
**WORKING PAPER
N. 193
JANUARY 2023**

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POLITICAL ELITES, URBAN INSTITUTIONS AND LONG-RUN PERSISTENCE :
THE KING-OWNED TOWNS

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January 2023

We explore the long run socio-economic impact of a medieval urban governance setting , the king-owned towns (KOTs). For a town the KOT status implies special fiscal, commercial and administrative prerogatives between the community and the Crown, where such as status could be renovated, modified or suspended. Researchers have tested the persistence effect of urban governance by comparing free city-states (communes) and feudal towns in Italy, Germany, Switzerland and the United Kingdom. This paper explores the KOTs as a third and novel category. The KOTs case is analysed using the southern Italy case, where the Kingdom of Naples delegated jurisdictional and fiscal powers to towns' ruling classes – nobles and commoners - thereby creating a self-governance setting in which community representatives took collective decisions, including the systematic implementation of rights negotiations with the Crown, that shaped the evolution of their towns' municipal statutes. This peculiar collective action can strengthen the persistence effect. Empirically, we find that a town's past king-owned experience is correlated with five centuries later outcomes, in terms of both economic performance and civil capital. Our results suggest that KOT status is more similar to commune experience than to fief experience, being a device to develop collective decision skills; at the same time, the unstable nature of the KOT status inhibited the strengthening of these capacities in the local communities.

Keywords: urban governance, political elites, long-run persistence, economic history, culture, economic geography, Italy

JEL Classification: D72 (Political Processes), H10 (Public Economics, General), N44 (History, Europe), O43 (Economic Development, Institutions and Growth), O52 (Economic Development, Europe), K00 (Law and Economics, General), R10 (Regional Economics, General)

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1. Introduction

A substantial stream of literature investigates the deep historical origins of modern outcomes. This research has given rise to a series of studies on persistence, which has been systematically analysed and reviewed (Bisin and Moro 2017 and 2021, Acemoglu et al. 2021, Cioni et al. 2021, Voth 2021, Cirone and Pepinsky 2022), including critical views (Arroyo and Maurer 2021, Kelly 2019, Guinnane and Hoffman 2022) and replies (Voigtlander and Voth 2022). In particular, researchers have argued that historical changes in political institutions can explain the persistence of differences in socio-economic performance among different territories over centuries. However, identifying such nexuses and their main drivers is difficult. Two strands of research have progressively emerged in this regard.

On the one hand, some have claimed that institutions originating from natural experiments in otherwise common geographical environments tend to persist (Acemoglu et al. 2001, Banerjee and Iyer 2005). On the other hand, some have stressed the role of culture in persistence by isolating cultural variation in historical settings with a common institutional setup (Putnam et al. 1993, Guiso et al. 2011 and 2016). The two approaches have been merged in an attempt to explain persistence by examining interactions between institutions and culture, and then the effect of these interactions on economic and social performance (Greif and Tabellini 2010, Birdner and Francois 2011, Bisin and Verdier 2021, Persson and Tabellini 2021, Bisin and Verdier 2022, Lowes 2022).

History has provided natural experiments that can help verify the existence of persistence. Two views focus on the nexus between local self-governing institutions and socio-economic outcomes. Many authors argue that local self-governance is associated with better outcomes (Tabacco 1990, De Long and Shleifer 1993, Putnam et al. 1993, Blockmans 1994, Morkyr 1994 and 1995, Coleman 1999, Menant 2005, Bosker et al. 2013, Jacob 2010, Cantoni and Yuchtman 2014, Guiso et al. 2016, Angelucci 2022). Others claim that a nexus can emerge among local autonomous bodies, rent-seeking strategies and sub-optimal outcomes (Epstein 2000, Ogilvie 2011, Dincecco 2011, Stasavage 2014).

In the case of Italy, academics have examined the role of free city-states (communes) in northern Italy in the late Middle Ages (Guiso et al. 2016). Similar explorations have focused on medieval Germany (Jacob 2010) and Switzerland (Rustagi 2021). Self-governing medieval towns were also present in England (Angelucci et al. 2022).¹

Notably, communes did not exist in southern Italy, where the power of the Norman Kingdom, which was based on fiefs, prevented their emergence (Belloc et al. 2016). The fiefs were governed by autocratic leaders – bishops in the episcopal see cities and feudal lords in non-episcopal see towns (Belloc et al. 2016).

The aim of this study is to explore a third and novel category – king-owned towns (KOTs) – which were present in the Spanish-controlled southern Italy and can be viewed as a specific category of urban institutions. KOTs emerged when the Kingdom of Naples delegated jurisdictional and fiscal powers to towns' ruling classes, thereby creating a self-governance setting. Notably, KOTs represented, on average, 18% to 19% of the population of the kingdom (Visceglia 1992, Coccozza 2019), and 22.85% to 29.50% of the population in some territories (Lerra 2016).

Given the governance and fiscal gains, all towns aspired to become the property of the king (Galanti 1793) and those that already held this status implored the king to maintain it in perpetuity (Faraglia 1883). Yet the king's decisions regarding the granting of KOT status were, in general, unpredictable in terms of timing, lags, procedures, and reversibility as well.

¹ From a terminological point of view, some authors – such as Epstein (1993, 1999) – distinguish between communes and free city states. These authors define a “commune” as any municipal body engaged in local government and “free city-states” as a sub-category. In the latter, the municipal rule of the commune evolved into completely independent self-governance. It is worth mentioning that in 1110 in Pisa town representatives (consuls) are referring to as representing the “commune”, the early citation of the noun in Italy, where such city's consuls behaved as self-confident and independent political actors (Wickham 2013).

In fact four general and heterogeneous drivers motivated the kingdom's decisions: the political aim of weakening the feudal barons (Bentley 1987); geo-strategic concerns related to military defence (Lerra 2016); and the extinction of feudatory rights, which, in turn, was triggered by different events (Lerra 2016, Coccozza 2019); fiscal policy reasons, taking into account that the Spanish tax regime can be considered the fundamental network that linked the various political actors: Crown, nobility, commoners, church, and towns (Irigoin and Grafe 2008).

How to uncover the specialness, if any, of the KOT experience? From a conceptual point of view we analyse it as a case of urban governance in which two relevant political groups were present – local nobles and the bourgeoisie. We assume that their economic and cultural features helped shape the long-run effects of the original institutional change (Bisin and Verdier 2017). In fact, local elites, behaving as KOT representatives, took collective decisions on fiscal, commercial and administrative issues. Among such prerogatives, we identify a peculiar persistence mechanism by highlighting that KOT status allowed community representatives to implement systematic rights negotiations with the Crown concerning fiscal, minting and trade issues, which in turn influenced the evolution of municipal statutes. Given that right negotiations has been considered a peculiar features of the commune experiences in northern and central Italy, claiming in parallel that such collective action that has been absent in the South (Muir 1999); on the contrary, we highlight that in the Kingdom of Naples KOT representatives systematically used it. Moreover, it is worth noting that tax negotiations systematically characterized the relationships between the Spanish Crown, on the one side, and territories and social groups, on the other side (Irigoin and Grafe 2008, Senatore 2023).

With regard to cultural traits, one peculiarity of the Spanish period was the Crown's expulsion of the entire Jewish population – a religious minority – from the Kingdom of Naples between 1504 and 1541, and the announcement that they would not be allowed to return for three centuries (Pascali 2016). These Jews had immigrated to the kingdom after they were expelled from Spain in 1492 (Zeldes 2010, 2012, 2019). Researchers have noted that in general religion can be a relevant channel for shaping economic, political and cultural dynamics (Barro 1999, Barro and McCleary 2003, McCleary and Barro 2006, Belloc et al. 2016, Sriya 2016, Bisin et al. 2019, Squicciarini 2020, Voigts 2022); specifically, it has been highlighted the role of the Jewish presence in Italian towns in influencing their growth (Botticini 2000, Pascali 2016).

Naturally, an empirical question arises – given the KOT status of a town, and its potential economic and civic outcomes, do these effects persist, as in the case of the communes? A positive answer would suggest that KOT status is more similar to the free-town experience than to the fief experience, while the opposite would be implied if the answer were negative. In either case, an empirical investigation can shed more light on the conditions under which political classes and cultural traits can shape the performance of a given territory.

With respect to the literature on persistence, this paper contributes to the strand that analyses the link between self-governance institutions and economic and social outcomes (Putnam et al. 1993, Habermas 1996, Platteau 2000, Rodrik 2000, Guiso et al. 2016, Besley 2020, Rustagi 2022). It also takes studies on interactions between culture and institutions into account (Tabellini 2010, Alesina and Giuliano 2015, Bisin and Verdier 2017 and 2021).

The remainder of the paper is organized as follows. In Section 2, we describe our historical case – KOTs in southern Italy. Sections 3 and 4 present the conceptual framework and the empirical analysis, respectively. Section 5 concludes.

2. Historical Background: King Owned Towns in Southern Italy

In the Neapolitan kingdom, both feudal towns and KOTs were present. Feudalism was a crucial element in the administration of the state. The barons were the first to possess of a large set of powers, jurisdiction and rights, which were involved in a web of public functions and private interests; this allowed them to simultaneously be large entrepreneurs and proprietors on their lands, and holders of political-administrative and judicial power (Massafra 1972, Buffardi and Mola 2005). The barons held complete jurisdictional power over the inhabitants in their fiefs. The jurisdictions were conferred on the feudatories and formed the basis of the kingdom's judicial organization (Cernigliaro 1984).

In the kingdom general parliaments, in several occasions the barons were the only invited representatives, while the representatives and deputies of the KOTs were excluded (Faraglia 1883, Buffardi and Mola 2005). Many barons were officers of the Crown's army or other royal institutions (Faraglia 1883).

The feudal towns – that is, those towns that were part of a fief – were under the vassal yoke of their barons, and their inhabitants were protected from the powers of the feudatory by a very limited set of rights and freedoms conceded by the feudatory itself or by the kingdom under a pecuniary payment (Buffardi and Mola 2005).

Of the feudal domains, it is worthwhile to highlight those fiefs that were the property of clerical organizations. In the Spanish kingdom, bishops and abbots had a different status with respect to the laic citizens. When bishops and abbots owned lands and towns as fiefs, they held proper jurisdiction over them, enjoying special regulations and ad hoc fiscal franchises; moreover, like the barons, they were obliged to partake in military service (Cardini and Montesano 2006, Pellegrini 2009, Galanti 1793).

In the meantime, another class was emerging—that of merchants and bankers, who lent to the Crown, bought land from the feudatories and married noblewomen; members of this new bourgeoisie began to acquire castles and fiefs, increasing their local influence. In the courts, legal battles between towns and feudatories multiplied. Not all of the disputes ended in the courts. In June 1512, the population of Martorano in Calabria rose up against the Count Di Gennaro. In March 1513, the citizens of Mamera in Abruzzo killed the count, his wife and his seven children (Faraglia 1883). John Charles Tramontano, who bought the city of Matera as a fief, faced a similar fate – in December 1514; he was killed after requesting the implementation of new taxes (Giura Longo 2000, Morano 2000).

The king-owned towns (KOTs) represented the alternative urban governance setting. The Spanish period represented the golden age for the KOTs, as is evident from the evolution of their presence in southern Italy (Gatti 2022).

The KOTs emerged in the Swabian period. Over time, the number of KOTs changed. Convocation letters for a meeting of the parliament in the Anjou period (1284) provide a list of KOTs². Similarly, a taxation document (1444-1445) provides a list of KOTs under the Aragonese kings.³ Finally,

² Castrovillari, Caiazzo, *Invenacii*, Ostuni, Civitatis Theatine (Chieti), Caserta, Sorrento, Termoli, Gravina, Civitas Pennensis (Penne), Avellino, Castellaneta, San Germani (Cassino), Molfetta, *Iohe*, Montefusco, Monopoli, Lanciano, Brindisi, Troia, Ariano, Trani, Sant' Agata, Guardia Lombardi, Guardia Bisignano, Bitonto, *Neritoni*, Potenza, Eboli, Civitella d'Abruzzo, Teramo, Ravelli (Rivello), Sant'Angelo, Padule, Bari, Sulmona, Campi, *Venusii*, *Bucianici*, *San Flaviani*, Aquila, Foggia, Taranto, Montelione, Manfredonia, *Vigiliarium*, *Idronti* (Otranto), Acerenza, Ortona, Lucerie Sarracuinor (Lucera), Melfi, Alife, Vestarum (Vieste), Matera, Gerace, *Guastaymensis*, Cosenza, Pescara, Crotone, Andria, Amalfi, *Marturani*. See Gattini (1882), p. 35-36.

³ *Alisium*, Aversa, *Baya* (Baia e Latina), Cayacia (Caiazzo), Cayanellum (Caianello), Cayvanum (Caivano), Camino (today in Rocca d'Evandro), Capua, Carinula, Castrum novum (Casalnuovo), Castrum maris de Volturmo (Casal Volturmo), Concha (Conca), *Cucurucium*, Drauna (Dragoni), Fratte, Gaieta (Gaeta), Yscla (Ischia), Juglianum (Giuliano in Campania), Latina, Magdalonum (Maddaloni), *Marczanum*, Petraroya (Pietraroia), Preta, Proceda (Procida), Puteolum (Pozzuoli), Rocca de Vandro (Rocca d'Evandro), Rocca Monfini, Rocca montis draconis (Mondrgone), Rocca Romana (Roccaromana), S. Angelus ripa canina (Sant Angelo d'Alife), Santo Felice (San Felice

we have a list of KOTs during the time of the Spanish domination. In 1586, besides Naples, there were 70 KOTs (Mazzella 1596), which encompassed 87,882 families and represented 18% of the overall population⁴ (Figure 1).

Conceding the KOT setting, the Kingdom of Naples delegated both jurisdictional and fiscal powers to towns' ruling classes, as we will describe with more details in the next section. In a nutshell, the KOTs' inhabitants enjoyed self-governance settings and KOTs paid, on average, less taxes than feudal towns.

Therefore it is not a surprise to discover that all towns aspired to become part of the king's property, and those that were already part of the kingdom asked that their status be maintained in perpetuity⁵ (Faraglia 1883). For example, while Charles V (1500-1558) was in Naples, the towns in many parts of the kingdom submitted numerous complaints about the barons. The king, noting that the majority of the previous KOTs had been given as fiefs to old and new barons, ordered the re-establishment of many such cities as the king's property, and instituted two councillors to examine the complaints and requests of the different towns (Faraglia 1883).

Yet, it is worth noting that heterogeneous drivers motivated the kingdom's decisions to establish a KOT, that on top of that were revocable in any moment. First, several KOTs were kept under the ownership of the state for geo-strategic reasons, especially to maintain an impression of military strength in relation to rival powers in the Mediterranean region (Lerra 2016). The territories at the borders of the kingdom were considered to be of particular importance for defence, especially those on the borders with the Papal State, and those on the coasts, where the kingdom suffered incursions from the Saracen, Ottoman and Barbarian fleets. In the sixteenth century, the dislocation of the kingdom's defences in the coastal areas was a topic in discussions among important military and political officers of the kingdom regarding possible strategic choices (Fenicia 2003). Second, time to time extinction of feudatory rights can occur, which, in turn, was triggered by different events, both natural and traumatic ones (Lerra 2016, Coccozza 2019)

Third, from 1536, the Crown promulgated an institution call "redemption", that gave a town the possibility to apply in order to buy, with its own money, its freedom from a feudatory and become the property of the king. Such as policy can be considered consistent with the general strategy that the Spanish sovereigns implemented in its territories by the end of the fifteenth century: the

a Cancellio, Spignum (Spigno Saturnia), Suessa (Sessa aurunca), Summa (Somma vesuviana), Suyum (Suio), Teanum (Teano), Trajettum (Minturno), Castrum fortis (Castelforte), Turris Francolisii (Francolise), Caprum (Capri), Castrum maris de stabia (Castellamare di stabia), Cava (Cava de tirreni), *Francharum*, Granianum (Gragnano), Littera (Lettere), Massa (Massa Lubrense), Pasitanum (Positano), Pimontum (Pimonte), Surrentum (Sorrento), Vicum (Vivo), Ysernia (Isernia), Amatricium (Amatrice), Aquila, *Atinum*, Atri (Atri), Camporium (Le Campora), Civitas ducalis (Cittàducale), Civitas Penne (Penne), Civitas S. Angeli (Città Sant' Angelo), Gonissa (Leonessa), Mons regalis (Montereale), Silvium (Silvi), Rossianum (Rosello), Theramum (Teramo), Anglonum (Agnone), Archi, Ariello (Arielli), Atisse (Atessa), Bucclanicum (Bucchianico), Canosa (Canosa sannita), Civitas theatina (Chieti), Crecchium (Crecchio), Frisia (Frisa), Franchavilla (Francavilla al mare), Guardiagreles, (Guardiagrele), Guastum Aymonis (Vasto), Lanzanum (Lanciano), Ortona ad mare (Ortona), Palliecta (P. lietta), *Rogium* (Roscio), S. Vitus Trigium (San Vito chietino), Solmona (Sulmona), Turinum (Torino di Sangro), Villamayna (Villamaina), Fogia (Foggia), Gullonisium, Luceria (Lucera), Manfredonia, Monte Sant' Angelo, S. Severus (San Severo), Vestia (Vieste), Barolum (Barletta), Juvenacium (Giovinazzo), Molfecta (Molfetta), Tranum (Trani). See Galanti 1793, p. es 7-9. It is worth noting that in such documentation was missing the Calabrian provinces and the Province of Terra d'Otranto.

⁴ Aversa, Capua, Gaeta, Massa, Nola, Pozzuolo, San Germano, Sorrento, Salerno, Amalfi, La Cava, Capri and Anacapri, Gragnano, Lettere, Le Franche, Marsico, Piemonte, La Sala, Maiuri, Scala, Minuri, Aierola, Ariano, Lagonegro, Rivello, Tolve, Tramutola, Amantea, Cosenza, Langobucchi, Rossano, Sicigliano, Crotone, Catanzaro, Policastro, Reggio, Sant'Agata, Stilo, Seminara, Tropea, Taverna, Brindisi, Gallipoli, Lecce, Matera, Ostuni, Otranto, Squinzano, Taranto, Torre di Santa Susanna, Bari, Barletta, Bitonto, Cività di Chieti, Guardiagrele, Lanciano, Tocco, Acumoli, Alanno, Aquila, Cività Reale, Cività del Tronto, Campana, Fagnano, Isernia, Foggia, Nocera or Luceria, Manfredonia, Vieste, Troia. Ibidem, p. 1-318.

⁵ Example: Vasto Aimone; see Faraglia (1883).

monarchy shall create an administration of its own capable of controlling the territory, through a direct delegation to local agents (Ibanez and Sabatini 2009).

In order to free themselves from the feudatories, the towns had to deposit the entire price of the fief. However, a redemption was neither a certain nor a perpetual agreement, as towns that tried to redeem themselves knew that the Crown decisions were far to be predictable and stable (Cocozza 2019). It is worth noting that the Spanish tax regime can be considered the crucial architectures where the different political actors - Crown, nobility, commoners, church, and towns – were deeply intertwined (Irigoin and Grafe 2008).

On several occasions, the financial needs of the Crown made it convenient to resell KOTs as fiefs to barons.⁶ In other cases, the Crown re-designed the privileges of KOTs for political reasons.⁷ All in all, for a town the KOT status implies special fiscal, commercial and administrative prerogatives between the community and the Crown, but this status could be renovated, modified or suspended.⁸

In terms of demographic and economic relevance, the KOTs accounted for 18% of the kingdom's population and 71% of ordinary tax exemptions (beyond not being subjected to the above-mentioned taxes), while the other 82% of the kingdom's inhabitants were only entitled to 29% of the fiscal facilities.⁹

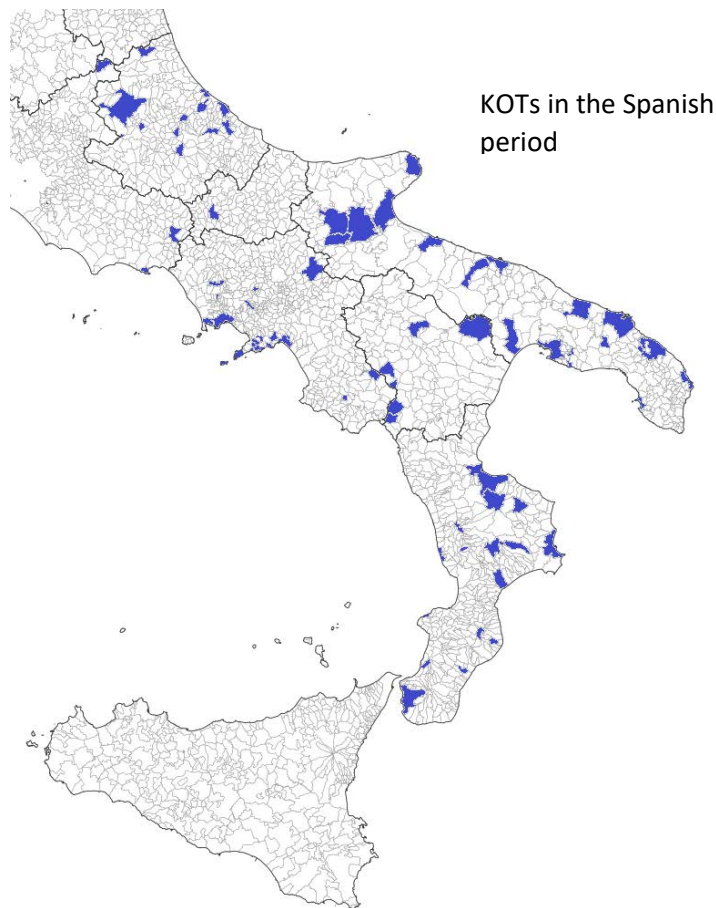
Figure 1

⁶ Examples: Taverna, Amantea, Fratta, Miano and Mianello; see Faraglia (1883).

⁷ Example: L'Aquila, see Terenzi (2005) and (2012).

⁸ Examples: Campobasso, see Trotta 2017, p.60-70; Matera, and in general the KOTs in Basilicata; see Gattini 1882, Racioppi 1889, De Rosa and Cestaro 2006, Lerra 2016.

⁹ The population in "fuochi" of each town and land in the Kingdom in 1561: ibidem, p. 1-321; cities subjected to fiscal facilities: ibidem, p. 319-320.



3. Political Elites and Urban Governance in KOTs

Our investigation is based on the following conceptual framework: given a local institutional change (in our case, a change in a town's status from a fief to a KOT), the intertwined dynamics between policies and culture can produce persistent socio-economic outcomes (Bisin and Verdier 2017) (see the Appendix for further details). Applying this framework, we can re-arrange our historical narratives with the aim of identifying its three key elements of this framework: the historical event, the political classes and the governance setting with its policies, with a particular attention on the role of rights negotiations between the town representatives and the Crown.

In terms of the historical, local institutional change, KOTs emerged in the occasions when the Kingdom of Naples decided to delegate jurisdictional and fiscal powers to the towns' ruling classes, thereby creating a self-governance setting. A change in urban governance can be viewed as an institutional shock that modifies and/or internalizes the externalities that can shape the socio-economic outcomes (Tabellini 2008, Acemoglu and Robinson 2001 and 2006, Acemoglu et al. 2010, 2012, 2015, 2018, Besley and Preston 2009a, 2009b, 2010, 2011, Bisin and Verdier 2017). Moreover, as we already noted, the king's decisions to assign KOT status were on the one side driven by specific heterogeneous and exogenous motivations, and consequently unpredictable in terms of moments, lags, procedures, and reversibility.

Shifting to the political classes, the starting question is how to classify the KOTs' inhabitants. We consider a KOT to be a town populated by two relevant classes: local nobles and the bourgeoisie. The two classes were not completely segmented (Galasso 1975, Muto 1991, Corrao 1992, Spagnoletti 2002), and individuals in both classes served in the Crown's administration (Corrao 1992). Moreover,

it has been shown that the bourgeois quest for nobility has been motivated with the aim to acquire municipal offices and the control over common resources (Drelichman 2007).

Finally, the nobles and the commoners were likely to have distinct cultural traits, where in general the nobles valued leisure more than the bourgeoisie (Bisin and Verdier 2017). Using the Aesop fable metaphor, nobles behave as grasshoppers, commoners act as ants. Regarding the Early Modern Spain, the literature (Elliott 1963, Braudel 1972, Cipolla 1980, Landes 1999) systematically characterized nobility for a mentality of idleness and a disdain for manual work. Also in the kingdom of Naples homogenous values characterized the nobility both in feudal and King owned towns (Spagnoletti 2002). The cultural differences between nobles and commoners emerged in all the aspects of the social life. Let consider for example the dress code in the Spanish Kingdom of Naples in the early modern times (Guarino 2019). Two competing cultural models were present – the Spanish fashion and the French fashion – where the Spanish garments were grave, dark and modest, while French clothes were joyous, colourful and extravagant. The old Neapolitan nobility adopted the French fashion; its choice has been explained as a symbolic reaction to a loss of its economic and political power due to the ascension of rich commoners, keeping up appearances by indulging more than ever in luxurious expenses, while in parallel legal professionals, belonging to the new emerging class, insisted on maintaining the Spanish decorum in dress (Guarino 2019).

Finally, urban governance rules shall be uncovered, having in mind the general distinction between absolutist and non-absolutist regimes (De Long and Shleifer 1993). In the new comparative economics perspective (Djankov et al. 2003), both types of regimes can be seen as alternative settings to govern the distribution of property rights, where the former is based on the obedience of the citizens to an authoritarian leader, while the latter relies on citizen participation in public decisions (Belloc et al. 2016). Put in another but consistent way, absolutist regimes were primarily concerned with tax revenues maximization, and consequently the rules were an instrument for such as goal; non-absolutist regimes, where representative assemblies and/or constitutional rules saw the legal order as a tool to influence private economic prosperity, rather than State revenues (De Long and Shleifer 1993). Alternatively, if any political regime can be considered an entity possessing a different degree of monopoly of legitimate violence within a given territory, feudalism represents a case of coalition formation through bargaining or conquest among monarchs, lords and vassals (Chaney and Blaydes 2013, Leon 2020, Desierto and Koyama 2022).

Communes in northern and central Italy, with their urban assemblies and representatives, empowered to influence personal and property rights, represented a type of non-absolutist governance (Poggi 1978, De Long and Shleifer 1993, Wickham 2013), or a case of local monopoly of violence where the coalition formation involves the urban elites. In southern Italy KOTs, local nobles and the bourgeoisie were involved in urban governance, and the local elites seemed to be well conscious, time to time, of the different expected costs and benefits of having the feudal status rather than the KOT status (Masi 1959, Spagnoletti 2002). The KOTs were free from the feudal yoke and administrated by a civic assembly. Moreover, the sheriff – who was nominated by feudal lords and bishops in fief towns, and by the inhabitants in the communes – was directly chosen by the kingdom in KOTs (Vitolo 2005). In general, the KOTs were allowed to send representatives to the general parliaments (Senatore, 2023). Monarchs used these Medieval and Early Modern assemblies as a device for political bargaining (Bates and Lien 1985, North 1990 and 1991, Tilly 1990, Downing 1992, Ertman 1997, Barzel and Kiser 2002, Timmons 2005, Wickham 2013) and for compelling (Boucoyannis 2015 and 2021, Young 2021) the different political constituencies, including the KOTs. These general assemblies with their peculiar prerogatives (Bisson 1973, Blockmans 1978, Stasavage 2010) can also be viewed as a device for long-term persistence (Bologna Pavlik and Young 2020 and 2021).

In terms of the local KOT assemblies, the southern municipal councils were systematically characterized by constituencies that represented the local nobles and the bourgeoisie, or commoners (Faraglia 1883, Cirillo 2011). The two classes were active in implementing the self-governance institutions that characterized the KOTs and in promoting rights negotiations when that opportunity

arose. In general, the rights delegated from the Crown to the towns were fiscal and administrative grants (Senatore 2023).

The town representatives acted as judges in local courts, as well as in state courts if the town was sued, held powers for ratifying agreements, traveling to Naples to submit charters and pledges for the crown's approval (Cirillo 2011). Some historical narratives are particularly interesting from this point of view.

In Bari, as in other KOTs like Trani, Nardò and Castellamare di Stabia, doctors and other members of the rich bourgeoisie shared civic administration of the city with the local nobles (Visceglia 1992, Cirillo 2011). In Molfetta, the town's patriciate proposed that the community redeem itself from the feudal yoke and become part of the king's property (Visceglia 1992). In Isernia, the town's patriciate suggested paying the king in order to ensure KOT status. They even organized a money-raising campaign (Cocozza 2019). In Campobasso, the use of the redemption option was sponsored by a group of 144 citizens who collected the necessary funds. Of those 144 inhabitants, 20 were emerging entrepreneurs in the livestock sector and many others were merchants (Cocozza 2019). After Count Tramontano was murdered in Matera in December 1514, the town had to pay to the kingdom 10,000 ducats as a fee for the redemption, that has been conceded in May 1515. The community then sent its deputies to Spain to bargain for the stability of the town within the Crown's property (Giura Longo 2000, Morano 2000). Moreover, in terms of cultural values, the KOTs representatives were proud to act on behalf of a town with direct links with the Spanish monarchy (Foscari 2000, Spagnoletti 2002).

In general, the role of KOT representatives in promoting negotiations with the Crown can be viewed as a peculiar persistence mechanism. The identification of persistent mechanisms can be useful for understanding how a historical change in urban governance in a context of economic and social backwardness with a lack of associative life and trust (Friedmann 1954, Banfield 1958) can trigger civic values that boost human-capital skills and lead to collective gains. These skills and gains can become persistent over time (Ostrom 1990, Putnam et al. 1993, Guiso et al. 2016), and be transmitted from generation to generation through education or socialization (Bisin and Verdier 2000 and 2001, Tabellini 2008 and 2010). In other words, a change in urban governance can be interpreted as an institutional shock that, through a peculiar mechanism, can alter the cultural attitudes of a town's inhabitants. Education and socialization become channels that transmit such attitudes in ways that outlive the historical change itself (Arroyo Abad and Maurer 2021).

KOT status strengthened the ability of town representatives to negotiate with their counterparts. The role of rights negotiations has been considered crucial in explaining the evolution from fief towns to communes in the North-Centre Italy (Miur 1999). Regarding the kingdom of Naples, in negotiations between a feudal town and a landlord, the goal was to ensure the respect of general human rights and liberties (Galanti 1793), such as the observance of fair principles in judiciary processes or the possibility for the fief's inhabitants to access the territory's water and natural resources. Such principles were already ensured in a KOT, which was free from the baronial yoke (Galanti 1793, Buffardi and Mola 2005). Therefore, negotiations between a KOT and the Crown, that shape its municipal statute, were more focused on policy issues, such as minting and trade, but especially taxes.

Two specific cases help to shed light on the effects of bargaining between the KOT representatives and the Crown. In L'Aquila, the KOT status underwent five waves of reforms (1442, 1458, 1464 and two in 1496) that changed the liberties and franchises accorded to the town, yet not always in the same direction (Terenzi 2012). Another well-documented series of negotiations between a KOT and the Crown concerned the city of Matera, which was a KOT from the time of Frederick II to the fifteenth century (Gattini 1882). In some cases, alliances with neighbour feudal lords strengthened the role of the KOTs representatives (Spagnoletti 2002).

Tax policy represented the core of the bargaining power of the KOT representatives, given that the local communities were the back-bone of the fiscal system in the kingdom of Naples, where from the fourteenth century onwards income tax constituted more than half of the total amount of overall income, reaching roughly 85-100% during the sixteenth and seventeenth century (Bulgarelli

Lukacs 1993, 2012, 2016), while the property tax were less used (Alfani and Sardone 2015). For any community, the central government defined income taxes according to the number of households/hearts, supplemented by taxes on consumption, and the taxes were paid by the municipalities after being levied from the citizens; in a sense, the municipalities were at the same time taxpayers to the Crown, given the principle of joint liabilities – all the phases and risks of the taxes proceedings remained the municipality's responsibility - and tax collectors from the inhabitants, given that local representatives had a free hand in the tax sector, apart from the obligation to communicate their choices to the government bodies, and these did not withhold their consent, as well as to fulfil tax obligations completely and punctually (Bulgarelli Lukacs 1993, 2012, 2016).

The collective action of the KOT representatives can help to explain another feature of this urban governance architecture – all 70 KOTs in the Kingdom of Naples paid lower taxes in a period when direct taxation represented the main source of revenues for the Crown and, consequently, tax allocation was the main disputed issue among the Crown, the barons and the KOTs (Manicone 2016).

Notably, the tax-policy profile is crucial when exploring the possibility of persistence, as different feudalist settings are associated with different extractive taxation policies (Guiso et al. 2016, Bisin and Verdier 2017). In this respect, three pieces of evidence can be highlighted. First, the KOTs were not subjected to the standard feudality tax (*Adogo*) (Mazzella 1586). Second, they were exempted from paying their share of a kingdom tax (*Donativo*) to the barons (Mazzella 1586). On the opposite, both of these Crown privileges negatively affected the feudatories, which in turn placed the burden on the inhabitants of their fiefs and towns (Mazzella 1586, De Rosa and Cestaro 2006). At the same time, these privileges seem to be neutral from the perspective of the kingdom's finances. Third, 42% of households in KOTs in the late sixteenth century were exempted from all ordinary direct taxation (Gatti 2022). As such, they represented 71% of the available fiscal exemptions that the kingdom conceded to households, notwithstanding the KOTs represented only the 18% of the global population.

In summary, the KOTs enjoyed higher degrees of self-governance than fief towns, even though the former's institutional setting cannot be compared with the complete autonomy of towns in northern Italy during the free city-state period. The free city-states were municipalities with their own fiscal, monetary and foreign policies. In fact they also had their own courts for both civil and penal law, and they could mint coins and raise armies (Jones 1965, Hyde 1973, De Long and Shleifer 1993, Epstein 1993 and 1999). However, KOT status provided towns with self-governed institutions.

Finally, it is worth nothing that not only political dynamics but also cultural dynamics can strengthen or weaken long-run patterns (Bisin and Verdier 2017) after a historical shock – in our case, a change from fief to KOT – affects a town.

With regard to the role of culture, we note one more peculiarity of the Spanish period that could deserve attention in future analyses of the KOT case. Between 1504 and 1541, the Crown expelled the entire Jewish population from the Kingdom of Naples and stated Jews would not be allowed to return for three centuries (Pascali 2016). Such a religiously motivated event that affected the entire kingdom could be a factor that changed the relative political balance between nobles and the bourgeoisie. On this respect, it is worth noting that another interpretation of the expulsion of the Jews in Naples could be the aim to reduce the power of nobility; the nobles borrowed money from the Jewish community, and since the Jews had to leave the kingdom immediately, the nobles have to pay immediately their debts, ending up in bankruptcy (Natale 2021). Moreover, the involvement of the clerics may have acted as an accelerator – either positive or negative – of extractive fiscal policies. At the same time, the Jewish presence in the Italian towns sensibly influenced credit and growth in period of the communes (Botticini 2000).

In this respect, economic analyses have shed light on three potential channels. First, a direct effect of Jewish lending on the private credit markets for both households and entrepreneurs has been identified (Botticini 2000, Botticini and Eckstein 2010). However, in southern Italy, money lending was

never the main occupation of the Jewish population (Botticini and Eckstein 2010). Second, an indirect effect relates to the fact that local credit institutions (*Monti di Pietà*) established by town governments were created under the pressure of Franciscan preachers, who aimed to ban Jewish lending from towns (Abulafia 2000 and 2008, Botticini 2000, Todeschini 2004, Toch 2005 and 2011, Botticini and Eckstein 2010, Sapir Abulafia 2011, Pascali 2016). Third, we assume the presence of a cultural effect. More specifically, in light of Christian-Jewish relationships (Bratchel 2008, Schwarzfuchs 2019), Jewish lending activity can be viewed as an unintended device of financial literacy in towns where Jewish money lenders were present. Notably, in 1740, King Charles III called back the Jewish communities. His motivation for doing so was the positive spillovers of their presence for the inhabitants in terms of knowledge and practices (Volpe, 1844, p.27). In other words, religion became a factor that influenced human-capital accumulation (Squicciarini 2020) and, consequently, growth (Iannaccone 1998, Iyer 2016). Jewish communities were present in southern Italy (Adler 1901, Von Falkenhausen 2012) and the Jewish demography in 1500 has been used as an instrument in testing persistence in banking development across Italian cities (Pascali 2016).

4. KOTs and Long-Run Persistence: The Case of Southern Italy

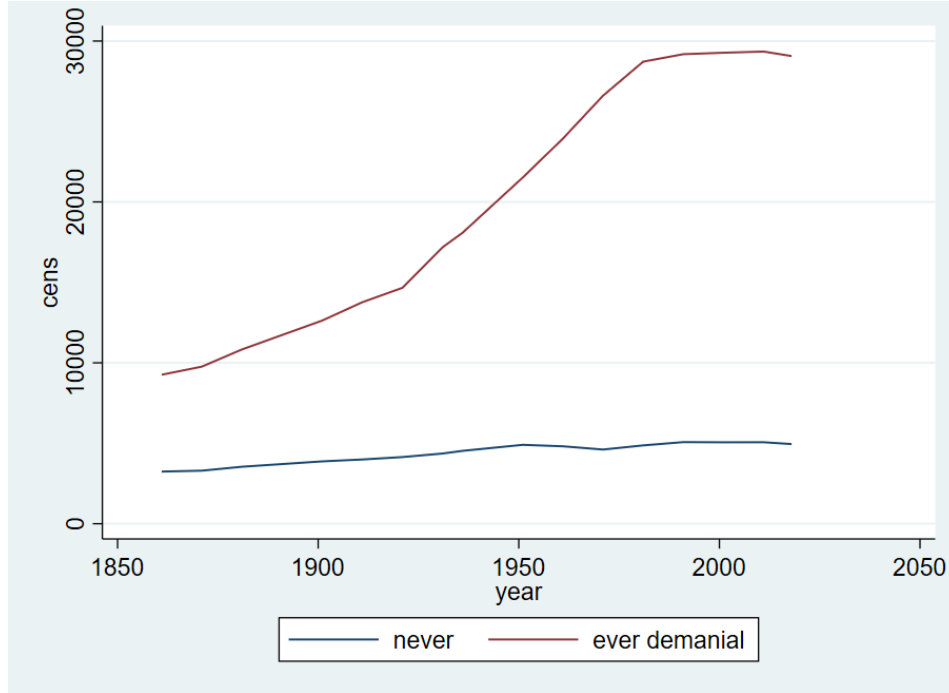
In this section, we empirically investigate the connections between the KOT institutional setting and current socio-economic outcomes. To track the historical institutional shock to current outcomes, we built a dataset covering all current municipalities in southern Italy that once belonged to the Kingdom of Naples and for which historical data were available (1,374 cities).

Our analysis focuses on the municipalities that were granted KOT status during the Spanish period. Hence, we used a dummy indicator that took a value of 1 for the municipalities listed by Mazzella (1586) as KOTs but were not classified as KOTs in the 1440s by Galanti (1793). As Galanti (1793) does not include information on KOTs in two provinces (*Calabria* and *Terra di Otranto*), we considered the status of the towns in these provinces reported for the 1280s by Gattini (1882). This left us with 61 municipalities classified as KOTs in 1586, of which 37 acquired their status during the period of the Spanish kingdom.

A town's KOT status was related to exogenous and heterogeneous Crown decisions. However, several factors affecting the probability of becoming a KOT could be endogenously determined, such as for example the ability to collect the required amount of money in the case of a town redemption call. Hence, to disentangle the impact of the institutional change, we controlled for pre-existing economic conditions. As a proxy for the economic size of towns, we considered the number of households in 1532 as reported by Giustiniani (1797-1816). Those municipalities that had, at some point, held KOT status were statistically larger, on average, than other towns in 1532. This difference holds even when comparing the subset of those becoming KOTs under the Spanish kingdom with those never holding KOT status.

Rapid and sustained economic growth is a relatively recent experience. Moreover, as extensively observed in the empirical literature (Galor and Mountford 2006, Desmet et al. 2020, Broadberry 2021), significant economic divergences across economic units arose after the Industrial Revolution. However, the historical institutional setting may have created suitable economic conditions to thrive during industrialization. Figure 1 reports the evolution of population since 1851 using Italian Statistical Institute (ISTAT) census data. It compares municipalities that held KOT status to those that did not, and compares municipalities granted KOT status under the Spanish reign to those that were never exposed to this institutional shock. In both cases, we observe a divergent pattern in the evolution of population over time, especially from the second half of the twentieth century.

Figure 1 – Census population for KOTs and non-KOT cities, 1851-2018



To investigate the potential long-run impact of KOT self-governance, we estimate the following model:

$$y_i = \alpha + \beta KOT_i + \gamma Geo_i + \delta Size_i + \epsilon_i,$$

where y_i is the outcome variable at the municipal level in present times; KOT_i is a dummy that takes a value of 1 for KOT; Geo_i is a vector of geographical controls, including city elevation (*elevation*), the maximum difference in elevation (*range_elevation*) and a set of dummies of subsections of ecoregions (a classification adopted by ISTAT identified on the base of homogeneity with respect to climatic, biogeographical, physiographical and hydrographical factors); and $Size_i$ is a measure of economic size in the 1500s as proxied by the number of families.

In Table 1, we report the results of the estimation in which the dependent variable is income per taxpayer in 2018 (ISTAT) in logs. Columns (1) and (2) report the results of the baseline model. Historical size, as measured by the number of households in the 1500s, is positively associated with current economic performance. Moreover, municipalities classified as KOT between the 1240s and the 1590s are statistically associated with a higher level of income per capita. We obtain the same positive association when considering only cities granted KOT status during the Spanish period. The results are robust when dummies identifying ISTAT subsections of ecoregions, capturing a broader set of climatic and geographical characteristics, are added (columns 3 and 4).

Finally, in columns (5) and (6), we control for the presence of bishops before the transformation of towns into KOTs. This serves as a proxy for the relative importance of the town and can be correlated with the redemption of the city itself. However, while the presence of a bishop is positively and significantly correlated with current income per capita, the estimated coefficient for KOTs is again positive and significant and similar in magnitude to the previous specifications.

Table 1 – Income per capita and KOTs

Log(Income per capita, 2018)	(1)	(2)	(3)	(4)	(5)	(6)
KOT ever	0.129*** (0.016)		0.111*** (0.016)		0.106*** (0.019)	
KOT 1500s		0.052** (0.025)		0.053** (0.025)		0.062** (0.028)
KOT 1240s		0.177*** (0.028)		0.177*** (0.028)		0.167*** (0.028)
Elevation	-0.006 (0.008)	-0.013 (0.008)	-0.010 (0.009)	-0.008 (0.009)	-0.006 (0.009)	-0.005 (0.009)
Range_Elevation	-0.017** (0.007)	-0.012 (0.007)	-0.019** (0.008)	-0.018** (0.008)	-0.021*** (0.008)	-0.020** (0.008)
Households 1500s	0.011** (0.005)	0.016*** (0.005)	0.018*** (0.005)	0.020*** (0.005)	0.013** (0.005)	0.014** (0.005)
Bishops (XI-XII cent.)					0.035** (0.015)	0.032** (0.015)
Constant	9.599*** (0.035)	9.591*** (0.035)	9.697*** (0.079)	9.711*** (0.079)	9.682*** (0.060)	9.663*** (0.059)
Observations	1,132	1,132	1,132	1,132	929	929
R-squared	0.119	0.099	0.242	0.239	0.207	0.213
sottosezioni FE	NO	NO	YES	YES	YES	YES

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

4.1 Long-run Persistence and Civic Capital

A positive historical shock may give rise to long-run persistence through the cultural channel. In Table 2, we use the number of non-profit organizations recorded in every town per 1,000 inhabitants as a measure of civic capital, in line with Guiso et al. (2016). For all of the specifications, we consider geographical controls, and we control for initial population, the number of households in the 1500s and the current population. We find a positive and robust association between KOT status and the current number of non-profit organizations. This effect is even stronger for those towns granted KOT status in the 1500s, after excluding those already under the king for economic or military reasons. The results are robust when we control for the presence of a bishop seat in the town in the eleventh and twelfth centuries (columns 3 and 4). Moreover, we re-ran the analysis using the number of volunteers per 1,000 inhabitants – a better measure of commitment to volunteer activities for the community – as a measure of civic capital. The results were confirmed.

Table 2 – Civil Capital and KOTs

Civic capital	Nonprofit organizations (per 1000 inhabitants)				Volunteers (per 1000 inhabitants)	
	(1)	(2)	(3)	(4)	(5)	(6)
KOT ever	0.755*** (0.198)		0.547** (0.226)		7.964** (3.983)	
KOT 1500s		0.904*** (0.339)		0.917** (0.363)		11.338* (6.738)
KOT 1240s		0.288 (0.431)		0.316 (0.423)		8.173 (7.980)
elevation	0.530*** (0.142)	0.517*** (0.143)	0.429*** (0.140)	0.416*** (0.140)	6.719** (3.014)	6.683** (2.996)
range_elevation	-0.345*** (0.125)	-0.328*** (0.126)	-0.344*** (0.124)	-0.329*** (0.125)	-3.514 (2.848)	-3.375 (2.844)
households 1500s	0.187*** (0.066)	0.214*** (0.066)	0.132** (0.067)	0.133** (0.066)	4.636*** (1.743)	4.732*** (1.701)
current pop	-3.744*** (0.718)	-3.902*** (0.746)	-2.793*** (0.876)	-2.814*** (0.906)	-53.918*** (16.626)	-53.396*** (17.109)
current pop squared	0.217*** (0.042)	0.228*** (0.044)	0.162*** (0.050)	0.164*** (0.052)	2.760*** (0.944)	2.732*** (0.976)
bishops (XI-XII cent.)			0.461** (0.204)	0.473** (0.204)		
Constant	21.667*** (3.020)	22.137*** (3.097)	15.251*** (3.785)	15.293*** (3.909)	326.629*** (73.135)	323.338*** (74.459)
Observations	1,115	1,115	919	919	1,097	1,097
R-squared	0.247	0.244	0.144	0.146	0.185	0.185
Geographic FE	YES	YES	YES	YES	YES	YES

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

5. Conclusion

In the stream of literature generally referred to as persistence studies, researchers assume that historical episodes of local self-governing institutions can explain the persistence of differences in socio-economic performance among territories. This assumption has been tested by comparing free city-states (communes) and feudal towns in Italy, England, Germany and Switzerland.

The aim of this paper is to explore a third and novel category – the king-owned towns (KOTs) that were present in Spanish-controlled southern Italy – a unique category within the feudal institutions of the Middle Ages. The KOTs emerged when the Kingdom of Naples delegated jurisdictional and fiscal powers to the towns' ruling classes, thereby creating a self-governance setting. The KOTs represented, on average, 18% to 19% of the kingdom's population, although the share reached 22.85-29.50% in some areas.

We find that, in southern Italy, a town's past king-owned experience is correlated with current outcomes in terms of both economic performance and civil capital. These results offer evidence that the KOT status is more similar to the commune experience than to the fief experience. Moreover, the historical narratives we collected allow us to develop an explanation that is consistent with the general view that political classes and their cultural traits can shape the relationship between self-governing bodies and long-run performance in a given territory.

In terms of urban governance, we considered a KOT as a town with two classes – nobles and the bourgeoisie. In both fief towns and KOTs, local assemblies were present, but KOT status constituted a substantial change in the institutional setting with respect to the feudal status. Under the feudal regime, the town was ruled by an autocratic leader, while local representatives administered civil and penal justice and levied taxes in KOTs.

In our interpretation, the self-governance setting of the KOTs allowed the towns' ruling classes to more directly participate in public life through their involvement in rights negotiations with the kingdom. In our exploration, these rights negotiations represent the persistence mechanism. This activity generated progressively and endemically positive spillovers in terms of individual skills and collective gains. More specifically, individual and collective choices tended to become more efficient and effective, while rules and institutions became less extractive. All in all, our results suggest that KOT status is more similar to commune experience than to fief experience, being a device to develop collective decision skills; at the same time, the unstable nature of the KOT status inhibited the strengthening of these capacities in the local communities.

In general, the role of fiscal policies in the KOT experience deserves more investigation. More specifically, it is important to collect more historical evidence on this persistence mechanism without excluding the possible existence of other channels.

Moreover, institutions and culture can go hand in hand – less extractive institutions weaken the incentives to transmit a rent culture, which can further increase the likelihood of less extractive rules. The opposite is also true, as culture can slow the transition away from extractive institutions.

The role of culture in the KOT experience deserves further exploration while taking into account the fact that the Spanish Crown expelled the entire Jewish population from the Kingdom of Naples. This law focused on a religious minority. In this regard, religion can serve as a way to strengthen or weaken the ruling classes, with implications for political and cultural dynamics. At the same time, the Jewish presence sensibly influenced credit and growth in the period of the communes in northern Italy. As such, the presence of Jews in KOT towns could be a useful instrument in further investigations.

On the same vein, given the assumption that juridical knowledge – that can be proxied using the presence of universities (Belloc et al. 2017) –, and/or the ubiquitous role of the notaries (Miur 1999, Verboven and Yontcheva 2022) – played a role in the emergence of the communes, it could be interesting to investigate if such a driver matters also in the KOT experience. Finally, the creation of civil capital in the communes in the northern and central Italy has been associated with the use of religion – for example the celebration of the patron saints – as a device to strengthen the communal ideals (Miur 1999); it could be wondered if the same phenomenon of civic religion characterized the KOT towns in the South Italy.

Finally, and remaining in the history of Hispanic monarchy in the same period, also in Sicily the KOTs experience has been present (Ligresti 2010). Moreover, in the Hispanic peninsula, precisely in Castile, authority rested with the towns and cities, initially organized in the Cortes, later in direct negotiations with the crown ((Irigoin and Grafe 2008). In the Cortes experience the monarchy allowed the extension of the rights of town self-government, converting a traditional practice of town emancipation into a money making venture, triggering municipalities independence, as well as competition and conflicts among neighbours (Nader 1990). It is worth noting that the Cortes case had been compared with cases of shifts in jurisdictions in the Spanish Lombardy one century later (Amelang 1993), with peasant initiatives in transfers of villages from royal to feudal domains (Sella 1979). All in all, and remaining in the early modern times, the Sicilian KOTs and the Castilian Cortes could be other cases of urban governance that may deserve further research.

6. Appendix: Nobles and Commoners, Right Negotiations and Persistency in a King-Owned Town.

In general we assume the view that, given a local institutional change, the intertwined dynamics between policies and culture can produce endogenously and persistently socio-economic outcomes. In our case, given the King-Owned status of a town, that can be considered the origin of our narrative, and the fact that different feudalist settings are associated with different extractive policies, the persistent relationships between policies, culture and economic efficiency in a KOT can be described using and modifying the conceptual framework proposed in Bisin and Verdier 2017.

We consider a KOT as a town populated by two classes - nobles and commoners— and tax policy is designed by the Crown. Moreover, nobles and commoners have distinct cultural traits: nobles value leisure more than commoners. Taxation is the relevant public policy, where this policy can be more or less extractive, depending on how much taxes on labour finance public good production. In the kingdom of Naples income taxation represented the main source of revenues from the Crown, and consequently tax allocation became the main disputed issue between the Crowns, the barons and the KOTs.

In equilibrium, given a common technology that transform labour into private consumption goods, eventually nobles enjoy leisure and commoners work. The King used tax policy on labour income to finance public good consumption, that both nobles and commoners appreciate. Therefore any feudalist setting is associated with a more or less extractive taxation policy, given that taxes burden on work only. The tax burden reduces the commoners' effort, triggering negative spillovers in terms of efficiency. If the King chooses the tax rate without internalizing such as spillovers, taxation tends to be excessive, producing inefficient economic outcomes.

With excessive taxation, it is possible that nobles can prefer less extractive policies. A lower tax rate will induce the commoners to work more, increasing the public good production, i.e. the efficient outcome. In parallel, in a KOT culture and policies can be both complements or substitutes. In the more favourable mix, policies and culture go hand in hand: less extractive policies weaken the nobles' incentives to transmit their grasshopper culture, reducing dynamically the leisure class, which in turn can further increase the likelihood of even less extractive policies. The opposite is true when culture can slow down the transition away from extractive taxation policies. In other words, in principle the self-governing bodies of a KOT can produce either efficient or inefficient outcomes.

Let the utility function on any class i be as follow:

$$u^i(a^i, G, p) = u(a^i(1 - p) + s) + \theta^i v(1 - a^i) + \omega G \quad (1)$$

Where the letters denote respectively: a = labour, G = the public good, p = the tax rate, s = initial endowment, θ = leisure preferences. Let now assume that nobles be respectively class $i=1,2$. Any class can transform labour into private consumption goods. Moreover we assume that nobles are grasshoppers and commoners are ants, i.e. $\theta_1 < \theta_2$. Both nobles and commoners consume public goods which are tax financed, given the Crown budget constraint, and let q be the fraction of the of the population:

$$G = p(a^1 q + a^2(1 - q)) \quad (2)$$

The production of financed public goods is the device to capture any externality that in this economy can arise: the nobles' utility depends on commoners' action, and vice versa. The Crown defines its tax policy taking into account the overall utility function. Here the role of the institutional setting comes in.

The institutional setting is a commitment device that the political system implements to internalize the externalities that can harm the socio-economic. In our case, the relevance of the preferences of different classes can be captured through a series of weights β_i (Bisin and Verdier

2017), and the nature more or less extractive of the taxation policy depends on how the institutional setting is designed.

Two equilibria can arise. If the King is able to internalize any externality, it is possible to define a Stackelberg Nash equilibrium, in which the King is the leader and both nobles and are followers (commitment equilibrium). Otherwise, a Nash equilibrium represents the simultaneous equilibrium between Crown, nobles and commoners(societal equilibrium). In general, the commitment equilibrium is more efficient than the societal equilibrium.

In this case a conceptual question arises: how likely is a King commitment? In general terms, two different cases can be analysed: the *helping-hand view* (Pigou 1938) assumes that the Crown, acting as a benevolent dictator, wishes to please all inhabitants, rather than a particular constituency or lobby (the *grabbing-hand view*) (Shleifer and Vishny 1998). If the King behaves as a benevolent policymaker, and his goal to internalize any externality is credible and feasible, the commitment equilibrium is more likely.

Alternatively, we can use the *grabbing hand* (GH) view of the political action. According to the grabbing hand approach, policymakers are motivated by a desire to please specific, well-defined voters in order to increase their consensus. In our cases, such perspective implies that the King can please the nobles, or the commoners, depending on which class support is more relevant in terms of his own utility, case by case and time to time. In this case the commitment equilibrium is less likely.

Therefore, for any policy set-up θ , and given the distribution of the town by cultural traits q , it is possible to identify both the societal and the commitment equilibrium, and in general the key relationship between optimal taxation policy and the relevance of the commoners: the lower is the weight of the commoners, the higher will be taxation, as well as its associated inefficiency.

Assuming that the dynamics of policies is governed by the need to reduce the commitment problem to internalize the externalities responsible for inefficiencies, it is possible that the institutional dynamics in a KOT can modify the fiscal relevance of the commoners.

In parallel, for any policy outcome, if we assume that cultural transmission is modelled as the result of direct vertical (parental) socialization and horizontal/oblique socialization, with their corresponding socialization costs (Bisin and Verdier 2017), the incentives to socialization are associated with the policy properties: for examples, higher rent extraction on labour are associated with an higher transmission of the grasshopper culture.

Finally, assuming some degree of paternalistic motivations for cultural transmission, stronger parental socialization for cultural minorities, as well as for the relatively stronger political class (Bisin and Verdier 2017), the joint evolution of culture and policies can produce specific equilibria, where political and cultural dynamics can be both complementary or substitutes. The role of two different drivers become even more evident if classes are distinct in terms of political relevance and cultural traits.

In other words, both political dynamics – nobles versus commoners – and cultural dynamics – grasshoppers versus ants – can strengthen or weaken a specific long run equilibrium pattern, after that an exogenous shock – from fief to KOT – hit the town. Moreover, the event with religious motivation that hit the overall Kingdom – the edict that expelled all Jews – could be a factor that change the relative political empowerment between nobles and commoners, having the clerics as a factor that time to time can act as an accelerator – either positive or negative – of extractive fiscal policies. On this point of view, the presence of Jews in KOT towns could be a useful instrument for further investigations.

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