, as being "associates of the sovereign" in governing Sicily (quoted in Pontieri 1943: 267; see also Santamaria 1881: 123). In 1770, their territorial jurisdiction extended to about 780,000 of the approximately 1,176,000 people living in villages and towns; some 280 of the 367 villages and towns were under baronial jurisdiction.

The claim of baronial jurisdiction was based on the argument that the original Norman barons had strictly been not feudatories of Count Roger, but rather his comrades-in-arms (*commilitones*) who, by helping him to conquer Sicily, had won for themselves a share of sovereignty in the land (Mack 1968: 291). In the thirteenth century, barons successfully pressured King Frederick III, the Aragonese monarch, to extend the primogeniture law of succession to permit the inheritance of fiefs to collateral branches of childless barons (*Si Aliquem* law) and the almost unrestricted alienation or sale of fiefs (*Volentes* law). These laws, which became part of the *Capitula regni Siciliae* or liberties of Sicily that succeeding viceroys swore to uphold, admitted, in effect, that fiefs could lapse to the crown only under exceptional circumstances. The opportunity to become a

parliamentary baron was thus opened to anyone⁴ with sufficient capital to purchase a fief, to pay for a royal license to people it (*licentia populandi*) and to organize the land under baronial jurisdiction as an economic enterprise. Possession of land, and not feudal title or ancient lineage as such, carried with it the right to govern people living on it.

At the same time, the internal organization of each fief, at least since the thirteenth century, was subject to an agreement or covenant (*communion* or *pactum*) between the baron and the settlers, specifying the rights and duties of each. The same covenantal arrangements applied to the territorial jurisdiction of ecclesiastical lords, though their legal claims to lordship differed from those of parliamentary barons. The agreement, which became known as the “Pact of the Land” or the “Chapters of the Land,” was stipulated with minor exceptions in the language common to the contracting parties “for precaution, certitude or firmness” (from a 1482 agreement, quoted in Garufi 1947:25). It represented the constitution of individual lands or settlements. Its foundation rested on its “stickiness” or congruency to the *metis* of Sicilians, which include the “skills, culture, norms, and conventions, which are shaped by the experiences of the individual” (Boettke, Coyne, and Leeson 2008: 338) – what earlier the Romans called *mos maiorum*.

A baron could sell the fief to someone else but the charter of the village remained in force and the basic rights of villagers could not be changed without the consent of all the family heads. Civil disputes between barons and villagers were adjudicated by the

⁴ The only restriction for a female lord -- and there were many (and not just the queen who was entitled to rule over, through her household and local representatives and agents, her own economic and political enterprises composing the so called “*camera reginale*”) who either inherited or bought fiefs -- was that she could not sit in person in the baronial or military house of parliament. See Santoro 2003.

judicial branch of the Patrimony, as chapters of the land were generally endorsed by the viceroy. Thus, the meaning of the manorial system in Sicily had reference to the rights and duties that each baron enjoyed under the constitution of each fief. Territorial jurisdiction of a baron was constrained by the constitution of each fief and by the conventions (*consuetudines*) that surrounded such arrangements (see also LaMantia 1993; Romano 1993).

To be sure, the earliest covenantal arrangements, generally involving an exchange of protection and long-term employment for labor services, had many of the master-servant relationships of villinage (Peri 1965). The need to have the consent of both contracting parties in order to alter the decision making capabilities assigned under a village charter also set limits upon the development of a new charter to meet the changing economic situation. In turn, settlers faced the critical problem of trying both to insure the integrity of the mutually agreed terms and conditions and to prevent unilateral changes in the contractual arrangements at the same time when, given the particular division of labor and the inequalities of conditions, they were in a markedly asymmetrical system of interdependence with the baron.

Yet the practice of grounding the constitution of settlements upon the consent of the barons and the settlers, and, correlatively, the practice of assigning the conduct of communal affairs to local residents acted not only as a constraint to baronial despotism but also as an incentive for the barons and settlers alike to sustain mutually productive relationships (Genuardi 1911: 43; Verdirame 1905: 45-46). It became not uncommon for barons and local residents to come to the aid of each other in times of distress. For

example, in 1559 all the family heads of a town under the lordship of the marquis of Geraci, assembled as the “regular parliament” or civic council, agreed to levy additional imposts upon themselves in order to rescue the young marquis from heavy debts contracted by his deceased father as ambassador to Spain (Cancila 1974: 15-16). In other instances, barons came to the rescue of their tenants by shouldering or cancelling payment of their taxes during bad harvest or drought years (Titone 1961: 35-40). Moreover, whenever communal officials were involved in renegotiating the terms and conditions of the contractual arrangement on behalf of the villagers and whenever villagers revolted *en masse* against their barons for levying what seemed intolerable increases in imposts, the protestors justified their acts of resistance or civil disobedience, and appealed for the resolution of conflict, on the necessity to realize their joint advantages with the lord (Ferrigno 1915-1916: 118-146; Guarnieri 1889: 293-314; Pupillo-Barrese 1903: 38, 64). The positive aspects of covenantal arrangements also entered in many ways into the pattern of local life to become an important feature of the Sicilian political tradition and culture.⁵

Villainage had disappeared by the thirteenth century though tenant farmers, as a general rule, were still subject to restrictions such as bringing their wheat to the lord’s mill and grapes to the lord’s wine press. The realization of joint advantages between barons and villagers and the gradual transformation of the chapters of the land were also facilitated by the scarcity of labor resulting from the eviction of Muslims in the thirteenth century as well as by recurrent plagues, internal migration of workers in search of more

⁵ This was by no means confined to Sicily. See Castiglione 2005; Sabetti 2014.

favorable employment opportunities, the growth of the market economy and the increasing use of money as the medium of exchange. By the sixteenth century under “pressures generated by self-interest,” (Salvioli 1902: 390) master-servant relationships gave way to relationships between large landlords, on the one hand, and tenant sharecroppers, wage earners and small independent farmers or copyholders (*burgisi*) on the other brought many baronial houses into bankruptcy while baronial towns became depopulated and, in some cases, disappeared (Salvioli 1902: 390). By the end of the sixteenth century, a special parliamentary commission called the Deputation of States was set up to administer and, in some cases, sell bankrupt or depopulated baronies (see Tricoli 1966).

At the same time, however, the availability of capital resulting from the new economic situation, the increasing demands for Sicilian wheat and other products in Europe, the growth of population stimulated, in part, by the influx of Greek and Albanian refugees⁶ from the Turkish empire and the relatively open entry rule for becoming a parliamentary baron joined together to make the seventeenth century “the golden age of baronial jurisdiction” and, at the same time, to sustain Sicily’s integrated domestic market and its strong links with foreign markets. In the course of this century, old and new barons risked enormous sums of money to reorganize bankrupt fiefs and to establish new ones – in essence, to develop economically and politically the Sicilian interior. In turn, this “frontier movement” had the effect of renewing and strengthening the number,

⁶ Titone (1955: 81) speculates that for these settlers the establishment of new baronial communities “became that which the American colonies came to mean for rebels and refugees of so many European countries.”

position and title of parliamentary barons at the very time when, as a result of bankrupt or depopulated fiefs, bearers of ancient titles were losing standing as associates of the sovereign and when, as a result of the sale of regalian rights, the inflated number of titled Sicilians was eroding the prestige attached to titles of nobility. While the ecclesiastical and the domanial houses of parliament continued to have not more than 63 and 43 members respectively, the baronial house increased its membership from 72 in 1556 to 277 by 1800. Some barons represented as many as twenty fiefs.

The critical part played by old and new barons in the colonization of the Sicilian interior and in its economic development has led different historians of different ideological persuasions to refer to these Sicilians as “bold and courageous agrarian capitalists” (Pontieri 1943: 52-55; Renda 1963: 18-25; Titone 1955). Yet, barons were not the only bold and courageous entrepreneurs. Though we know less about the settlers, in part because of the assumption of self-sufficiency has led many researchers to neglect the capital requirements of frontier settlements, they were also engaged in the task of creating capital (see also Bauer 2000: 11). Scattered evidence in several works suggests that many of the settlers were able to outfit themselves with their own resources, literally taking their capital equipment with them (see Garufi 1922; Gattuso 1976; Testa 1973). In any case, it seems irrefragable that the colonization and development of the Sicilian interior led both barons and settlers to contract or covenant consciously with one another to create new communities and economies.

4 The Constitution of Fiefs as Economic and Political Enterprises

It is difficult to know the precise number of fiefs either resettled or built anew.

Data which may be subject to considerable inaccuracy suggest that from 1583 to 1650, some 120 cultivated fiefs were settled; from 1573 to 1652, another 88 were added; from 1653 to 1714 some 20 more fiefs became feudal towns (Garufi 1947: 59-64; Titone 1955: 51-52). This frontier movement continued, albeit, with less vigor, until 1790. Moreover, the chapters of the land varied from settlement to settlement. Yet though no two Sicilian settlements were constituted and governed in exactly the same way, there was an underlying similarity. The essential rights and duties of the baron and the villagers were usually the same in each constitution. The articles of each charter dealt with the baron's feudal rights, the villagers' feudal rights, property rights and the organization of village life.

At the beginning of each settlement, the baron gave land for the erection of the village and for the private use of each settler. Within the first two or three years of the establishment of the settlement, each settler was obliged to begin construction of his house. For a period that varied from two to ten years, the villagers were free of feudal obligations toward the baron and of local imposts for the parliamentary donatives. After that period, the baron claimed and the settlers were obliged to provide the following: 1) services without remuneration (yearly *angaria*) such as taking one load of hay to the manor and presenting the lord with a chicken on a specific feast day; 2) services with remuneration (yearly *perangaria*) such as the sale of hens and capons first to the lord and the lord's use of settlers' mules and donkeys especially during harvest time on payment of a daily fee; and 3) "special services" ranging from none at all to some services such as

a small contribution to the “ransom fund of the baron” on the birth of the first son of a settler family. The proportion of imposts paid by local residents varied from settlement to settlement. Since baronial and domanial towns were assigned an equal share of the parliamentary donatives, the steady increase in the number of baronial towns had the effect of lightening disproportionately the fiscal burden of people living under baronial jurisdiction.

In turn, each villager enjoyed the rights specified under the village charter. These rights included the following liberties: 1) control, use and exchange of one’s possessions in and beyond the village; 2) any male settler over the age of majority had the right to be a public official; 3) liberty of movement; and 4) no claim could be made on a villager beyond those specified in the chapters of the land.

The division of the fief’s natural resources was generally between the private property of the baron and the villagers, and the collective resources or civic usufruct rights that each family member had under the chapters of the land. The collective resource (originally known as *communio pro indiviso*) were inherent in the *jura civitatis* and in part for this reason villagers were also known as “communists.” In the course of time the sharing of the same collective resources such as trees gave rise to a complex configurations of uses.⁷

Like feudal rights and duties, the division and cultivation of land varied according to the competitive pressures of peopling fiefs. In addition to the feudal and tax

⁷ The complexity of users’ rights in trees is effectively portrayed, albeit from a Roman law jurisprudence, by the now classic work of Camillo Giardina (1941). Giardina’s work has not received the attention it merits by those interested in governing the commons.

exemptions, some barons attracted settlers by granting them strips of land around the village as private property. As a general rule, however, the principal form of settlers' rural private property was the long leasehold, the emphyteusis or copyhold contract (the *enfiteusi*), granted in exchange for a fixed annual rent. Under the emphyteusis the land could not be taken away from the cultivator as long as he, his family or his heirs cultivated it. It was this particular long-term lease that gave rise to the small landowning class in Sicily: the *burgisi*. A system of sharecropping was the common method of working the baron's land. The baron generally supplied the land, the seed and the fertilizer while the peasant supplied his labor and animals. The produce was often shared equally between the two. The decision of what to cultivate was arrived at between the landowner or his agent and the cultivator. This contract lasted several years.

Sicilian jurisprudence and convention had come to regard civic usufructs as essential rights that no prince or parliament could take away without the unanimous consent of villagers. Thus each "communist" enjoyed, subject to the specifications issued by local officials (the *baiulus*) for the maintenance and protection of a safe yield, the following civic usufruct or common property rights: 1) grazing rights (*ius pascendi* or *compascendi*); 2) wood rights, including the gathering of dead wood for fuel, of *disa* to make brooms, or *giunchi* to make chairs and baskets; 3) "fruit" rights, including the gathering of acorn to feed animals, and "wild herbs" such as mushrooms, cicorie, asparagus and liquorice; 4) water rights for water to be used for animals and humans, as well as irrigation; 5) "extractive" rights to quarry stones and gypsum; and 6) *ristoppiare* and *spigolare*, the gathering of hay and stalks of wheat at harvest time. The extent of

these rights varied, however, according to the constitution of each fief. As a general rule, the larger the civic usufructs enjoyed, the greater the likelihood for yearly *angarie* and *perangarie*. Thus, for example, the “communists” of Roccapalumba in the Palermo hinterland enjoyed relatively few common property rights but were not burdened with yearly *angarie* and *perangarie* (Garufi 1922; also see Santamaria 1881: 318-321).

Facilities for Determining, Enforcing and Altering Chapters of the Land

The prerogatives to determine and enforce these rights were assigned to a board of local public officials appointed by the baron and chosen among villagers with at least one year of residence. The number of officials varied according to the size of the community. A board of local officials generally included a captain in charge of peace and security on the fief, a judge who presided over the seigneurial court, a notary public who acted as secretary, the *bagli* who supervised the use of “common property” resources and at least three jurors who, among others, dealt with matters of public interest and collected revenues on behalf of the baron and the viceregal administration. The decision of what to tax rested with each baron, while the proportion of the parliamentary donatives paid by each community was calculated by the Deputation of the Realm on the basis of the census data, the famous *riveli*.

A second body, the civic council, known at times as “the regular parliament” or “general assembly,” was composed of all the townsfolk. It was convened by the baron to decide on matters of importance. While the entire population did not elect its municipal officials, it maintained through the civic council “a watching brief” over the conduct of local officials; jurors often had to justify their acts to both the baron and “the regular

parliament” (Diecidue 1966: 89-151; Verdirame 1905: 47-54). Thus community life in the new settlements was characterized by specialization and jointness of efforts between barons and settlers, including the sharing, in various degrees, of the residual claims to the earnings of baronial jurisdiction as an economic enterprise.

By the eighteenth century, the basic rights and duties of villagers and barons and the facilities to determine, enforce and alter them had become so widespread and recognized that some fiefs were peopled without written agreements. Also by that time, some inherent weaknesses in the constitution of established fiefs had reached staggering proportions.

5 Sources of Institutional Weakness and Failure

The extent to which baronial jurisdiction functioned according to its design and performance criteria depended, in part, upon the willingness or interest of each baron to exercise his (or her) residual claimancy and control over the management of the fief so as to constrain those who found it to their advantage to shirk their efforts and function as free riders in the production process (for a more general treatment, Salter 2015). Yet there are at least two reasons why some barons had incentives to shirk these very responsibilities and to turn over the management of their estates to rentiers in exchange for a constant share of the estate earnings. First, while first-born sons stood to inherit baronies, they did not have sole claims to baronial earnings. Their brothers and sisters were entitled to receive at least one-third of those earnings without, however, shouldering any responsibility or risk for the economic productivity of the estate. Second, some barons found it difficult to resist the attraction provided by the tax-free position of

Palermo and, thus, tended to abandon their fiefs to establish themselves in the capital city.

There thus developed a situation by the eighteenth century whereby many barons could not, in the words of the Sicilian economist Abbé Paolo Balsamo, "be persuaded that without the necessary attention, labor bestowed, and prudence, their forefathers could neither have acquired, nor bequeathed that to their descendants which secures them from the chilling hand of poverty" (Balsamo 1809[1811]: 13). In turn, leasing estates for a very short period helped barons to keep abreast of inflation but also discouraged rentiers (the *gabelloti*) from managing the estates as if they were their own (cf. for Lombardy, Greenfield 1934: 19-26). As Abbé Balsamo warned the prince of Fitalia, an absentee lord who had devised plans to improve land management and cultivation of his estate, such plans "would never be thoroughly completed until proprietors paraded less with expensive carriages and horses on (fashionable drives in Palermo), but were oftener in the saddle to visit their rich and capable estates" (Balsamo 1809[1811]: 10-11).

In such circumstances, shirking and free riding became widespread and, in certain cases, assumed major proportions. Some barons unilaterally cancelled *enfiteusi* contracts when they found their fixed income sharply reduced by inflation. Baronial agents left to themselves were prone to do the same. In order to make quick returns, both rentiers and cultivators often under-invested in the factors of production (Sergio 1777[1962]: 7-9). Some boards of local officials became self-perpetuating local oligarchies operating with immunity from barons and villagers alike (e.g. Li Vecchi 1975). Villagers found that recourse to the vice-regal administration to command the services of impartial officials or

to sustain existing agreements against new demands and unilateral cancellations of contracts was neither always readily available nor always impartial (Guarnieri 1892: 145).

In 1752, the Spanish Bourbon monarch ratified the arbitrary abrogation of *enfiteusi* by barons without any compensation to dispossessed cultivators in exchange for baronial support -- further eroding the integrity of the Patrimony. In addition, as new knowledge and technological innovation expanded, attempts to alter authority assigned under the charters of settlements so as to take into account new possibilities proved to be difficult and costly undertakings for both village representatives and barons (for protracted efforts to modify by mutual consent original agreements, e.g. Battaglia 1895).

Thus the extent to which the manorial system in Sicily did not function "as it should" was due not only to a lack of baronial willingness or interest to exercise residual authority and control over the management of fiefs but also to the failure of vice-regal administration to provide the supporting infrastructures for the (re)formulation and maintenance of chapters of the land. Only exposure to the competitive pressures existing in the "frontier movement" and in the wheat market served as effective means to bias or rig the structure of individual and family incentives toward a consideration of a wider community of interests and a longer time horizon.

6 Transition to Modernity: Fundamental Changes in the Constitution of the Realm

By the 1770's, a concern for the failings of Sicilian government and the consequences that these were having upon Sicilian life and economy was becoming

widespread among members of the baronial class. This concern was stimulated by the writings of publicists who, as ecclesiastics, noblemen, or jurists, had already special interests in economics, education and law. The study of Sicilian history, coupled with the discovery of Blackstone, Hume and Adam Smith, led the great majority of Sicilian publicists to conclude that governmental reforms advantageous to all could be introduced in accordance with the Sicilian political tradition.

A concern for the failings of Sicilian government, filtered through the Neapolitan political tradition, led Bourbon officials to antithetical conclusions. In order to repair those failings, they reasoned, it was necessary to bring down the entire edifice of Sicilian government -- in effect, to extend absolutist rule over the island. In the past, such attempts had been incidental to royal or imperial financial policies. Monarchs had been less concerned with the suppression of parliament, baronial jurisdiction and local laws and privileges -- known as "freedoms" -- than in making money out of them. Now, royal reforms intended to sweep away the very *Capitula regni Siciliae*. Neapolitan remedial policy was thus unprecedented in both intent and scope.

The marquis Domenico Caracciolo of Villamaina appeared to the Bourbon court as the best Neapolitan official to possess the skills and the knowledge necessary to effect basic changes in Sicily. As the Neapolitan envoy in Paris for more than a decade, the sixty-six year old former magistrate had developed an admiration for the ability with which successive French monarchs had curtailed seigniorial jurisdiction and centralized the organization of the French state. The study of French political practices and ideas thus led the marquis of Villamaina to conclude that in order to repair Sicilian government and

economy it was necessary "to liquidate the heredity of the past" (Pontieri 1943: 164). No intermediate power, secondary organizations or deliberative assemblies should stand in between the monarch and the Sicilian people. Caracciolo became viceroy in 1781.

As soon as he reached Sicily, the new viceroy confounded in indiscriminate hatred all things Sicilian (Renda 1974: 91-93) -- both the worst and what was best in the Sicilian political tradition. He attempted to check baronial abuses but also to undermine the political covenant between the monarch and the baron. He sought to reduce the gross inequalities in parliamentary taxation and the accumulated immunities of local corporations but also to erase representative and secondary institutions. He tried to break down class distinctions but also to suppress the political rights and liberties of both the aristocracy and the lowest classes. Like the French he admired and the Neapolitans he served, the marquis of Villamaina could envisage political equality and free trade but could not envisage political liberty and free institutions. By declaring himself the enemy at once of Sicilian barons and Sicilian institutions, Caracciolo transformed baronial opposition to tax reforms into a defense of the *Capitula regni Siciliae*. As a result, baronial pressures on Sicilian officials in Naples to have the Bourbon court recall the viceroy received the support of the very same people Caracciolo thought needed to be delivered from bondage. If the marquis of Villamaina failed "to liquidate the heredity of the past," he did, however, introduce several reforms that, among others, strengthened the reach of viceregal administration and brought baronial jurisdiction back to better performance levels.

At the same time, before leaving Sicily in 1786 Caracciolo prevailed upon King Ferdinand to force the royal courts to reinterpret the thirteenth century laws *Si Aliquem* and *Volentes* that had become the legal basis of baronial jurisdiction. In 1788, the Bourbon monarch issued a pragmatic sanction or royal decree to the effect that *Volentes* (which allowed for fiefs to be sold in the open market) had made no fundamental change in feudal obligations. The original Norman barons had been feudatories and comrades-in-arms of Count Roger as Sicilian jurisprudence claimed. The fiefs were held in return for duties performed and could not be bequeathed or alienated like allodial property. Royal confirmation and a special payment were needed before they could be inherited. Without proper succession and entitlement, the fiefs should revert to the crown.

Events associated with the French revolution introduced critical variations in the conflict situation between the Bourbon crown and the Sicilian aristocracy. First, war compelled the royal family and court to seek refuge in Sicily and to depend upon money voted by the Sicilian parliament. Second, the Bourbon's flight to Sicily occurred at a time when, in part as a result of Caracciolo's reforms, most barons had acquired a new awareness of their constitutional rights. The parliamentary barons supported, financially and without stint, the Bourbon crown against revolutionary France. But they, and the ecclesiastical lords, resented the Neapolitans' failure to acknowledge fully the existence of a separate Sicilian nation and identity; they equally opposed the crown's claim that only the support of the royally hand-picked domanial house was sufficient to vote supply. Third, the British "occupation" of Sicily in 1806 not only strengthened Sicilian defense against French invasion from the Calabrian coast and furnished the Bourbon king with

much-needed subsidies from the British government, but also gave Sicilian noblemen and publicists like the prince of Castelnuovo and Abbé Balsamo an opportunity to renew their ties with Britain considered as "Sicily's sister island."

In 1810, the one-hundred and twenty-fifth parliament met to hear a speech from the throne extolling the *Capitula regni Siciliae* -- "institutions lost by other nations for lack of public spirit and national energy and preserved only in the two most famous islands in the world, Great Britain and Sicily" (quoted in Rosselli 1956: 14). This doffing of the hat to Sicilian political tradition was accompanied by a call for an extraordinary donative of 360,000 ounces of gold a year and a new distribution of taxes. The barons, led by the prince of Belmonte, the prince of Castelnuovo and the prince of Cassaro and supported by the ecclesiastical lords, reduced the royal request to half and presented a counterplan for taxation which went beyond the very tax reforms they or previous barons had bitterly opposed during Caracciolo's viceroyalty. Their counterplan did away with the eighteen different donatives as too cumbersome to collect and called for a single tax of five percent on the income of all the real estate outside of Palermo, including the barons' as well as the king's.

Rather than face the baronial challenge or turn to more British subsidies, the Bourbon monarch now tried to increase his revenues without parliamentary consent. A majority of peers requested the king to withdraw the non-parliamentary taxation and to trust to the bounty of parliament for the supply of his wants. King Ferdinand responded by ordering the arrest and exile of the leaders of the protesting lords. At this point the British minister plenipotentiary and commander of the British army in Sicily, the Whig

nobleman William Bentinck, intervened in the struggle between the court and parliament. Sympathetic to what was to become known as "the constitutionalist party" and fearful lest the Sicilians should seek support from the French, Bentinck successfully pressured King Ferdinand to set free the imprisoned barons, to withdraw the extra-parliamentary taxes and to replace the Neapolitan ministry with a Sicilian ministry. While Lord Bentinck became, in effect, the viceroy of Sicily, the new ministry, now made up of three of the five imprisoned barons, called parliament together in June 1812. The barons, led by Belmonte and Castelnovo and aided by Balsamo, turned to the British constitution and the very terminology of British politics to deal once and for all with Neapolitan designs over Sicily and to adapt the medieval Sicilian constitution to modern conditions.

"The 1812 Anglo-Sicilian constitution" swept away baronial jurisdiction and feudal dues and privileges. The meaning of fiefs changed from a bundle of rights enjoyed by barons and villagers alike to private property enjoyed by the barons alone. The three houses of parliament were replaced by a House of Commons and a House of Lords. Money bills were to originate only in the Commons. The power of making laws resided in parliament while the king retained executive authority, including the right to dissolve parliament. The administration of justice was entrusted to a body of independent judges; everyone was equal before the law and no one could be imprisoned without due process. While Sicily was divided into twenty-three districts, municipal institutions were recast upon principles of local self-government. The realm of Sicily was declared independent of the realm of Naples and of every other country or dominion.

In Sicilian historiography the abolition of feudalism has often been interpreted as follows: "The 1812 parliament claimed to have freed a population from serfdom when, in fact, it was already free... The truth is that Sicilian barons took away that freedom and, in return, gave nothing to the population" (Salvioli 1902: 339). It is true that the abolition of the commons (or civic usufruct rights) countervailed the long—standing canon in Sicilian jurisprudence that no prince or assembly could take away such rights from villagers without their consent, transformed fiefs into allodial or private properties and gave barons extensive proprietary authority over natural resources. But the abolition of feudal laws and privileges also gave barons very limited scope and domain of authority over the local population under two conditions. A free labor market together with the reconstituted communal government and parliament could, potentially, if acted upon, represent a serious "devaluation"⁸ of the rural proprietorship of large landowners as a determinant of authority and power among Sicilians. But these conditions did not have time to materialize. Hence, more than the abolition of feudalism as such, it was the chain of events that culminated in the destruction of Sicilian self-government that undermined or thwarted what is often referred to, mistakenly, as "the failure of rise of the Western world" in Sicily.

Before the Anglo-Sicilian constitution took effect, critical policy differences emerged between Belmonte, who could be compared to "a great Whig nobleman," and Castelnovo, who drew inspiration from Republican Rome and America (Roselli 1956: 71). Soon after the election of the first reform parliament in 1813, both Belmonte and

⁸ Brian Loveman's framework of analysis (1973) on this point is still a worthy introduction.

Castelnuovo faced *at once* all the problems that had accompanied the British unreformed parliament between 1604 and 1832 and that were to accompany the British reformed parliament after the abolition of "rotten" and "pocket" boroughs in 1832. As a result, they experienced serious difficulties in checking King Ferdinand's efforts to wreck the constitution, in establishing and following the principle of collective cabinet responsibility and in maintaining parliamentary support for their ministry in the face of an emerging "Jacobin party" in the Commons and a resurgent "*status quo ante Caracciolo*" party in the Lords. By 1814, constitutional barons could neither make use of parliament nor manage public affairs without it. What they needed was a longer time span in order to work out or solve the accumulation of governmental issues and problems generated by the constitutional reform experiment; but time they did not have.

Lord Bentinck's intervention in Sicilian affairs had given Belmonte and Castelnuovo hope that British support would serve to maintain conditions favourable to the long-term survival of the Anglo-Sicilian constitution. It was, however, an ill-founded hope. British policy in Italy, anchored as it was to Austria, ran precisely against the very survival of the Sicilian experiment in constitutional economy. By 1814, with the specter of Napoleonic domination of Europe receding in the background, the same military exigencies that had earlier led British foreign minister Castlereagh to support Bentinck's efforts now led him to do the opposite. Bentinck was dismissed and replaced with a minister who had the same regard for the 1812 constitution as King Ferdinand. Thus Sicily's experiment in constitutional economy was ultimately decided not at Palermo but at the Congress of Vienna.

In December 1816 the Bourbon king ceased to be designated as Ferdinand the Fourth of Naples and Third of Sicily and became known as Ferdinand I of the new kingdom of the Two Sicilies. The Sicilian parliament was abolished, as was the Sicilian flag. The Napoleonic code and the system of French administration imposed on the Neapolitan provinces during the French occupation were now found to be useful instruments to extend absolutist rule over Sicily. Seven Sicilian provinces were created and administered by provincial intendants and non-elected communal councils.

While the very abolition of feudalism served to pry Sicily loose from her political tradition, it took the Congress of Vienna to make of Sicily, in the famous words of a contemporary historian, Luigi Blanch, "a posthumous conquest of Napoleon" (quoted in Roselli 1956: 71). The enforcement of regulations issued from Naples became, however, subject to serious institutional weakness and failure. At the same time, control over agricultural resources now gave Sicilian barons and their agents a political power they never had before. By the 1870's, the situation had changed little. As Sidney Sonnino, a travelling companion of Leopoldo Franchetti, concluded his classic study of Sicilian rural conditions in 1876:

The situation we found in 1860 persists today ... We have legalized the existing oppression and are assuring the impunity of the oppressors. In modern societies, tyranny of the law is restrained by fears of remedies outside the law. In Sicily, with our institutions patterned on liberal formalism rather than informed by a true spirit of liberty, we have furnished the oppressing classes [with] the legal means to defend their oppression and to take over all the public positions by the use and abuse of power (*forza*) that was and continues to be in their hands. We are now strengthening the oppressors' hands by reassuring them that, no matter how far they push their oppression, we will not tolerate any kind of illegal remedy, while there can be no legal remedy, for they have legality on their side (1877[1925]: 39).

As a result, Sicilian peasants found themselves locked in what Sonnino called "an iron circle," or the many-person analogue to the prisoner's dilemma of modern game theory. On one hand, they suffered labor contracts imposed by the monopoly of large landowners or their agents and supported by the arms of the State; on the other, they bore the cost of government, without voice and with little benefit. The reconstitution of agricultural and communal activities as a function of the new structure of centralized authority exposed the great majority of the Sicilian people to conditions of life devoid of opportunities and remedies for enhancing their long-term welfare potential. But the same reconstitution also failed over time to bring private rates of return on economic activities into parity with social returns and, ultimately, thwarted economic growth altogether. Thus, in the end, Sicilian landowners as well became locked into Sonnino's "iron circle."

The full emergence of private property in land (of former fiefs) and a free labor market could not, by themselves, assure and sustain modern economic and political development in Sicily largely because the creation of a legal-rational monocentric order *à la* Max Weber in 1816 reiterated the rule of the few over many. This way the modern political and legal order represented a breakdown and not the beginning of "modernization." The creation of a united Italy reaffirmed and extended the legal-rational monocentric order on an unwilling people so that it continued to be a poorly understood source of weakness and failure.

7 Conclusion

This chapter suggests that the struggle to constitute and sustain productive orders over the course of more than 600 years of Sicilian history is a complex one, not subject to sweeping generalizations. But there are still some conclusions that can be offered. First, it is possible to remove the shadows and false lights that have, for so a long time, obscured an appreciation of the struggle of people to constitute and sustain productive orders in Sicily. Second, the island in its long history was a veritable laboratory of collective undertakings. The success and failure, the resilience and weakness, of these efforts remain to be fully explored but there is no denying the capacity of successive generations of people to engage in the struggle to undertake various forms of collective efforts to advance human welfare and economic growth. Third, the political and economic entrepreneurship sketched in the paper may not entirely fit Israel Kirzner's characterization, but entrepreneurship and innovation have a long history in Sicily, if we are willing to pursue the path opened by the research of the late Stephan Epstein (1992, and see also 2000). The enormous investment of time and archival work by Epstein shows that it is possible to diligently uncover complex configurations of productive economic activities throughout the island in premodern times.

A fourth implication of the analysis is that, with our empiricist epistemology, we need to resist a positivist and unproblematic view of the monopoly of state powers and come to appreciate what Sonnino observed in 1876 (also echoed in Santi Romano's analysis of Sardinia [1959] and, more broadly by James C. Scott's research in Southeast Asia [2009]). The prevailing wisdom about the basic problem in Sicily, as in the South, is that with the making of a united Italy centralized government and administration did not

reach far enough in Sicily. We suggest instead that the basic problem was the opposite: the arms of the state tried to reach too far in the lives of an unwilling and subject people to make many people worse off.

Finally, a more general conclusion follows. We should be more sensitive to an important lesson from the Ostrom research program: that people, in some basic sense, build their own social and political realities and opportunities, and what officialdom in the formal regime may do is only part of the story. If some concepts or institutions do not work, or are rigged against them, ordinary people will make their own adaptations and these may become rather perverse when officialdom thinks it can govern but people go their own way.

THE POLITICAL ECONOMY OF ITALIAN UNIFICATION IN SICILY: INSECURITY OF PROPERTY RIGHTS AND THE ROLE OF LAND REFORM

1 Introduction

Why have institutions yielded poor economic and political outcomes in Sicily relative to northern Italy? Since the publication of Leopoldo Franchetti and Sidney Sonnino's *Inchiesta in Sicilia* ("Inquiry into Sicily" 1877 [1974]), which investigated the political and economic conditions of Sicily, social scientists across various disciplines have debated this question. Answers to this question in the recent literature have emphasized two determinants contributing to modern Sicily's relatively poor institutional performance.⁹ One determinant is the lack of social capital *prior* to Italy's unification (Putnam 1993; Gambetta 1988, 1993; see also Banfield 1958). A second determinant is public policy implemented during the political process of Italian unification. This paper challenges the claim that Sicily's poor institutional performance can be explained by a lack of social capital prior to Italian unification. I argue that economic and political outcomes in Sicily are attributed to a public policy of land reform implemented during the political process of Italian unification. Land reform resulted in regulatory capture by Sicily's landed elites, undermining the government's ability to secure and enforce of property rights, resulting in poor institutional performance in Sicily.

⁹ According to data from *Istituto Nazionale di Statistica* (Istat), a 2012 comparison of GDP per capita by region places the region of Lombardy in the north at €33,000 Euros and Sicily at €16,800 Euros, while for Northern-Central Italy as a whole, GDP per capita is €31,100 Euros while Southern Italy's GDP per capita is €17,400 Euros. <http://www.istat.it>

This paper proceeds as follows. In Section II, I engage the literature regarding Sicilian institutions both before and after Italian unification. Section III develops a theoretical framework to understand how institutional arrangements in Sicily evolved and adapted to changing economic conditions prior to and during Italian unification. Section IV provides an institutional analysis of feudal Sicily. Using rates of urbanization as a proxy of economic development to compare Tuscany and Sicily, I argue that Sicily's institutional performance during and after Italian unification cannot be explained by a lack of social capital. Section V demonstrates how land reform by political discretion inhibited the adaptive and evolutionary process of institutional change that existed in Sicily's pre-unification period. Section VI concludes with future suggestions for research.

Admittedly, quantitative data before the unification of Italy is limited. I attempt to address this problem by drawing on historical examples, which of course are not always applicable across all of Sicily. Utilizing insights from Austrian economics, Public Choice, and New Institutional Economics, I use economic theory to illustrate general historical trends that are applicable to Sicily as a whole. In illustrating general historical trends, I offer comparative insight into institutional performance in Italy before and after unification.

2 Literature Review

The recent literature explaining Sicily's economic and political performance, relative to northern Italy, emphasizes two different causes with regards to institutions in Sicily: social capital and public policy. In his highly influential and important work on democratic institutions in Italy, Putnam (1993) emphasizes that the economic and

political divergence between the northern and southern parts of the Italian peninsula can be traced to their medieval institutional heritages. In northern Italy, the medieval city-states fostered an environment of “civic republicanism” and horizontal integration whereas the south had inherited a heritage of autocracy and vertical integration of society (1993: 121-136). As a result, political institutions in southern Italy undermined the conditions of social cooperation and the formation of social capital. According to Putnam, social capital embodies norms of reciprocity and civic engagement that facilitate trustworthiness in social interaction. Trust, an essential component of social capital, “lubricates cooperation” by lowering the transactions costs of mutually beneficial exchange. “The greater the level of trust within a community, the greater the likelihood of cooperation” (Putnam: 171). From this perspective, the lack of social capital is a *cause* of poorly functioning institutions in Sicily. This causal mechanism is depicted below:

Lack of Social Capital → Poor Institutions → Poor Institutional Performance

Following Putnam, this approach to explaining Sicily’s institutional performance before Italian unification has been extended to understanding how institutions operated after unification. The argument here is that Sicily’s medieval history exhibits a path dependence that explains institutional outcomes in Sicily today. Diego Gambetta (1988, 1993), for example, emphasizes the relative absence of social capital and trust in Sicily as a prerequisite for the emergence of the Sicilian mafia. As he argues, “distrust percolates throughout the social ladder, and the unpredictability of sanctions generates uncertainty in agreements, stagnation in commerce and industry, and a general reluctance towards

impersonal and extensive forms of cooperation” (Gambetta 1988: 162). In an environment lacking a sufficient supply of social capital, not only do individuals distrust each other, but they also distrust the state to provide third-party enforcement of contractual exchange. Without effective enforcement of property rights and contracts by the state, the mafia fills the role of mediator and supplier of trust to facilitate market exchange and guarantee contractual agreements. Oriana Bandiera, who builds her analysis on Diego Gambetta, argues that “[l]and reform was crucial for the development of the mafia: after the abrogation of feudalism, the guards gained autonomy and offered their services to a larger number of clients” (Bandiera 2003: 226; also see Gambetta 1993: 80). This lack of social capital, according to Daniel Ziblatt, contributed to an overall lack of “infrastructural capacity” before unification (2006: 60-61). As he argues, “the states Piedmont¹⁰ inherited possessed limited institutional capacity to do the work of modern governance,” namely (1) the ability to maintain civil order, (2) the ability to tax resources effectively for the provision of public goods, and (3) the ability to implement policy goals (2006: 80).

A second approach argues that public policy implemented during the political process of Italian unification has generated poor economic and political outcomes in Sicily. In his critique of Putnam, Sidney Tarrow argues that “there is one alternative or complementary explanation for Putnam’s findings that he never considers: the effect of

¹⁰ With respect to Sicily, this political unification process took place in two main stages. First, Sicily was absorbed into the Kingdom of the Two Sicilies in 1816, which lasted until 1861. After 1861, the Kingdom of the Two Sicilies was annexed by the Kingdom of Piedmont, the latter being the nucleus state around which the Kingdom of Italy was unified. The focus of this paper is on the first stage rather than the second stage of Italian unification. In the historical literature on Italy, the Kingdom of Piedmont refers synonymously with the Kingdom of Sardinia, which was located in current-day northwestern Italy. Throughout the paper, I will use the former name rather than the latter.

the pattern of state building on indigenous civic capacity” (1996: 394). From this perspective, the lack of social capital to facilitate cooperation in Sicily is a by-product, or *consequence*, of policies that interfered with securing and enforcing institutions, such as property rights. As historian Lucy Riall states, neither “historical nor contemporary understandings of what has come to be called the ‘Southern Question’ can be separated from the circumstances and outcome of Italian unification” (1998: 7). Both the manifestations of organized crime and economic underdevelopment in Sicily are interrelated, in that they are the unintended consequences of a particular coordination problem of the Italian unification process: its failure to secure well-defined property rights in Sicily.

Understood this way, the source of the “infrastructural capacity” identified by Ziblatt is not a lack of social capital, but the absence of binding constitutional rules that constrained political actors. By constitutional rules, I refer to “the set of institutions governing political decision-making – that is, the institutions or rules governing how policy choices are made, especially among alternative specifications of the economic system” (Weingast 1995: 2). These rules are either embodied in an explicit document or implicitly upheld by custom or precedent. Any government that is granted enough power to transfer and enforce property rights in the first place, as was the case in Italy, also has enough authority to abuse that power as well. Constitutional rules not only limit political discretion; they also limit the profitability of interest groups to engage in rent-seeking to manipulate legislation for private gain (Tullock 1967). Therefore, the lack of infrastructural capacity:

should not be confused with a dearth of power to supply legal or police institutions, or public goods, or such institutions'/goods' total absence, nor should they be confused with those institutions'/goods' ineffectiveness in achieving the actual ends to which political actors in such countries apply them...Their ineffectiveness from the standpoint of improving social welfare is a by-product of the absence of binding constraints on political actors, not a result of political actors' powerlessness to provide them, their absence, or their ineffectiveness in securing the political goals actors seek through them (*italics original*, Leeson 2014: 201).

The causal mechanism of this alternative approach in the literature is depicted below:

Poor Institutions → Lack of Social Capital → Poor Institutional Performance

The majority of poor countries today, however, exhibit *both* poor institutions and a lack of social capital. Returning to Tarrow's critique, is Putnam's thesis then a complementary or alternative explanation to the argument that the Italian unification process is the source poor institutional performance in Sicily today? If Putnam is correct, then Italian unification is merely *a proximate cause*, which is a complementary explanation of why Sicily is relatively poor than northern Italy today. In other words, Italian unification failed to deliver "good institutions" in Sicily because it lacked social capital in the first place. My contribution to the literature is to argue that the political process of Italian unification is a *fundamental cause* of poor institutional performance in Sicily, alternative to that provided by Putnam. This requires that I address the connection between social capital and institutions, which I attempt to do in the next section.

3 Constitutional Political Economy, Property Rights, and Social Capital

In order to understand the relationship between institutions and social capital, following James Buchanan, I utilize a conceptual distinction in political economy

between two levels of analysis: (1) an analysis of the rules of the game; and (2) an analysis of interaction within the rules. In *The Limits of Liberty*, Buchanan makes the distinction between “the protective state” and “the productive state,” which corresponds to this dual level of analysis. In its protective role, the state is charged with the responsibility of enforcing property rights “along with contracts that involve voluntarily negotiated exchanges” of such property rights (1975[2000]:88). The protective state is analogous to an umpire or referee of a game, and its only role is to enforce the rules of the game. In its productive role, the state produces public goods that increase overall levels of well-being.

According to Putnam, “like all public goods, social capital tends to be undervalued and undersupplied by private agents.” What role then, if any, does the state have in providing social capital? From Buchanan’s perspective, the relevant political choice is not among alternative distributions or allocations of social capital, but among alternative sets of rules that generate different forms of social capital. Whether or not the social capital that is generated is positive-sum or negative-sum in nature depends upon the role the state plays in enforcing institutions, such as property rights.

Eirik Furubotn and Svetozar Pejovich, property rights refer “*to the sanctioned behavioral relations among men that arise from the existence of things and pertain to their use*” (emphasis original 1972: 1139). They define “*the individual’s ability, in expected terms, to consume the good (or the services of the asset) directly or to consume it indirectly through exchange*” (emphasis original Barzel 1997: 3). Well-defined and enforced property rights not only facilitate mutually beneficial exchange, but also

incentivize the accumulation of social capital. Repeated dealings in trade build trust and norms of reciprocity between individuals, facilitating social cooperation. Property rights then operate as filters of social capital. Returning to Buchanan's dual level of analysis, different set of rules not only determine whether an allocation of property rights will be positive-sum or negative-sum in nature; it will also determine whether social capital will be positive-sum or negative-sum in nature as well.

Social capital is not homogenous; like any other forms of capital, it is both heterogeneous and multi-specific (Hayek 1941; Lachmann 1956). Different set of rules will engender the formation of either *bonding* social capital or *bridging* social capital. Bonding social capital is exclusive in nature and reinforces connections within homogeneous groups, such as the existence of common usufruct rights in Sicily, also known as *usi civici*. Bridging social capital, in contrast, is inclusive in nature and involves connections across heterogeneous groups and individuals (Putnam 2000: 22–24, Putnam and Feldstein 2002: 2–3, 279–282). An example of bridging social capital in Sicily would be the existence of medieval trade fairs, bringing heterogeneous individuals together from across Sicily in a way that would otherwise not be possible. By their nature, bonding and bridging social capital are not mutually exclusive. As I discuss in the next section, for most of the medieval period, feudalism in Sicily was not synonymous with serfdom; peasants in Sicily were relatively free to migrate from one part of Sicily to another. It was therefore possible for individuals and groups in medieval Sicily to simultaneously participate in both exclusive groups and inclusive groups and networks.

For social capital to remain productive and positive sum in nature, it must also be resilient to changes in economic and political conditions. The resilience of social capital requires rules that are not only predictable, but also flexible and adaptive to economic and political conditions. If property rights are not allowed through the market process to be (re)allocated according to relative price changes or technological changes, social capital will be filtered in an exclusive and bonding manner and encourage unproductive entrepreneurial effort rather than productive entrepreneurial effort to define property rights more completely and securely.

Analogous to Buchanan's dual level of analysis, Armen Alchian and William Allen distinguish between two stages in the emergence of a new set of property rights, what they call the "creation" and the "operation" of property rights (1972: 243). The former pertains to the legal assignment and enforcement by government authority; the latter refers to the process of discovering previously unnoticed attributes, which result in a more complete definition of a particular bundle of property rights. While these two aspects of property rights formation are not mutually exclusive to each other, I argue that the conflation of the two will yields confusion about relationship between property rights and social capital. Before developing this argument, it will be helpful first to suggest how the two are independent of each other.

Within any particular society, those property rights specifically specified and assigned by government constitute only a small subset of the total set of property rights, the rest of which emerge voluntarily through exchange and must be self-enforced in the

absence of third-party enforcement (Barzel 1997: 91).¹¹ This voluntary exchange requires a level of social capital sufficient to facilitate social cooperation and productive specialization among anonymous strangers. When transaction costs are positive, the legal assignment or creation of rights may result in an initial transfer of value from one party at the expense of another. Moreover, positive transaction costs will also preclude the complete definition and enforcement of all the attributes of such rights by government. However, it is the *operation* of property rights after their creation that leads to the discovery of those previously unnoticed attributes to a particular bundle of property rights. This discovery process requires the contextual knowledge of time and place (Hayek 1945: 521) that political actors lack since the act of creation is outside the context of market exchange. It is this process after the legal assignment that ultimately generates an efficient distribution of property rights, regardless of their initial assignment. As Steven Cheung states:

Competition for and *transferability* of the ownership right in the marketplace thus perform two main functions for contracting. First, competition conglomerates knowledge from all potential owners-the knowledge of alternative contractual arrangements and uses of the resource; and transferability of property rights ensures that the most valuable knowledge will be utilized. Second, competition among potential contract participants and a resource owner's ability to transfer the right to use his resource reduce the cost of enforcing the stipulated terms in a contract. This is because competing parties will stand by to offer or accept similar terms. In sum, competition *in the marketplace* reduces the costs of finding and pursuing the

¹¹ Similar to the distinction being made between the *creation* and *operation* of property rights in this paper, Sveotzar Pejovich has argued that the “creation and specification of property rights over scarce is endogenously determined” (1972: 310) as a result of interacting persons desiring more utility. Pejovich’s emphasis here is to emphasize endogenous factors, such as (1) technological changes and (2) changes in relative factor scarcities, but puts less emphasis on (3) those changes in property rights assignments exogenously determined by the state. My emphasis, in the words of Pejovich, “throws some light on the purpose as well as the extent to which the ruling group can use its monopoly power to exogenously change property rights assignments over scarce resources” (1972: 316).

most valuable option in which a resource may be contracted for production (italics original, 1969: 64).

In the quote stated above, two implicit conditions link the creation and operation to each other with regards to a policy of land reform that would generate a set of well-defined property rights. First, with regards to the creation of property rights, the political decision maker's *discretion* over the selection of the beneficiary of the property rights must be absent, even if the political decision-maker himself initiates the transfer (Buchanan 1983: 78). Secondly, with regards to the progression of property rights, a framework of well-defined and predictable rules regarding what rights will be legally recognized and enforceable must be established. If these two conditions are met, then the "public domain" of undefined attributes to property will be excluded from the political domain, and therefore precluding the expenditure of resources for the modification of legislation pertaining to undefined attributes of property rights. Moreover, by prohibiting regulatory capture, potential residual claimants to those property rights held in the public domain will be incentivized to reduce the costs of defining and enforcement in order to exploit the gains from exchange (Anderson and Hill 1983: 441).

Following James Buchanan, what I have suggested in this section is that "any value that is to be transferred without compensation exists independently of the investment in attempts to redirect its disposition" (Buchanan 1983: 83). Whether or not the creation of property rights by government generates rent-seeking or profit-seeking¹²

¹² Buchanan (1980: 3-15) makes this distinction between rent-seeking and profit-seeking. An economic, or Ricardian, rent refers to "that part of the payment to an owner of resources over and above that which those resources could command in any alternative use. Rent is receipt in excess of opportunity cost" (1980:3). Both rent-seeking and profit-seeking are behaviorally equivalent, yet each result in different outcomes due to different institutional settings. Profit-seeking refers to creation of rents arising from the *natural* scarcity

in the operation of property rights will depend on the existence or absence of *predictable* rules (Buchanan 1983: 78). If the government creates new property rights through an uncompensated transfer, so long as political actors are bound by well-defined and well-enforced rules, the operation of property rights thereafter will facilitate profit-seeking and the exchange of resources to their highest valued uses, regardless of the initial transfer.¹³ If political actors are unconstrained in their discretion, then an uncompensated transfer will invite rent-seeking through “the reallocation of property rights by political intervention, rather than untrammelled market competition” (Kasper, Streit, and Boettke 2012: 44).

In the case in which political agents are bound by well-defined rules, the subsequent operation of property rights after their creation is not subject to political discretion or manipulation. Private property rights are exchanged towards their highest valued uses, utilizing the contextual knowledge and incentives of the men on the spot (Hayek 1945: 524) who regard such an exchange as mutually beneficial. Unlike in the case in which the allocation of property rights operates via market exchange, the redistribution of property rights by political decision-making operates outside the market context of monetary prices that assesses the opportunity costs of a decision made. When

of a resource, whereas rent-seeking refers to destruction of wealth by expending resources to divert wealth, arising from an *artificial* scarcity of a resource. This creates “attempts to transfer or resist transfer of wealth” (Tullock 1967: 228), the former being in cases when, for example, government grants a monopoly privilege, and the latter being in cases, for example, purchasing locks to prevent theft.

¹³ Related to this point, Deirdre McCloskey has made a similar argument regarding the economics of enclosure: “If two identical villages are enclosed, one by expropriation and the other by mutual agreement constrained by laws, and if voluntary and legally guaranteed exchange of services is permitted in both villages after the enclosures, the allocation of resources, aside from the effect of the distribution income itself on allocation, will come to be identical in both. Technology and the amounts of physical and human resources available in the two villages being the same, the most efficient of organizing agriculture in the two will be the same, and, consequently, whatever the distribution of ownership of the resources available, the owners will deploy them in the same way” (1976: 128).

political actors are given arbitrary discretion over the assignment of property rights, they will lack the contextual knowledge of particular circumstances to make decisions consistent with facilitating social cooperation, however benevolent and well-intended they may be (Mises 1920[1975]: 111; Mises 1922 [1951]: 117; Hayek 1937: 50; Hayek 1945: 521).

However different the institutional incentives may be between the political and market context, this does not mean there exists behavioral asymmetry between actors in these two contexts. Political agents, like market agents, are pursuing a maximum combination of pecuniary and nonpecuniary income. For market agents, as long as they are free in the operation of property rights through bargaining and exchange, “there is an incentive to reduce definition costs since they are residual claimants” (Anderson and Hill 1983: 441). In the case of political agents, “government definition of private property entails one potential complication: to obtain the net benefits of government allocation of property rights, one must first accord ownership of the land to government for subsequent private allocation” (McChesney 2003: 235). Political agents, however, are not “owners” in the allocation process of property rights definition in the sense of being residual claimants. They cannot legally claim a share of the rents derived from the creation of property rights. As a result, political agents will seek other forms of payment by interfering in the operation of property rights, not only generating rent-seeking but also regulatory capture that disrupts land reform as it was originally intended. These “alternative forms of payment” include the following:

Corruption is one possibility, but this may be one way of collecting a portion of the rents. Another possibility is that the bureaucrat can gain

power and command over political resources if the definition process necessitates an even larger bureaucracy. Thus the controlling authority may require activities that dissipate rents in order that it can be given command over some political resources. Competing claimants to common property owners resources may have to prove themselves “worthy” of having rights bestowed upon them (Anderson and Hill 1983: 443).

The paradox of *de jure* land reform, as we shall see in the case of Sicily, is that by “nationalizing” the privatization of the commons, the state had to do so through *de facto* ownership in the public domain, creating a “tragedy in exiting the commons” (McChesney 2003: 228), where no one has residual claimancy over the definition of property rights, resulting in an incentive-incompatible, or incoherent, means by which to achieve the aim of facilitating social cooperation between the aristocracy and peasantry.

4 Institutional Resilience, Property Rights, and Social Capital in Feudalistic Sicily

According to Putnam, feudal Sicily was characterized by a steep social hierarchy that “came to be ever more dominated by a landed aristocracy endowed with feudal powers, while at the bottom masses of peasants struggled wretchedly close to the limits of physical survival” (1993: 124). The period between the 11th century, when Normans first colonized Sicily, and 1812, when feudalism was formally abolished, is typically referred to as the “feudal period” in Sicily. Throughout this period, Sicily was characterized as a peripheral satellite within a succession of foreign empires. However, despite this external political changes, I argue that internal institutions of governance in Sicily exhibited a great degree of resilience and adaptability to economic and political conditions, conducive to social cooperation at levels comparable to northern parts of Sicily.

Paul Dragos Aligica defines resilience “in terms of (1) the magnitude of the shock that the system can absorb and remain within a given state; (2) the degree to which the system is capable of self-organization; and the (3) the degree to which the system can build capacity for learning and adaptation” (2014: 110). Although the social hierarchy to which Putnam refers was exogenously imposed, the reason for their resilience was because the Normans “did not attempt to abolish the preexisting political and legal institutions of the conquered peoples but rather sought to exploit those institutions to the maximum extent possible within the framework of a new political-administrative-legal structure” (Berman 1983: 414). This foundation of this institutional infrastructure rested on its “stickiness” or congruency to the *metis* of Sicilians, which include the “skills, culture, norms, and conventions, which are shaped by the experiences of the individual” (Boettke, Coyne, and Leeson 2008: 338).

Following Douglass North and Robert Thomas, I define feudalism as “a fiscal system involving a contractual relationship whereby public goods, such as protection and justice, were provided in exchange in the main for labor obligations” (1971: 781, fn. 7). This relationship not only encompassed relations between serfs and the lord of the *latifondo* (i.e.fief), but also obligations between a higher lord and his vassals. Under Sicilian feudalism, the *latifondo*, or fief, was subject to an agreement by the barons and the peasants residing within it. This agreement, which became known as the Pacts of the Land, represented the constitution of the fief, which at least in theory, constrained each baron. Although many fiefs had written constitutions, “By the eighteenth century, the basic rights and duties of villagers and barons and the facilities to determine, enforce, and

alter them had become so widespread and recognized that some fiefs were peopled without written agreements” (Sabetti 1984 [2002]: 35). Although attenuated by feudal custom and by approval of the Tribunal of Royal Patrimony, when the baron was able to sell his fief, the previously established constitution had to be upheld unless altered by the residents of the *latifondo*. Most importantly for this paper, changes in property rights, including the use, allocation, or privatization of commonly held property rights (i.e. “*usi civici*”) over such commodities as wood, land for cattle grazing, and water, required the *voluntary* consent of the inhabitants on the *latifondo* (Canciullo 2002: 22; Koenigsberger 1951: 78; Sabetti 1984 [2002]: 33). However, the rule of the Sicilian aristocracy was checked not only by custom; economic conditions also placed constraints on the ability for the aristocracy to break their agreements. As historian Denis Mack Smith states:

So long as there was a shortage of agricultural labor, Roger and his baronage had to attract new cultivators and make existing ones stay by creating favourable conditions on the land...Every successful landlord would have to confirm the common rights enjoyed by his tenants over mountain and woodland country. A diploma of 1092, for example, granted to a monastery and its dependents full liberty in certain woods and fields: there they could use the rivers, pick nuts and acorns and take wood for making ploughs and houses or for fuel. Many Arabs had lived as wandering cattle-drovers; rights to rough grazing were therefore the most-widespread of these old-established common usages. Frequently there were also rights of hunting, fishing, and haymaking, even of quarrying stone, and of growing trees whether on private or public land. These common privileges must have been important in the economy of most Sicilians (Mack Smith 1968 [1988]: 23).

To this point Clifford Backman adds, “economic need served to check baronial excesses upon their local subjects, since egregious demands would only aggravate rural flight” (1995: 159). As this quote and that of Mack Smith implies, a scarcity of agricultural labor relative to land, due to a century of warfare between Muslims and Normans, was

an important constraint that put checks of the discretionary rule of the Sicilian aristocracy under feudalism (Backman 1995: 159). One particular indication, according to the conventional wisdom, of Sicily's backwardness, is the prevalence of sharecropping and the prevalence of common usufruct rights on the *latifondi*. Once we have taken account of the fact of the relative shortage of labor and the relative abundance of land, sharecropping between landlord and tenant is not a subsistence institutional arrangement of production, but an optimal definition of property given the costs of monitoring and enforcement (Epstein 1991: 7; see Cheung 1969).

Although a majority of landholdings were held as *latifondi*, feudalism was not the only property rights arrangement; private property arrangements coincided with feudalism even before 1812. According to economic historian Stephen Epstein, “[b]y 1300, serfdom had nearly completely disappeared from Sicily and had been replaced by leasehold; the lord’s demesne was cultivated by wage labour or was also leased...Peasant allodial property was limited, and was mostly concentrated in eastern Sicily” (1992: 282).

What promulgated the end of serfdom in Sicily is twofold. First, with the coronation of King Frederick III of Sicily in 1296, a new set of rules were created that changed the operation of property rights in Sicily. Prior to his reign, royal law prohibited the alienation of *latifondi* by Sicilian aristocrats. As stated in Title V, Chapter 57, in the Third Book of *Liber Augustalis*, also known as the Constitutions of Melfi, “by this edictal law, which will be perpetually valid, we forbid all the *fideles* of our kingdom, counts, barons, knights, or any other person or cleric to dare to transfer

property” (1231 [1971]: 108). However, the major institutional shift in the rules of the game that would set Sicily on par with regions in the north was known as the *Volentes* law:

The *de facto* liberalization of the feudal land market originated with the law *Volentes*, promulgated by Federico III in 1296, which legalized the sale of whole fiefs to individuals of ‘equal or greater dignity’ than the seller. The actual effect of this law, - particularly from the mid-fourteenth century, and increasingly during the fifteenth – was to accelerate the circulation and ‘fragmentation’ of feudal land, at first only among the aristocracy, but also increasingly among urban nobility, merchants, and high government officials (Epstein 1992: 165; see also Backman 1995: 167).

A second factor reinforcing the fall of serfdom in Sicily, like the rest of Europe, was the Black Death. According no exact figures exist, in the decades following the Black Death of 1347-1348, an estimated 60 percent of Sicily’s aristocratic families disappeared by 1392 (Epstein 1992: 56). In spite of the huge loss in its population, through the liberalization of land and labor, changes in the rules of the game allowed for a flexible and adaptive transfer of property rights to a rise of the relative price of labor and a fall in the relative price of land, facilitating the accumulation of social capital, greater specialization under the division of labor, and labor mobility across Sicily.

Evidence of the fact that these institutional changes facilitated the accumulation of social capital is based on rates of urbanization between Tuscany and Sicily shown below:

Table 1: Proportion of residents in the 10 largest cities of the regions Tuscany and Sicily between the years 1300 and 1550

	1300	1400	1550
Tuscany	32.0	27.0	24.0
Sicily	47.8	29.8	30.4

Source: Epstein (2000: 91)

The assumption here is that there exists positive relationship between rates of urbanization and economic development, since the ability for the agricultural population to support a large urban population presumes an extensive degree of specialization and agricultural productivity. Lacking GDP figures for this time period, if we take urbanization rates as a proxy for economic development in Sicily, we cannot assume that Sicily's endowment of social capital was less than that of Tuscany's, especially since Sicily's urban population was proportionally higher to that of Tuscany's throughout the medieval period.

A further distinguishing feature of Sicily compared to the rest of Italy was also the rapid change in the population ranking of its cities. Throughout this same period, only the cities of Palermo, Messina, and Trapani were consistently among the region's top ten. The main cause of fluctuations in urban ranking was individual mobility, which presumes a large degree of bridging social capital among Sicilians. The two general causes for mobility of labor was not only the scarcity of private landholdings for the peasantry, but also Sicily's urban centers could not exercise monopoly control over the surrounding countryside. Therefore, Sicilian towns tended to compete for labor, making peasant-

nobility interactions largely more cooperative than Putnam and those following the social capital approach in the literature, which was discussed in Section II. In the next Section, I will discuss, given that we can infer that Sicily did not lack social capital compared to Italy's northern regions, as Putnam et. al presume, I will now turn to the political process of Italian unification and land reform policy during that period, which interfered with operation of property rights, due to a change in the rules of the game governing property rights.

5 Rules, Discretion, and Land Reform during Italian Unification

In this section, I illustrate the unintended consequences that emerged from the absence of rules constraining the discretion of bureaucratic decision-makers in Sicily. The legislation decreed to redistribute private property rights in Sicily at the expense of the aristocracy was met by rent-seeking and regulatory capture among Sicilian barons. Moreover, this policy of land reform was self-sustaining in two respects. First, the incentives among bureaucratic land reformers were to continue passing legislation with respect to land reform. Prolonging the failure of land reform will not only increase their “supply” of *de facto* ownership over land by virtue of their political discretion, but also lowers the cost of capturing political rents. Second, the incentives among the landed aristocracy were to capture such political discretion over the distribution of property rights for their own private gain, increasing the “demand” for land reform. Therefore, as I alluded to at the end of Section II.B, there will be a tragedy in exiting the political commons.

5.1 The Implementation of Land Reform under the Kingdom of the Two Sicilies

In 1815, the Congress of Vienna reconfigured the political borders of the Italian peninsula in the aftermath of the Napoleonic Wars. Sicily was united with Italy south of Rome as the Kingdom of the Two Sicilies, with its capital based in Naples. King Ferdinand I of the Bourbon dynasty was crowned its first monarch.¹⁴ After 1814, severed from a decentralized feudal political tradition, Sicilian administration and bureaucracy would embrace a French-Napoleonic political tradition of centralization.

However, unlike previous episodes of foreign rule, Sicily was to undergo a complete fusion into absolutist rule with the Neapolitan Bourbons and later political centralization under the “liberal” Kingdom of Piedmont. After 1816, Sicily would be divided into 23 districts, seven provinces headed by intendants sent from Naples, and non-elected town councils (Riall 1998: 32; Sabetti 1984[2002]: 57; Mack Smith 1968: 353). As Lucy Riall states, “Bourbon reformers had two related objectives: to undermine the economic and political power of the Sicilian barons, and to replace them with the rule of a single, centralized administrative authority based in Naples (1998: 25).” The means by which the Bourbons would achieve these objectives was through land reform:

One of the original intentions of the Bourbon programme of land reform had been to improve the economy of the *latifondo* by ending the concentration of land in very few hands. The division of common land was meant to create a new class of small holders, thereby solving the problem of absenteeism, offering the rural poor a stake in improving land, and, it was hoped, providing a new source of support for the Bourbon government (Riall 1998: 49).

¹⁴ King Ferdinand I had previously been Ferdinand IV of Naples and Ferdinand III of Sicily (Mack Smith 1968: 352).

To illustrate the point made by Riall, let us consider one piece of legislation written December 19, 1838, decreed by King Ferdinand II of the Kingdom of the Two Sicilies, which reiterated the execution of laws abolishing feudalism, and called for “the abolition of common property rights and the repartition of lands for enclosure and betterment (translation my own).”¹⁵ The majority of the land in Sicily was held as *latifondi*, confined to a small traditional elite, made up of the church, the communes, and the barons, each of which represented its respective branch in the abolished Sicilian Parliament (Canciuolo 2002: 22; Koenigsberger 1951: 75; Riall 1998: 45).

The fundamental problem with land reform was that it required political discretion over the redistribution of property rights. Such redistribution was constrained neither by the constitutional rules governing property rights arrangements that had evolved under feudalism nor to the rule of law governing the enforcement of exchangeable private property rights under capitalism. Instead, it pursued a middle-way policy between the two, which means it was not constrained by either set of rules.

Under Napoleon, the Kingdom of the Two Sicilies had also abolished feudalism in 1806. By enforcing the abolition of feudalism in Sicily, it also had to discard the constitutional rules required for the operation of property rights under feudalism, such as the enforcement of voluntary agreements among the peasantry. However, by pursuing land reform, the government was also not bound by rules required for the operation of a private property rights, namely to enforce voluntary market exchanges. By not allowing

¹⁵ *Collezione delle leggi e dei decreti reali del il Regno delle Due Sicilie, Anno 1838, Semestre II*, 334-335.

unfettered private property rights to be exchanged on the open market, conflict developed over access to land, land usage, and property boundaries.

5.2 Why the Worst Laws Get on Top

Exacerbating the conflict that arose during the *Risorgimento* was a series of legislative decrees regarding land reform, which often required contradictory objectives. However, why would benevolently-minded bureaucratic actors do so? As was discussed in the introduction, the prevailing argument among historians of Italian unification is that the central government lacked the resources to train and implement an effective bureaucracy immune to opportunistic behavior. This argument misses the point that, by design, land reformers in Sicily would not have the requisite knowledge to distribute property in an accordance with facilitating social cooperation. This public interest argument assumes that a social welfare function existed and public decision-makers know how to maximize it (Buchanan 1949). Because land reform disrupts the generation of economic knowledge through market exchange, land reformers cannot access the information required to achieve that stated aim.

In the case of Sicily, where land reformers were unbound by rules in their decision-making, they faced two choices. First, in the face of unintended consequences they could have rescinded the land reform policy and choose not to interfere with the open exchange of property rights, or secondly, it would continue to pass further legislation in order to undo the unintended consequences generated by previous decrees. However, consistent with the government's policy of expanding centralized bureaucratic authority, those individuals who "know" how to advance within this political context

were those with lower opportunity costs in exercising political power (Boettke 1995: 11-12). Therefore, the corruption, bribery, and inefficiency that emerged within the bureaucracy was an unintended by-product of the institutional incentives within which bureaucratic agents operated. The use of political discretion over the distribution of property produced these unintended consequences.

Beginning in 1817, the Kingdom of the Two Sicilies reaffirmed the abolition and privatization of common property rights, while in the same year legislating provisions for the redistribution of some of the partitioned common property to the peasantry. However, compensation to the peasants in the form of land always faced litigation in the courts, and “lawyers enjoyed decades of discussion over which precise rights were affected and the value of compensation” (Mack Smith 1968: 364). Rather than admit failure, legislators reaffirmed these laws, particularly after King Ferdinand II’s tour of Sicily in 1838, after which he instructed intendants (Canciullo 2002: 53) to resolve the common-property rights question. These regal instructions were embodied in an 1841 law stipulating that at least one-fifth of the land must be redistributed to the peasantry. More specifically, the *usi civici*, or customary rights, that would be restored would be specifically over the use of water, grazing, and quarrying (Sabetti 1984 [2002]: 51). However, in a bid to win the support of the Sicilian barons, the Neapolitan government modified the law to stipulate that those common property rights subject to compensation “required the impossible burden of producing documents to prove illegal usurpation” (Mack Smith 1968: 407) or were in use by the peasants in question before 1735 (Sabetti 1984 [2002]: 51). In many cases, the modification of these laws occurred through outright bribery:

Sometimes, perhaps often, judges bought their posts; and it seems to have been not been uncommon for them to recoup by accepting bribes or a retainer for some powerful clients who needed an occasional victory in the courts for his prestige and his pocket. Clerks of the court, too, were generally not paid but had to live on presents, and it could be though disrespectful if a litigant did not call privately on court officials before a case (Mack Smith 1968: 369).

More importantly, however, under Neapolitan rule, the Sicilian barons sought to reaffirm a political privilege which they asserted under feudalism: the right to have public offices filled only by natives (Koenigsberger 1951: 47). Although the intendants were sent from Naples, mayors and other administrative officials were appointed among the local Sicilian population. In many important respects, control of the local administration of government was the key to controlling the local economy. In effect, “the local administration controlled the division of common land, decided the amount of common land to be divided, and decided who was to be the ultimate beneficiary of the division” (Riall 1998: 52, see also Cancila 1992: 122-125). As a result, regulatory capture of the local administration proved to a political means for the Sicilian barons to ensure private gain, namely by profiting from the division of common land to their own benefit. Throughout the *Risorgimento*, the network of patronage and clientelism that would emerge from the distribution of property rights for political profit would not only frustrate the government’s attempts to erode the political power of Sicily’s landed elite, but also to enforce its own stated legislation regarding the redistribution of property rights.

6 Conclusion

The goal of this paper has been to substitute “a generalization of the standard theory of production and exchange *via* the effects of property rights assignments” (Pejovich 1972: 314) for *ad hoc* theorizing that has been prevalent in the history of the Italian unification process. My empirical analysis draws on historical evidence that is unavoidably general and not applicable to all parts of Sicily. However, by drawing a distinction between the institutional conditions within which feudalism was abolished, and later land reform, was instituted in Sicily, my aim has been to draw upon historical examples as an illustration of how insecure property rights emerged in Sicily. The inability of the government during the *Risorgimento* to provide secure and well-enforced property rights was not caused by the abolition of feudalism *per se*, but was a consequence of a lack of well-defined rules governing the enforcement of property rights.

The notion that property rights were insecure in Sicily during the *Risorgimento* because of a failure to fill a “power vacuum” neglects the fact that such a policy outcome is a consequence influenced not only by the rules within which political officials make policy, but is also the result of the interaction of policymakers and interest groups in affecting the outcome of public policy. The existence of a “power vacuum” then prevails when the protective state is not constrained by rules and generates a “redistributive state,” producing public “bads” such as civil disorder and social conflict. Building on this notion of a “power vacuum” in Sicily, future avenues of research are open to exploring why such a “power vacuum” in Sicily was filled by the Mafia rather than other institutions of self-governance based on voluntary exchange. While this paper has focused on formal governance institutions in Sicily, emphasis should be primarily on the informal

institutions in Sicily and how such informal mechanisms of property rights enforcement were “crowded out” by state intervention.

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