Accounting reforms in the Papal States: budgetary practices under the papacy of Gregory XVI and Pope IX (1831-1870)

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Abstract

The Papal States represent a unique and long period in Italian government and in the government of the Roman Catholic Church prior to Italy's unification in 1870. The 25-year period prior to unification was a particularly tumultuous period when the Papal States struggled for survival, faced military and popular challenges and became increasingly indebted. Accounting could become an important tool to assist decision-making and enhance the Papal States' sustainability, as shown by the governance reforms promulgated by Pope Pius IX in this period. Nevertheless, accountants chose what to make visible and emphasised secular, rather than the sacred aspects of the Papal States. Despite reforms, there was a disconnection between the leaders and the accountants. This research therefore examines the role of accounting in such an institution, and extends the concept of a sacred-secular divide to a state government beset by resource constraints and challenged to fulfil its spiritual aims.

Keywords: Papal States; State Budget; Sacred and Secular; nineteenth century.

Accounting and governance in the final years of the Papal States: dual roles in the papacy of Pius IX (1846-1870)

1. Introduction

This paper investigates the governance reforms and accounting practices of the Papal States from 1846-1870. It builds on the growing number of studies of accounting practices in religious organizations and of the relationship between accounting and religion (Carmona & Ezzamel, 2006; Cordery, 2015). It adds to the limited amount of contemporary literature published in English language journals on the Papal States as a structure combining state and church government (see below: Coronella, Lombrano & Zanin, 2013; Gatti & Poli, 2014; Madonna Maran & Cestari, 2014). Other research examines accounting practices within institutions of the Roman Catholic Church ("the Church"), its religious orders, monasteries, confraternities and dioceses. These show that accounting was a necessary function in the management of the sacred, but that not all agreed with its use (e.g. Alvarez-Dardet Espejo, Lopez Manjon, & Baños-Sánchez Matamoros, 2006; Bigoni, Deidda & Funnell, 2013; Dobie, 2008; Gatti & Poli, 2014; Leardini & Rossi, 2013; Llopis, Fidalgo & Méndez, 2002; Madonna, et al., 2014).

By way of context, the Papal States was officially formed in 752 and existed until the unification of the Italian States in 1870. Our study considers the last 25 years of its existence. The Papal States covered an area of about 40,000 square kilometres and reached a peak of 2,800,000 inhabitants in the mid-nineteenth century (Stato Pontificio, 1857a). At its zenith, it covered most of the modern Italian regions of Lazio (which includes Rome), Marche, Umbria and Romagna, and portions of Emilia. The longevity of the Papal States is in contrast to the fragility of the other pre-unification Italian states[1]. It had a crucial role in European history, due

[1] These include the contested Carolingian empire of Lombardy, much of which was taken over by the Duchy of Milan; the Republic of Florence (1115-1569 and followed by Medici rule), and the Kingdom of Naples (1282-1816) until Sicily revolted and then re-joined as the Kingdom of Two Sicilies.

to the centrality of papal teachings in the religious life of a large part of Europe. When compared to the more fragile Italian states, its organization by clergy and civilian (lay) bureaucracy represented a critical factor in its survival, allowing it to resist political and military attacks, riots and religious reforms. However, it was beset periodically by spiritual and political crises, which endangered its survival (e.g. Bossi, 1912, Farini, 1850; Tomassini, 2013) and in this paper, we highlight reforms that were designed to avert such crises and improve decision-making through enhanced visibility. Nevertheless, the Pope's governance and accounting reforms did not affect what was made visible in practice, as highlighted in this research. This disconnection between the reforms and practice provides a warning for similar reforms today.

Until 1870, the Pope held both temporal power (political authority over secular matters) and spiritual power (authority over the church and spiritual matters).[2] The Church justified the Papal States' sovereignty, on the basis that it required a strong, wealthy and autonomous national state, in order to control and perform its spiritual function (Manning, 1862; Owen Legge, 1870; Chandler, 1909). As Roman Catholics ruled many countries, including Spain, France, and the Habsburg Empire, the Church influenced Europe's political context and institutional life. Contemporaneously, the Spanish, French, and Hapsburgs also controlled the weak (non-Papal) small regional Italian states and sought to use this power to reduce Papal power. On the contrary, the Pope sought to maintain the political (temporal) autonomy of the Papal States and his authority to establish spiritual teachings (Papal magisterium) across the

2 When French troops were recalled from Rome to support the Franco-Prussian War from 1870-71, the first king of a unified Italy - Victor Emmanuel II - invaded and captured Rome on 20th September 1870, ratifying the annexation of the conquered territories to the Kingdom of Italy 19 days later. In response, Pope Pius IX excommunicated the King and Savoy family (Tomassini, 2013). While he no longer had temporal power, Pius IX continued to lead the Catholic Church for a further eight years, until his death in 1878. Following the demise of the Papal States, the "Roman Question" developed (Bonfanti, 1977; Cirelli, 1997; Jemolo, 1938; Piola, 1969): could Rome be both the capital of the unified Italian State and the Pope's home? The Pope did not wish to be ruled by an earthly king, but sought to rule the Church from Rome. The Roman Question was resolved by the Lateran Treaty 1929, where it was agreed that the State and the Roman Catholic Church are, in their own sphere, independent and sovereign. The Holy See, within which the Vatican City lies, is now commonly accepted internationally as a separate sphere.

Western world (Jemolo, 1962; Mori, 1967). Nevertheless, in 1870, the Papal States territory was occupied by the Piedmontese army and annexed to Italy.

In this paper, we analyse the accounting system, reforms and practices during the final stage of the Papal States' existence from 1846-1870 when Pope Pius IX was the Head of State and the Church. Pius IX was a liberal and innovative Pope (MacDonell Dawson, 1880; De Mattei, 2004; Cannone, 2012), in a period beset by scandals and serious questions connected to the Papal States' governance and its "public sector accounting". Scandals include:

- corruption (including simony where offices could be bought, or at least those who held high office could be personally enriched from their efforts – Bossi, 1912 or use insider knowledge to gain from regulatory changes – Pentini, 1863; Bossi, 1914);
- outright theft (for example, the finance lieutenant at the mint was fired in 1851 for metal theft – Pentini, 1863);
- nepotism (appointment of family members to responsible positions without merit, such as heading the railways, banks and other positions that enriched them – Aubert, 1961);
- favouritism in appointing non-clerics to high church positions (for example Consalvi and Antonelli – both secretaries of state – Tomassini, 2013); and
- squandering of resources (Farini, 1850).

The bureaucratic response to governance reforms to reduce such scandals are informative in addressing similar challenges today.

Our research aims are to examine and extend the concept of a sacred-secular divide to a state government struggling from resource constraints and challenged to fulfil its theological aims. We show that accounting could indeed be useful to the sacred state. This study offers several contributions to the accounting literature. First, the Papal States' financial statements show the disconnection between the sacred aims of the State and its actions: procuring illegitimate revenues, borrowing from non-Catholic lenders and diverting donations as the Papal States fought against demise. Second, we extend the application of the dichotomous 'sacred and secular divide' approach to a religious and political institution, and develop a framework to discuss the 'sacred and secular divide' in four different 'fields' (see theoretical discussion below). In doing so, we present another dimension to that literature, showing how differences between a leader's intent to balance the sacred and secular, and accountants' actions to prioritize secular accounting over the sacred, impacted the Papal States' survival.

The next section reviews the literature on the sacred-secular divide to develop a framework for analysis. The method and context are presented before the data is analysed. The discussion and conclusions include limitations and areas for future research.

2. Is there a divide between the sacred (religious) and secular (accounting)?

As noted, the international literature on the Papal States and accounting is scarce. Coronella et al. (2013) compare and contrast accounting practices of the Papal and other pre-unification Italian states in the first half of the nineteenth century, while Gatti & Poli (2014) analyse how the Pope used accounting reforms in the late sixteenth and early seventeenth century as a tool to concentrate and centralize a 'modern' Papal State. Gatti & Poli (2014) suggest the Pope's spiritual power was essential to Papal State reforms in 1592 and accounting provided a mechanism to support that power, we analyse the later development of the accounting system of the Papal States as an entire organization, which was at the same time a secular-political state as well as a religious one.

Numerous calls have been made to extend the 'sacred and secular divide' concept beyond specific case studies (Hardy & Ballis, 2013; Irvine, 2005; Jacobs, 2005; McPhail, Gorringe, & Gray, 2005). (This sociological paradigm is also labelled the 'sacred and profane divide': Durkheim, 1915; Eliade, 1959). We use this longitudinal case to extend the divide through splitting the dichotomisation into four fields, each of which are now described (see Figure 1).

Accounting research into history and religion has previously utilized the notion of a divide between the sacred and secular (Cordery, 2015; Funnell & Williams, 2014). Laughlin (1988) introduced the concept into accounting, using sacred and secular as sociological concepts to distinguish between sacred (religious) practices and secular (accounting) practices. Laughlin (1988, 1990, 2007) and Booth (1993) who both studied internal accounting and accountability within religious institutions state that, as sacred spaces/ operations, religious institutions are threatened by the encroachment of accounting as a commercially informed activity and governors seek to make it subservient to facilitate the achievement of the sacred "agenda" (see field 1, Figure 1). Thus, a sacred-secular divide opens because the sacred culture is dominant, and although accounting could assist with decision-making, secular tools are relegated to secondary importance. Nevertheless, because the sacred is dominant, accountants may undertake subversive activities to store or shield resources (Fernández Roca, 2010; Lightbody, 2000, 2003).

[FIGURE 1 ABOUT HERE]

Yet, others who have analysed religious organizations argue no sacred-secular divide exists within their case studies (Bigoni et al., 2013; Cordery, 2006; Ezzamel, 2005; Herda, Reed, & Bowlin, 2013; Irvine, 2002; Kuasirikun & Constable, 2010; Leardini & Rossi, 2013; Paisey & Paisey, 2011; Quattrone, 2004). In these cases, religious institutions 'capture' accounting and make it sacred to assist in managing their sustainability.

Scarce resources have been identified as a driver of a sacred and secular divide. This is because those committed to the sacred agenda seek to garner more resources to achieve their mission and, when resources are scarce, they are threatened by 'secular' accounting that limits their access to resources. While Laughlin (2007) believes that the sacred push for full resourcing is 'idealistic' and unlikely to be fulfilled, resource scarcity is likely to lead to accounting being used for decision-making to ensure aims are met (Kluvers, 2001), and/or to increase efficiencies and avert economic crises (Dobie, 2008; Llopis et al., 2002; Rost, Inauen, Osterloh, & Frey, 2010).

In times of relative plenty, some researchers conclude there is no divide (Ezzamel, 2005; Herda et al., 2013; Laughlin, 1988; Paisey & Paisey, 2011) and also find that accounting has more power for decision-making internally. Decision-making may extend beyond the religious institution when it also accounts to external bodies to demonstrate resources are utilized as promised, in order that these bodies make decisions to continue to supply those resources (Bigoni et al., 2013; Bigoni & Funnell, 2015; Cordery, 2006; Irvine, 2002; Leardini & Rossi, 2013) (see field 2, Figure 1).

The third category, shown in field 3, Figure 1, also consists of literature stating there is no divide. However, in this category, accounting is co-opted or can be captured by the spiritual agenda in order to provide different types of visibility. Ezzamel (2005) splits this into organizational visibility (economy and clarity), technical visibility (precise information content and auditability) and dependency visibility (the link between various economic institutions and the sacred entity). For example, the Spanish Government required accounting from certain societies to restrict their secular activities and require them to focus on religious activities (Alvarez-Dardet Espejo et al., 2006). This could be perceived as technical visibility due to the categorization of revenue and expenditures on specific (religious) activities. Also in this quadrant, Fernández Roca (2010) shows accountants choosing what to make (organizationally) visible when the Spanish governments swung between being pro-clerical and anti-clerical in early twentieth century. Benedictine wealth and income was maintained, despite government antipathy towards the Order, due to this organizational visibility.

In a modern-day example, ethical investment policies which guided religious investment fund-making made certain investments more (technically) visible and restricted choice (Kreander, McPhail, & Molyneaux, 2004). While Kreander et al. (2004) found no sacred-secular divide, accounting enabled the operationalization of the 'rules' governing investments and tracing of the source of investment returns, providing an auditable trail.

The notion of accounting making visible (Ezzamel, 2005) may also be extended to Kuasirikun and Constable's (2010) study of early Bangkok, which is in our fourth field. They suggest a socio-religious role for accounting, but highlight the eventual dominance of humanist secular accounting practices in an increasingly commercial society. Religious practices were made both organizationally and technically visible by accounting, but the sacred was pushed aside as accounting dominated, thus creating a secular-sacred divide (see field 4, Figure 1).[3]

There is a scarcity of literature analysing how a sacred and secular state, such as the Papal States, could approach accounting i.e. in which field it would be. The nineteenth century Papal States was sacred due to the "divine character of the royal function of the Pope-King" (Mathieu, 1863: 9) and his support of church. With respect to accounting, for example, the Pope was required to protect Church property (i.e. the Papal States) (Di Segur, 1861: 11) against conversion to private (secular) use. Pope Pius IX (1849) also maintained that secular leadership was "a right that, in the order of Providence, is necessary and essential for the free exercise of the catholic apostolate of the Holy See".

The Pope could govern the Papal States, enjoy secular autonomy, and avoid the influence of European and Italian powers on the Church (Mathieu, 1863). The Papal States had its own coinage and bank (Stato Pontificio, 1850, 1866). Nevertheless, due to scarcity of resources between 1846 and 1870, and in line with the literature suggesting the dichotomy was

[3] None of the other sacred-secular divide literature considers the dependency visbility, although this could be evident in some management accounting history texts.

stronger in times of scarcity (e.g. Laughlin, 2007), we expect the sacred ethos of the Papal States' church-state government would conflict with secular accounting as it battled for survival. How did those practicing accounting in the Papal States manage both temporal survival and the sacred? What was the role of accounting in decision-making, or in making the secular or the sacred visible? We seek to answer these questions, drawing on the sacred-secular 'divide'.

3. Method and archive research

In analysing how the sacred and secular presented themselves in the last years of the Papal States, we provide an explanatory narrative, similar to Rammal and Parker (2012, reflecting Dale Porter's, 1981 theory of historical explanation). We therefore seek to incorporate a focus on the sacred and secular along with its changing context. From several primary and secondary sources, we reconstruct and interpret the political and religious as well as economic aspects of the Papal States in the time period chosen. While this approach may have shortcomings in terms of availability of documents and understanding of a specific period, judgement was used to understand the operationalization of the sacred-secular in the Papal States. Rammal and Parker (2012) also took this approach in their analysis of Islamic banking.

The main primary source documents from the Papal States comprises those in the Rome State Archive, which holds all archive material kept during the previous papacies, up until Rome's annexation to Italy in 1870. The second primary source, the *Archivum Secretum Vaticanum*, is maintained at the Holy See. In particular, we sought archival evidence on how accounting was organized during the final period of the Papal States and how it was used to manage the Papal State. In order to critique the sacred-secular divide, we collected evidence both of activities by Pope Pius IX and his predecessors, and the outputs and commentaries regarding the accountants engaged in the relevant government ministries, who were responsible for the Papal States accounting.

The documents examined comprise the official collection of laws and acts over the period studied, financial regulations (such as *motu Proprio*, Laws and Edicts issued by the Pope and the Secretary of State), state budgets for the period 1846-1870 and revenue and expenditure accounts, statistics and censuses, and other official documents such as those for the rates and the mints. Accounting reports on state bonds bought by the Rothschild Bank and Peter's Pence were also analysed. Many documents from these archives have been reproduced, but not accounting books, which were photographed and re-examined individually. In this paper, Section 5.1 uses mainly laws and edicts issued by the Secretaries of State and the Pope (*motu proprio*) following a reconstruction of the staffing of the relevant ministries. The accounting evidence supports Sections 5.2 to 5.4.

We also used secondary sources to assist in context framing. These included books and pamphlets by scholars, laics and clergy who wrote essays and histories of Popes and Cardinals, contemporary to the events. Some historical notes about those involved in managing the finance and the accounting system of the Papal State come from biographies written by historians. The excerpts of sources quoted in this paper have been translated into English by the authors.

4. Organizational structure of the Papal States

This section provides a brief outline of the political composition of the Papal States when Pius IX[4] was Pope between 1846 and 1870.[5] As well as ruling the secular realm, the Pope was the

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4 He was Giovanni Maria Mastai Ferretti, 1792-1878. Before being appointed Pope, he was a papal legate in Chile, director of a hospice, and then bishop of Spoleto and Imola (both belonging to the Papal States territories).

5 The papacy of Pius IX was the longest in the Papal States' history, lasting 32 years. Following the conservative Pope Gregory XVI, Pius IX appeared to be liberal and open-minded. He instituted the State Council (Pope Pius IX, 1847b), allowed Jews freedom of worship and movement, and reduced censorship. He granted an amnesty for political convicts held in papal jails; reinforced the banking system and promoted a customs alliance among the pre-unification Italian states (Farini, 1850).

pastor of the Papal States, exercising spiritual, dogmatic and disciplinary authority over the worldwide Church.[6] He wielded great moral influence on all sovereigns and other political Roman Catholic authorities of the western world (Duffy, 2006; Gilley & Stanley, 2008). He was elected by other senior clerics (Cardinals),[7] with Canon law stating the papal election should be inspired by the Holy Spirit alone, freely and cloaked in absolute silence, under penalty of excommunication (Baumgartner, 2003). Nevertheless, secular, geo-political considerations affected the votes of the European Cardinals (O'Malley, 2009).

The Pope used a curia (smaller group of Cardinals) to assist in governing. The pre-1847 structure is shown on the left hand side of Figure 2. In this structure, the curia comprised the administrative heads, with the Pope reigning as an absolute monarch. From 1847 onwards, Pius IX conceded constitutionally by instituting two legislative Chambers and opening the political and administrative institutions to laymen (Pope Pius IX, 1847a, 1847c, 1848). The right hand side of Figure 2 shows these two chambers - the Council of Ministers and State Council, along with their respective heads. The Council of Ministers (the curia) was headed by a Secretary of State chosen from amongst the Ministers and was endowed with broad administrative powers. There was a large number of ministries, and, although ministries declined over time, several departments operated (Margotti, 1857). In addition to the curia, the State Council comprised laics (non-clergy) of the Pope's choosing and a head and deputy, both of whom were Cardinals (Coppa, 1990). Legislative regulations were directly issued by the Pope or by the Secretary of State.

[FIGURE 2 ABOUT HERE]

[6] In the Papal State, there were the Diocese of Rome, 8 Archdioceses, 55 Dioceses, 2 abbeys, 14 sanctuaries and 84 basilicas (Stato Pontificio, 1869). Parishes numbered 2412 (Stato Pontificio, 1857c).

[7] Clerics are distinsuished from laics/lay by their religious studies and ordination to priestly roles. More senior clerics might aspire to be Bishops (leader of a Diocese or group of parishes), Archdeacons (leader of a group of Bishoprics), or Cardinals. Caridnals are responsible to edlect a new Pope following the death or abdication of the prior Pope.

Despite the democratic concession in 1847, the 1848 republican revolts against European monarchies (in Sicily, France, Germany, Italy, and the Austrian Empire) also reached Rome. Revolutionaries assassinated Pellegrino Rossi, Minister of the Interior. Pius IX fled, with the Republic of Rome being proclaimed on 9th February 1849. The Pope lost his power as a king, despite maintaining full religious prerogatives (Monsagrati, 2014). With assistance from supportive European powers' troops, the revolution was repressed and Pius IX returned to Rome in late 1849 with French guards (Monsagrati, 2014). Subsequently, Pius IX reorganized the State Council, instituted a new Finance Committee (Farini, 1851) and undertook new infrastructure activities (Peraldi, 1855; Margotti, 1857). The Second War of Italian Independence (1859) dramatically reduced the size of the Papal States (Shea, 1877), resulting in the establishment of the new Kingdom of Italy in 1861. This had no effect on the Papal States' governance structure, which continued until the demise of the Papal States in 1870.

5. Archival records on accounting

This research seeks to analyse the accounting reforms as well as accounting practice in the Papal States, in order to further understand any sacred-secular divide. This section concentrates on the manner in which the Pope supported accounting and associated governance activities such as auditing, in order to develop better controls and therefore to increase the usefulness of accounting for decision-making. We examine accounting practice by clergy and laics that shows increasing disconnection of accounting from the sacred. We use the framework in Figure 1 and Table 1 for the section subheadings, as also discussed in Section 2.

[TABLE 1 ABOUT HERE]

5.1. Utilising accounting for decision-making (and control)

The Papal States context suggests that even before Pius IX, accounting was important to the Papal States. From 1816, successive Popes developed accounting regulations to manage the

Papal States to deal with growing financial constraints. Pope Pius VIII modernized accounting and assurance institutions in 1816 and established strict regulations for financial control (Stato Pontificio, 1816). These required, for the first time, a state budget against which the General Treasurer could compare the Ministries' actual revenue and expenditures, and intervene if expenditure was excessive (Article 6). Yet, poor practice continued. For example, Morichini (1860), who was the deputy General Treasurer of the *Regia Camera Apostolica,* stated that there were false surpluses until 1827, as bad debt write-offs were recorded as revenues instead of against assets. The next ruler (Pope Gregory XVI) passed reforms establishing an auditing board (Bernetti, 1834), job descriptions for the Treasury and Accounting Department (Raccolta, 1836a), and requirements for unified bookkeeping and reporting (Raccolta, 1836b). Nevertheless, practice remained poor, thus, in the period under study, Pope Pius IX inherited a growing deficit, emanating from prior poor borrowing decisions and overspending as shown by historical commentaries (Bossi, 1912; Cantù, 1858).

In the early years of Pius IX's reign in particular, the State's revenue and expenditure accounts were late and the accounting practices were also unreliable (Raccolta, 1843). Thus, accounting was less able to assist with decision-making, nor could it be used to implement economic and financial policies. Although there was a need to curtail debts and losses and use accounting for decision-making, the organization of the Ministry of Finance, which was responsible for the accounting, was perceived to be one of the worst in the entire administration (Raccolta, 1843). First, it was expensive. In 1849, the Ministry of Finance employed 2,017 laymen and three clerics. This was almost 40% of the total number of employees of all the ministries (5,059 laymen and 243 clerics). The Ministry of Finance also accounted for about

40% of the total ministry expenditure (Stato Pontificio, 1849), making it the dominant department.[8]

Yet, the most serious problem was the division of management and responsibilities devised by the General Accountant of the Apostolic Chamber (later Minister of Finance) Angelo Galli and other senior State officials. The Ministry of Finance had thirty branches/ subdivisions, including Authorities and Commissions (Bossi, 1914). This meant that issues needing the attention of the Minister of Finance were first subjected to an extended preliminary investigation to establish the responsibilities of managers and employees in the complicated organizational structure.

5.2. Analysis of the Papal States' organizational visibility

Organizational practice at the start of the reign of Pope Pius IX suggest a reason for his governance and accounting reforms. state reporting was never 'annual', as the revenue and expenditure account for the three years 1845-1847 was published on 26th June 1852, four and a half years late, although the Congregazione di Revisione (auditing board) consistently requested the accounts earlier (Gualterio, 1850). Further, despite the reforms to bring about organizational visibility, the revolutionary upheavals meant that a revenue and expenditure account was completed for the eighteen-month period from January 1848 to June 1849 (later to be renamed the *black or unlucky eighteen months*), immediately after the Pope's authority was reinstated. Although the revenue and expenditure accounts contravened the notion of 'annual' reports, the Ministry of Finance was not censured (Montani, 1846). Margotti (1857) highlights the state's financial difficulties and yet praises the modernity of the administrative

[8] It is argued that the Papal States used staff recruitment as a social support policy as part of the sacred mission of the Church, with 10,000 public employees in Rome in the mid-1830s (Friz, 1974). Moreover, public employees' absenteeism and inefficiency were tolerated and many Papal States' employees received extra by means of subsidies and double and triple assignments. Public employment was not considered in relation to a service to be provided but as a privilege, a favor, a sinecure (Felisini, 1990). Staff were to have completed at least the first year of high school (or equivalent) and were expected to behave in a manner appropriate to a religious institution (Ventrone, 1942; Friz, 1974).

organization of the Papal States and highlights its governance as an example for other (Italian) States, noting:

> "The Papal finances are a weapon that is mainly used by revolutionaries to bring actions against the government of the Holy See. Yet, ... the Roman Treasury, having got over the huge damage suffered as a consequence of the war and foreign invasions, began to be better managed… the finances moved on so prosperously that the yearly revenues were in excess. As soon as the revolution raised its head in the Papal States, the Treasury suffered a terrible collapse… [T]he usual revenues were enough to meet the country's requirements; indeed, every year, they provided some millions in savings […]; but, as soon as the revolutionaries came, the expenditures rose… In the Papal States in 1847, the gap between revenues and expenditures was just 350,000 *scudi*; but, in the two years 1848 and 1849, it quickly shot up to a hefty 6,600,000" (Margotti, 1857, pp. 323-324).

In blaming the revolutionaries for 1848 and 1849 financial deficits, Margotti (1857) ignores prior losses caused by poor accounting practices (which did not meet the rules and structures established in successive reforms and failed to provide organizational visibility). Indeed, the next section (Tables 2 and 3) show that expenditures consistently exceeded revenues throughout the whole period.

Subsequently, in January 1854, a Permanent Finance Committee was established to assess the Ministries' applications for receiving more budgetary funds (Stato Pontificio 1857b) and therefore to further control Ministries' spending. In addition, the Pope appointed an Auditor-General ((A-G) General Supervisor) in 1856 who was directly answerable to the Pope. The A-G examined preventively all payment warrants to ensure full compliance with budgeted limits (Raccolta, 1857, 274-289). Nevertheless, the muddling in the Ministry of Finance and lack of compliance with the reform meant that poor practice continued.

5.3. Analysis of the Papal States' technical visibility

While the Pope ruled both the temporal state and the spiritual church, the Papal States' archives hold only documents and accounts for the temporal realm with church records at local levels only. The Papal States' revenue and expenditure accounts were not consolidated to include the religious organizations that performed 'sacred' activities (pastoral, charitable or sacramental), which meant that they fail to adequately report the true 'sacred' and 'secular' profile of the States' activities. Each diocese was independent from a financial point of view and details were not divulged. While the parishes were required to report their finances to their bishop, and the dioceses (bishops) were required to report to the Pope every five years, this reporting contained only non-financial data rather than accounting or financial statements. Accordingly, dioceses owned and managed their own money and real estate (Prodi, 1987), nevertheless tithes and rents from state properties were accounted for by the 'Computisteria Generale' (General Accounting Office) as 'Direct taxes on private properties and revenues from state properties' (See Table 2). It can be seen that these comprised, on average, just over 24% of total revenues. (Expenditure relating to state properties averaged just over 2% (see Table 3).) Table 2 shows the detail and average percentage of each revenue classification.[9]

[TABLE 2 ABOUT HERE] [10]

This categorization of revenues and expenditure is a form of technical visibility. Table 2 shows the high incidence of income taxes and consumption taxes (tobacco, salt etc.) (46% on average). Further, on average, almost 7% of the revenues under Pius IX were derived from betting games, such as the lottery.[11] Before the eighteenth century, lottery games were forbidden in the Papal States, being considered immoral. Later they were allowed (though still thought immoral) if proceeds were entirely given to charity. Over time, however, the fiscal aim prevailed; the revenues were progressively separated from charities, so that incomes from these games could

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9 Prior research shows that the Papal States' revenues are similar to other Italian states of the time (De Meo & Percuoco, 1956; Livi, 1956; Parenti, 1956; Uggè, 1956; Felloni, 1956; Falconi & Spaggiari, 1956).

10 All the primary sources by "Stato Pontificio" are located in Archivio di Stato di Roma (State Archive of Rome), Fondo del Ministero delle Finanze (Ministry of Finance Fund). The General reports from 1846 to 1868 to develop tables 3 and 4 are collected in 'buste' (envelopes), from number 238 to number 243.

11 During the same period, the Kingdom of Sardinia's revenues from such numbers games were only about 4% (Felloni, 1956), and in the Kingdom of the Two Sicilies about 6%, though these games were always particularly widespread (De Meo & Percuoco, 1956).

assist in covering the costs of the papacy's massive bureaucratic system (Rossi Ragazzi, 1956). This begins to suggest a concentration on the secular, rather than the sacred. Table 3 provides further evidence of the Papal States' expenditures in the 25 years under examination, along with the average percentage for each year.

[TABLE 3 ABOUT HERE]

Examining the composition of the Papal States' expenditure reveals the papal bureaucracy consumed around 10% of the total budget (papal court and public administration), the defence/police/justice system was almost 27% and public debt servicing took another 34%. However, expenditure on public assistance and healthcare (2.5%), public works (3.7%) and interventions in the economy (1.2%), for education and fine arts, appears limited.[12]

Expenditure connected to the public debt grew under Pius IX (see Table 3). In fact, the proclamation of the Republic of Rome (1848-1849) compelled the Pope (in refuge in Gaeta) to seek and pay for French military aid to restore the pontifical regime. Furthermore, the papal coinage lost considerable value due to inflation and the continued circulation of paper money issued in the eighteen months of democratic governance (1848-1849) which was not underpinned by gold reserves. Consequently, interest rates and the public debt increased.

If 'sacred' expenditure is that dedicated to worship and religious services, pastoral care, evangelism, and charity towards the needy, in Table 3 'public assistance and healthcare' is the only entry expressly dedicated to such activity reported by the Papal States.[13] The Papal States pursued social goals typical of a 'sacred' institution, but very little of these explicitly impacted

[12] These latter are comparable to three pre-unitary Italian states: Kingdom of Sardinia, Dukedom of Parma, and Dukedom of Modena (Falconi & Spaggiari, 1956; Felloni, 1956).

[13] These expenditures are, on average, 2.5% of the total and are similar to other pre-unification states, such as the Dukedom of Parma (Falconi & Spaggiari, 1956) and the Dukedom of Modena (Boccolari & Selmi, 1959).

its revenue and expenditure accounts,[14] as there was a high number of religious institutions with their own assets and revenues that aided the poor. A minority of these centres also had limited taxation autonomy (Felisini, 1990). For example, Rome had more than 150 institutions directly or indirectly providing support, welcome and charitable activities for the poor, for orphans and widows, and for people in difficulty generally (Grifi, 1862; Morichini, 1870).

It could be argued that the Papal States could not afford to support its inhabitants. Table 4 shows that it ran at a deficit each year, averaging 3,226,113 scudi. The deficits ranged from 5-95 per cent of the total revenue, and the Papal States could not sustain these ongoing losses. Thus, the threat to temporal power (from the revolutionaries was one aspect of the fall of the Papal States, but its inability to make surpluses and to fund programmes, must surely be a further aspect.

[TABLE 4 ABOUT HERE]

In addition to the governance reforms (see Section 4), to arrest decline and save the Papal States from bankruptcy, the Pope introduced accounting reforms and specifically new auditing rules. Through a *motu-proprio* on (no.74 - see 14 October 1847 - Table 1), he established the State Council which replaced the *Congregazione di Revisione* (auditing board). The State Council was assigned several finance tasks, it:

a) Examined and reviewed the revenue and expenditure accounts and accounts of the States and central administration.
b) Voted on budgets.

14 Nevertheless, the poorer classes benefitted from price controls on basic foods. In addition, the States used fiscal incentives to encourage charitable activity by offering a reduction in registration fees to those who donated to centres for assistance, alms and bequests for the poor. The Pope also donated charitably through withdrawals from his private coffers (Felisini, 1990). Yet, the Papal States had a 'stagnant' economy, which meant that, apart from the clergy and the aristocracy, about half the population of Rome survived on charity. The other half, such as innkeepers, hoteliers, landlords and small traders, lived on the services they provided to the wealthy and the nobles, and also visiting foreigners and pilgrims who came in masses to visit the holy city (Zamagni, 1990). Yet, the high clergy wasted money well beyond the States' means (Cantù, 1858; Gualterio, 1850).

c) Provided final verdicts on revenue and expenditure accounts.

d) Produced opinions in relation to drawing down and repaying debts, and imposing, abolishing and distributing new taxes (Pope Pius IX, 1847b).

Yet, as noted below, the establishment of the 'Congregazione di Revisione' in 1847 made little difference to practice. Despite requesting Angelo Galli to produce revenue and expenditure accounts from 1845, he did not do so until 1852, and the auditing board was unable to carry out its duties (Gualterio, 1850).

5.4. Analysis of the Papal States' dependency visibility

Our data shows two examples of dependency (in)visibility – public debt management and 'Peters' Pence'. State borrowing became necessary prior to the period covered by this study. However, because the Papal States' relationship with the Rothschild bankers intensified during the period, some context is required. In 1831, the Papal States was beset by riots. Tax revenues fell sharply and the state experienced a severe financial crisis (Felisini, 1990). To ameliorate this, the State sold properties and issued bonds but this was insufficient to maintain sustainability. In deep crisis and with no experience in the international financial market, the Papal States failed to find a bank willing to lend them funds. Nevertheless, the Austrian Chancellor (Metternich), assisted, no doubt with the hope that this would allow the Papal States to repay substantial funds owing to Austria. Metternich[15] asked Salomon de Rothschild (the Vienna representative of the Bank which the Habsburg court had used several times) to request his brothers in London to help the Papal States. Ultimately, the Rothschilds agreed to lend to the Papal States but, due to the risky nature of the loan, imposed extremely heavy conditions. Indeed, the Papal States obtained only 62% of the loaned amount (1.86 million roman *scudi* while the loan's face value was three million roman scudi), and the interest rate was 5% of face

[15] Klemens Wenzel Nepomuk Lothar, Prince of Metternich-Winneburg zu Beilstein, KOGF was an Austrian diplomat who was at the center of European affairs for four decades as the Austrian Empire's foreign minister from 1809 and Chancellor from 1821 until the liberal Revolutions of 1848 forced his resignation.

value (Felisini, 1990). This first loan was followed by others in 1832, 1833 and 1837 making the Rothschilds the main bankers for the Papal States by the start of our period, indeed the Rothschilds set an exclusive agreement whereby the Pope could not borrow money from other banks (Felisini, 1990). The Papal finances remained in an extremely precarious condition, despite Pope Pius IX's reforms to progressively reduce the number of ministries and restrict expenditure (see Figure 2), and to establish new accounting and auditing requirements (see Table 1). To fulfil its most urgent obligations, therefore, the Papal States was forced to continue borrowing (Ministero del Tesoro, 1961).

While such a relationship between state and banker is not unusual, even for that time, this relationship shows a dependency invisibility. The Church did not allow Roman Catholics to lend money for interest on penalty of excommunication, and therefore the Pope could not draw on lenders from the Church. The Jewish Rothschilds were acceptable lenders from that point of view, but they were also Freemasons, which should have disqualified this dependency relationship.[16] Historically, the Rothschilds were also hostile to the church, as the founder of the Rothschild bank, Mayer Amshel Rothschild (1744-1812) was said to have begun a Freemason lodge whose objective was to establish a *Novus Ordo Mundi* (New World Order), including the abolition of religion (Watson, 2015). Despite both the church teachings on Freemasonry and the Rothschilds' prior anti-religion stance, this dependency relationship maintained the operation of the Papal States as sacred and secular (as seen in Ezzamel, 2005) but it suggests that financial management was not perceived as something that should follow a sacred pattern.

[16] Pope Clement XII's Apostolic Letter "*In eminenti apostolatus*" dated 28 April 1738 clearly established that membership of the Church and a Masonic society were irreconcilable. Later, the Encyclical "*Providas romanorum*", dated 18 May 1751, of Pope Benedict XIV also forbade associating with its members, on penalty of immediate excommunication.

The final example of dependency visibility also pertains to the resourcing of the Papal States where from 1860 secular expenditure was financed by the sacred donations of the faithful, particularly through the "*Obolo di San Pietro*" (Peter's Pence). From Anglo-Saxon times until Henry VIII's break with Rome in 1534, certain English landowners paid an annual tax of one penny to the papal see at Rome. From 1860, Roman Catholics worldwide were encouraged to donate to the papal treasury to assist with the Pope's financial difficulties. These donations reached high levels, as shown in Table 5.

[TABLE 5 ABOUT HERE][17]

While the Peter's Pence offering was conceived for 'special' purposes (particularly for the defence of the States and the Pope's charitable work), it was diverted to cover the ongoing general expenditure (Crocella, 1982). It was so regular that it served as a collateral guarantee of the loans that the States took between 1860 and 1864 (Pollard, 2005). While mostly noblemen, rich and powerful people from all over the world contributed Peter's Pence, there were also small charitable offerings from the poorest that were diverted to maintain the Papal States. It is apparent that this diversion of funds was an act that failed to recognize the sacred donations.[18]

6. Discussion

The analysis conducted on governance reforms and accounting practices in the final 25 years of the Papal States challenges the simple dichotomization of the sacred and secular divide

[17] All the primary sources for Table 5 are located in Archivio di Stato di Roma (State Archive of Rome), Fondo RCA (RCA Fund), 1835-1870, busta (envelops) 224.

[18] This practice continues with a recent Wall Street Journal article stating that about 75% of the Peter's Pence fund is used for Vatican running costs (see: https://www.wsj.com/articles/vatican-uses-donations-for-the-poor-to-plug-its-budget-deficit-11576075764)

concept. The Papal States provided a structure to ensure the autonomy of the Pope and the Church, so that its ecclesiastical activities were not subject to other monarchs' influences (Chandler, 1909; Manning, 1862; Owen Legge, 1870). The Pope's conjoint holding of temporal (secular) power therefore assumed importance in the sacred sphere. Yet the data shows that resources became increasingly scarce in the Papal States and, due to its inability to overcome the revolutionaries, after more than eleven hundred years, the Papal States ceased in 1870.

In contrast to the sacred-secular literature suggesting accounting is sinful and can block an entity's mission (e.g. Booth, 1993; Laughlin, 1988, 1990; Parker, 2002) (field 1, Figure 1), the structures in place before Pius IX began his reign evidence that accounting was deemed to be useful for decision-making. Table 1 shows that there was a Ministry of Finance and ministries were required to follow structured formats for double entry accounting. Further, Pius IX's accounting reforms sought to ensure there were audits of annual accounts and financial requisitions to have control over expenditure in excess of budget. These also suggest that accounting was important for decision-making in the Papal States. Finally, the governance reforms, specifically establishing a cabinet and then progressively reducing the number of ministries in an attempt to meet budget constraints, also show that accounting continued to be used for decision-making, even if that was eventually unsuccessful. These three separate examples combine to place the governance of Pius IX in field 2 of Figure 1 of the sacred-secular framework with no divide.

Nevertheless, while the policies espoused place the Pope and his governance in field 2, the practices in the Papal States portray a different narrative. The strength of the Ministry of Finance within the government's structures enabled accountants to gain ascendancy within the sacred-secular state. Those in practice made visible what they chose, and the prioritization of the secular over the sacred shows a movement from the policies evident in field 2 of Figure 1 to field 4 of our framework. We have highlighted the organizational visibility (the structure of the accounts), the technical visibility and dependency visibility. In regards to both organizational and technical visibility, there was little attempt to capture the sacred. Further, Tables 2 and 3 show that the financial accounts made visible certain revenues and expenditures (as in Ezzamel, 2005). This is further evidence that not only was accounting lauded over the sacred, but that practice was in field 4 of our sacred-secular framework in Figure 1. The Papal States' revenue and expenditure accounts were regularly in deficit (Documento CCCCLVI, 1847; Documento CCCCLXXI, 1858; Gualterio, 1850) (see also Table 4), with funds being wasted through large numbers of public employees (Stato Pontificio, 1849) and extravagance. Direct and indirect taxes, comprising over 70% of revenues, were insufficient to cover expenditure (Peraldi, 1855). The population was indigent, the governed territory poor and the taxes were regressive (Bossi, 1912; Chianale, 1926; Zamagni, 1990).

The inability to 'balance the books' was the prime reason that international charitable donations (Peter's Pence) were diverted to support the State's functions (Crocella, 1982; Pollard, 2006). This is one example of dependency visibility, except that the way the donations were diverted suggest that while the relationship was interdependent, the money transfers from that relationship were not made visible. It was not only a contravention of the use of funds donated to the Church, but also inverted the Church and State relationship; rather than the State supporting the Church, the diversion meant the Church supported the State. This diversion became collateral for borrowing from and lauding anti-Catholic bankers. This interdependence was invisible to the Roman Catholic public. Effectively, sacred funds dominated a subservient public and maintained the Papal States' continuance, underpinned by a lack of visibility to lenders, international donors and taxpayers.

These visibilities place practice by accountants and in the name of accounting and finance, in field 4 of our framework. In contrast, Figure 1 shows typical sacred and secular divide studies either see accounting (the secular) as being subordinated to the sacred (Jacobs, 2005; Jacobs & Walker, 2004; Kluvers, 2001; Lightbody, 2003; Paisey & Paisey, 2011), or non-existent (e.g. Cordery, 2006; Irvine, 2005). This study has allowed us to highlight granular inconsistency. In building on prior governance and accounting reforms with more of his own, it appears that Pope Pius IX perceived accounting could be beneficial to manage the Papal States' affairs[19]. This should have placed accounting at least in field 2 in Figure 1 (no divide). Nevertheless, Section 5 shows that, despite legislative support and encouragement of accounting to ensure the achievement of sacred ends, accounting practices were antithetical to the reforms and subsumed the sacred, prioritizing the secular (economy). Placing accounting practices (and those who undertook them) in field 4 (secular-sacred divide) recognizes the technical visibility which showed revenues from state lottery and other gaming pastimes (against the sacred belief), and the dependency visibility of placing of public debt with the Rothschilds and the misuse of the Peter's Pence. From the evidence, it does not appear that the accountants believed accounting to be sinful (which could place them in field 1); instead their practices were at odds to the Pope's stance as they made choices about what to make visible. Hence, they perceive the instrumentality of the secular to the sacred, transferring resources from the Church to the State, subordinating the sacred to the secular.

The practices highlight the instrumentality of the Papal States compared to the Church, evidencing over-simplification of the sacred-secular divide in prior literature. In this context, two circumstances drive the decisive roles of accounting and accountants. First, the state requires an adequate architecture of procedures, accounting books, revenue and expenditure accounts, accountants and auditors. Second, the religious origin of the state conditions the choice of men and methods of accounting. Ordained priests were integral to the state bureaucracy and yet this practice was at odds to the legislation supported by the Pope.

[19] We understand that Pope Pius IX managed a charity when he was a priest. We have no clear evidence whether he faced accounting problems, although this is likely. In a biography, it is written that: "He kept in strict order the management of the Hospital of St. Michael which had a flourishing development" (Anonymous, 1846: 6). The Papal State governance reforms he championed, suggest he perceived or was led to believe that accounting could be helpful.

7. Conclusion

The Papal States had a long history spanning more than eleven hundred years, and yet it experienced financial ruin and was taken over in the unification of Italy in 1870. While the Pope continued to live until 1878 and remained the leader of the Roman Catholic Church he lost his temporal power. The longitudinal study of accounting in the Papal States enables us to extend the accounting and accounting history literature, mainly to the theorising of the sacred and secular divide. First, archival evidence shows the complicated structure in the Ministry of Finance which slowed down decision-making and used tremendous resources, requiring Pope Pius IX to increase auditing and budgeting checks. The Papal States was unable to resolve poor practices that ignored legislation and regulation on state budgeting and reporting, despite desperately fighting against demise. These practices made choices to make visible only certain items to lenders, donors and taxpayers. Yet, the Pope did not sanction poor practice (Stato Pontifico, 1842), but successively passed new and similar reforms, which had little effect (Pope Pius IX, 1847b; Raccolta, 1857). A lack of monitoring allowed bad practice then as it can today. Public accounting in action showed a disconnection between the sacred aims of the State as they procured illegitimate revenues, borrowed from non-Catholic lenders and diverted public funds as the Papal States fought against demise and continued resource scarcity.

Second, this research extends the application of the 'sacred-secular divide' approach to a religious (and political) institution not yet explored from this perspective. We show the accounting practices of the Papal States as a sovereign and government organization. It was run similarly to other states in the same period, whilst the presence of a very peculiar king – the Pope – was not so relevant in differentiating the government priorities and the consequential state accounting. This has similarities to the Thai study of Kuasirikun and Constable (2010).

In discussions on the sacred and secular, Ezzamel (2009) (among others) notes the role of accounting to provide order and control. In this longitudinal case study, we perceive the Pope pushing regular reporting for internal use, but practice differing – whether this was inability or unwillingness of the priests and accountants to adhere to the Pope's requirements, we cannot tell. Yet, we would have expected increasing resource constraints to have revealed a clash between the sacred and secular (Booth, 1993; Laughlin, 2007). Nevertheless, continued accounting reforms provide evidence that the Pope perceived accounting as necessary for managing the State (as shown in an earlier period of the Diocese of Ferrara – Bigoni et al., 2013). And yet, accounting practice was not used to: allocate further resources to fund the sacred (as in Laughlin, 1988); to manage accountability and power (as in Laughlin, 1990; Cordery, 2006; Herda et al., 2013; Leardini & Rossi, 2013); for efficiency sake (as in Funnell & Williams, 2014); or to enable greater resources to achieve socio-religious aims (as in Paisey & Paisey, 2011). There are closer parallels in this research with Kuasirikun & Constable (2010) who find accounting was important for the State and overtook the sacred (field 4 of our framework). Our research argues against literature that suggests the sacred-secular is a dichotomy (present or not present), positing it as a complex mix of sacred and secular between the Pope as leader and reformer, and the accounting practices of those who appeared to lack the sacred vision.

Hence, this research identifies differences from prior research (including Kuasirikun & Constable, 2010 which showed socio-religious actions, i.e. an accounting for religious gifting and sacred transactions). In this study, the Papal States faced resource constraints, but the State concerns were separate from the Church. The religiously inspired State operated no differently to those around it, meaning practice moved away from the papal reforms to field 4 of Figure 1 and a 'secular-sacred divide'.

The limitations of this paper relate to its sources, based only on official sources and state accounts, rather than the accounting books of the religious organizations, which were not consolidated in those of the Papal States. As such, it is an explanatory narrative (Rammal and Parker, 2012), which considers the changing context and the sacred-secular 'divide', positing the Roman Catholic Church and the Pope as 'the sacred' and accounting and governance reforms and practices as 'secular'.

There is wide scope for further research within the same or other historical periods, including deeper comparisons with other contemporary Italian states. It would be interesting to study the contemporary period, including the interplay between Italy and the Holy See, the renewed emphasis on a pastoral perspective worldwide, despite (or because of) serious scandals. Analysis could also be undertaken on different states that also have a sacred imperative to ascertain differences between the sacred and secular. Nevertheless, this study stands as a reminder that allowing practice to deviate from reforms breeds a culture that can sustain the secular at odds to the harmonization of secular accounting and the sacred.

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