History of Corporate Ownership in Italy

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Abstract

In this paper we use a unique data set, covering all companies traded on the Milan stock exchange during the Twentieth century, to study the evolution of the stock market, the dynamics of the ownership structure of traded firms, the birth of pyramidal groups, and the growth and decline of families in Italy. We find that the stock market evolved over time according to a non-monotonic pattern, with a more developed stock market at the beginning of the century than at the middle. Similarly, ownership structure was more diffused in 1940s than in 1980s. Moreover, family controlled groups and pyramids were less common in 1930s than in 1980s. These findings are inconsistent with the view that stock market development and ownership concentration are monotonically related with investor protection.

Keywords: law and finance, political economy, financial development, ownership concentration, pyramids, family capitalism

JEL Classifications: G34, K22, K42

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1. Introduction

From an Anglo-Saxon perspective, no country more than Italy epitomizes family capitalism. The image of a group of companies controlled and managed by a family via a complex chain of holding companies contrasts sharply with traditional view on US-style corporations – characterized by professional chief executive officers hired by thousands of small anonymous shareholders[1]. However, this has not always been the case. At the beginning of the Twentieth century an observer would have seen very little difference between the largest Italian firms and Anglo-Saxon firms of today. At that time, the largest companies on the Italian stock market were financial groups (e.g. Banca Commerciale, a large universal bank with holdings in many industrial sectors) and widely-held conglomerates (e.g. Edison, with activities concentrated in the electricity sector, and Montecatini, operating in mining and steel). In these companies, as in many today's US corporations, managers had vast power and shareholders little incentive to monitor. Among the ten largest companies on the stock market in 1930, there was just one family-controlled company - the FIAT group controlled by the Agnelli family.

This paper studies the forces that brought managerial capitalism to an end and explains how family capitalism emerged.

We argue that the roots of Italian Capitalism as it appears nowadays are to be found in the State's reaction to the Great Depression. Before 1930s, the involvement of the government in the stock market had been very limited. It mainly acted through the central bank whenever there was the need to bail out a bank in crisis. The Great Depression saw government intervention on a much larger scale. The economic crisis led to the collapse of the three main investment banks, Banca Commerciale, Credito Italiano and Banco di Roma. In 1933 Fascists, then in power, created in 1933 a public agency, Istituto per la Ricostruzione Industriale (IRI), to manage the large portfolio of companies previously controlled by the three banks.

From then on the state kept a direct presence in the economy as the owner of profit-oriented firms. With the advent of the Republic in 1946, its role in the economy grew even larger. Instead of limiting its actions to bailing out troubled companies, the government started acquiring sound companies and making direct investments in all industrial sectors. A second public agency, Ente Nazionale Idrocarburi (ENI) was created in 1952 to coordinate the state companies operating in the chemical, oil and mining sectors. IRI and ENI became the largest and most influential economic forces in the country.

This direct intervention of the state as entrepreneur largely replaced and crowded out the role of the private sector in the accumulation of capital. This is at odds with what happened in the United States, where the government faced similar challenges but chose to intervene as a regulator of capital markets

[1] Berle and Means (1932).

rather than as their substitute. In the wake of the Great Depression, Congress passed several pieces of legislation designed to protect investors and reassure them about the stability and transparency of financial markets: the 1933 Glass-Steagall Act prevented commercial banks from underwriting, holding and dealing in corporate securities; the 1933 Securities Act mandated disclosure in the securities markets; and the 1934 Securities Exchange Act established and empowered the Security and Exchange Commission (SEC). These three laws laid out the institutional foundations of the spectacular development of securities markets in the United States for the rest of the century.

Italian legislators did not consider similar laws necessary for Italy, where the State had taken a direct and massive role in intermediating and allocating capital. The single regulatory intervention spurred by the Crisis was the Bank Law of 1936 prohibiting universal banks, which had been largely responsible for the stock market growth of the beginning of the century. Later on, the Italian government allowed the creation of one investment bank, Mediobanca, which enjoyed monopoly power and control over the financing decisions of all major groups. In the absence of regulatory reforms and in the environment of direct intervention by the state, the Italian stock market declined in the 1950s and 1960s to a level of activity lower than in the early Twentieth century.

With low investor protection and underdeveloped capital markets new entrepreneurs found very expensive to go public. Conversely, incumbent groups were able to thrive by allying themselves with politicians. During the Fascist regime, autarchy protected them from foreign imports. By the post-war period, family capitalism was firmly in control. Big families enjoyed both economic and political power. This power passed on from generation to generation. New families emerged only rarely and always thanks to strong political connections. In this framework, the majority of Italian firms stayed away from the stock market, were closely held by the founders' families and operated in niches and at a relatively small scale.

The structure of the paper is the following. In Section 2, we present two alternative hypotheses on the evolution of financial development. The "law and finance" approach suggests that legal protection for investors (as determined by legal origin) is the crucial determinant of financial development, ownership concentration, and organizational structures. The "political economy" view argues instead that politics is a critical force that affects all of the above. Section 3 briefly describes the institutional framework, focusing specifically on the legal and the political environment. In Section 4, we focus on the evolution of the stock market and we study the dynamics of the ownership structure of traded firms. The birth of pyramidal groups and the growth and decline of families are discussed in sections 5. Section 6 contains the conclusion. Overall, we find a non-monotonic relationship between financial development and investor protection, which is largely inconsistent with the "law and finance" approach.

2. Hypotheses

There are two major theories of the determinants of financial development: the “law and finance” view and the “political economy” explanation.

The “law and finance” theory stresses the importance of legal protection of investors for the development of capital markets, and argues that legal protection is ultimately a by-product of the country’s legal origin. According to La Porta, et al. (1998), common law countries are characterized by stronger legal protection for investors and more developed capital markets than civil law countries. The intuition is that investors are not willing to provide equity to finance a firm unless they are confident of receiving a fair return from their investment. If shareholder protection is low, minority shareholders require a high return from their investment to compensate them for the high risk of expropriation by the management/controlling shareholder. Hence, external finance is costly and fewer companies go public. This theory has the immediate prediction that stock market development should be positively correlated with shareholder protection. Consistent with this prediction, La Porta, et al. (1997) find that in the Nineties countries with stronger shareholder protection and common law are characterized by larger stock markets.[2]

The “political economy” view posits that financial development is the outcome of political decisions. If compared with the law and finance approach, this theory is very dynamic in nature, since changes of the political power of different constituencies can alter the disposition of a country towards financial development. As with any political decision, financial development is the outcome of ideology and the economic interests of voters and pressure groups. Rajan and Zingales (2002) argue that the stock market can be fostered or hampered by government action depend upon the balance of powers between pressure groups. Pagano and Volpin (2001) and Bias and Perotti (2002) argue that state intervention in the economy should be negatively correlated with financial development, because the state acts as a substitute for financial markets. Finally, Perotti and Volpin (2002) suggest that incumbent families may lobby the government to keep financial markets underdeveloped to preserve their power by preventing entry by potential competitors. One prediction of these political economy theories is that financial development should be negatively related to government ownership of companies.

The theories described above have different implication on the evolution of ownership concentration and family-controlled groups.

The “law and finance” approach predicts that companies in countries with lower investor protection and civil law are characterized by greater ownership concentration and more pyramidal groups than

[2] Shleifer and Wolfenzon (2002) formally model this theory.

companies in countries with common law and higher investor protection. Shleifer and Wolfenzon (2002) argue that ownership concentration should characterize countries with low shareholder protection because of the inability of companies to sell equity to minority shareholders when investors are not well protected by the law. Bebchuk (1999) points to the fact that control is valuable in countries with low investor protection and therefore companies are closely held to make sure that control is not contestable.[3] Wolfenzon (1998) argues that pyramidal groups are created in order to expropriate shareholders and this should happen more often in countries with lower investor protection. Bebchuk, et al. (1999) suggest the same empirical prediction by highlighting that pyramidal groups allow a separation between ownership and control in a country in which control is very valuable.

The "political economy" view predicts that ownership should be more concentrated and companies should be organized into groups in countries where the government has a big role in the economy. The intuition is in Pagano and Volpin (2001). When the state has a great involvement in the economy, firms need political support to grow. Hence, to maximize their political clout, businessmen need to maximize the value of assets under their control. With concentrated ownership and pyramidal groups, both goals are attained. If the government has a more limited involvement in the economy, political connections are less important. Hence, pyramidal groups and concentrated ownership are less diffuse.

3. Institutional framework

3.1 Legal environment

Over the sample period analyzed in this paper, the legal environment in Italy and, consequently, the degree of investor protection have changed considerably. Table 1 lists in chronological order the major events affecting traded companies and financial markets. All events listed in the table are dated either before the Second World War or, from 1974 on. This suggests a classification into three sub-samples, 1900-1941, 1942-1973 and 1974-2000, characterized by increasing degree of investor protection.

In the first sub-sample, the stock market was virtually self-regulated. Firms could issue shares with multiple votes and use cross-shareholdings without limitation. Banks were allowed (until the Bank Law of 1936) to own industrial companies, lend money at short- and long-term, underwrite security issues, and hold deposits. Effectively, banks served the role of today's venture capitalists, investment and commercial banks. There was only one bankruptcy procedure, which consisted of a straight liquidation. Although firms could enjoy limited liability although only a few large firms were taking advantage of

[3] Within this second interpretation, countries with low shareholder protection should exhibit controlling shareholders. This however does not necessarily imply that there will be concentrated ownership. Indeed, there can be a lock on control even without a large owner. This can happens through cross-participation, shareholders' agreements, and powerful political connections.

limited liability. There were no rules describing the extent of information disclosure provided to shareholders; nor there was a legal requirement specifying the extent of financial disclosure. In summary, the body of law until 1942 was typical of a non-industrialized country with a small number of firms organized either as individual business or partnership.

In the second period (1942 – 1973), traded companies and financial markets were subject to the laws introduced under the Fascist regime. The Civil and Commercial Code and the Bankruptcy Law of 1942, and the Bank Law of 1936 were the main visible outcomes of the intense law-making activity of this period. These laws introduced requirements on shareholders rights in limited-liability companies. Shareholders were given the explicit right to vote at the annual shareholder meeting and approve the company's annual report and directors. The companies were required to provide some minimal amount of information on their performance in annual reports to shareholders. The new bankruptcy code introduced the possibility of reorganization as an alternative to straight liquidation. The bank law prohibited universal banking. Banks could not hold equity stakes in non-financial firms. Commercial banks could only engage in short term lending. Only a few state-controlled organizations could provide medium- and long-term financing. Only a newly created investment bank (Mediobanca) was allowed to operate.

This set of laws, which was designed for a small economy in which the capital markets had a marginal role, gradually became obsolete and incapable to cope with the needs of a developed country competing internationally. For instance, the company law did not draw any distinction between traded and non-traded companies imposing the same set of rules to both. Hence, there were no specific rules regarding information disclosure by a traded company, nor any specific agency in charge of the supervision of the stock market. In theory, the stock market was free to set its own rules, but without any enforcement power, it was effectively unregulated.

In 1974, the legislature finally broke its thirty-years long neglect of the stock market by creating Consob, the agency in charge of supervising the stock market, and by introducing a set of disclosure requirements explicitly created for traded companies. The Consob was modeled on of the Security Exchange Commission in the US. It took a year to define its powers and another year to make it operational. It took much more time, for the power and relevance of Consob to became real.

Specific regulation of traded companies was designed to stimulate investment in the stock market by the general public. Disclosure requirements were introduced for these purposes in 1974 and traded companies were allowed to issue non-voting shares (savings shares). These shares do not give the owner any voting right, but entitle her to a higher dividend than dividend on ordinary shares. As suggested by their name, savings shares were deemed appropriate for unsophisticated investors. In

1975, external auditing of the balances of traded companies was imposed as a requirement and new accounting rules were introduced for statements of financial companies, banks and insurance companies.

The major force of change in the Italian legislation in recent years has certainly been the European Commission's effort to harmonize the legislation of European countries. Several EC directives introduced important changes like requirement of consolidated balances for groups (in 1991) and the Law on Takeovers (in 1992). At the same time, the European Commission pushed for the entry of institutional investors like mutual funds (in 1983) that were absent from the market before and imposed better disclosure requirements for companies offering securities (regulation by Consob in 1991 and 1992). These requirements increased the transparency of the ownership structure of traded companies. Since 1992, the acquisition of a share larger than 2% of the voting rights of a traded company must be reported to Consob within 48 hours from the event.

Even with these important improvements, in 1994 Italy still ranked among the countries with lowest legal protection for investors among the industrialized countries, according to La Porta et al. (1998). Antidirector rights, their index of shareholder protection, equals 1 out of 6 for Italy. The reason is that the legislation did not sufficiently protect small shareholders from expropriation by controlling blockholders. In fact, the existing regulation for groups of companies and the takeover law both contained loopholes like the limited protection offered to the owners of non-voting shares. Moreover, minority shareholders had too little power to protect themselves: for example, only with 20 percent of the capital it was possible to call a shareholder meeting, which is a very high threshold; shares had to be deposited in a bank to vote; and there was no vote by mail, which made it costly for small shareholders to vote.

In 1998, further steps were taken towards better legal protection for investors with the so called Draghi's law. If evaluated in terms of the index of shareholder protection developed by La Porta et al. (1998), the impact of this law was an improvement in shareholder protection from 1 to 5. The threshold to call a shareholder meeting was reduced to 10 percent. The loopholes in the takeover law were corrected. Finally, minority shareholders were given more rights to voice their opinions.

3.2 Political environment

The political environment has also changed considerably over the Twentieth century. From the beginning of the century till 1923, Italy was a constitutional monarchy. The Fascist regime was in power from 1923 to 1945. After the Second World War, Italy became a democracy. During the latter period, political power has been concentrated in the hands of one party, the Christian Democrats, until

1992. Over the century, there were important political decisions that affected the stock market and the regulatory environment.

Before 1933, the involvement of the government in the stock market had been very limited. The State mainly operated through the central bank whenever bailing out a bank in crisis was necessary. The Great Depression forced the government to an intervention on a much larger scale. The crisis led to the collapse of the three main investment banks: Banca Commerciale, Credito Italiano and Banco di Roma. A governmental agency, named *Istituto per la Ricostruzione Industriale* (Iri), was created in 1933 to manage the large portfolio of companies previously controlled by the three banks.

Since then, the State in Italy has maintained a direct presence in the economy as the owner of profit-oriented firms. With the advent of the Republic, the role of the State in the economy grew larger. Instead of being limited to bailing out troubled companies, the State started acquiring sound companies and directly investing in all sectors. A second agency, named *Ente Nazionale Idrocarburi* (Eni), was created in 1952 to coordinate the state companies operating in the chemical, oil and mining sectors. Other institutes were created in 1962 (Efim) and in 1972 (Gepi) to direct state intervention in the southern part of Italy. All these agencies were independent of one another, and, in principle, managed as profit-oriented corporations, although they could rely on financial help from the Treasury if in need.

Iri and Eni were the largest and certainly most important of these organizations. Their presidents were selected by the government for a five-year period and, for most of our sample, they were members of the ruling party, the Christian Democrats. They were very powerful personalities with large opportunities to enjoy and take advantage of their power.[4]

The most dramatic event for the Italian economy in the second half of the sample was the nationalization of the electrical industry. Such a decision was entirely political. To understand this move, it is useful to point out that the Christian Democrats, in power since the end of the war, had seen their share of electoral consensus steadily decrease from 49% in 1948 to around 38% in 1958. To retain power, after failing to attract less extreme parties, the government had to resort to attracting the Socialist Party with around 8% of the votes in 1962. As a condition of their coalition support, socialists required the nationalization of the electric industry.[5] The plan for nationalization was adopted on June

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[4] One extreme example is the second president of Eni, Eugenio Cefis. At the beginning of the seventies, he used his power to drive Eni through an intense activity of acquisitions and unclear financial operations. Some years later he was found guilty of corruption and wrong-doing. For a detailed discussion see Barca and Trento (1997).

[5] Like the Labourists in UK and the Socialists in France who implemented similar projects just after the war, Italian Socialists wanted to reduce the rents enjoyed by the companies operating in that industry.

17th 1962 and became law on December 12th 1962. According to this plan, the State had to pay the companies and leave the decisions about the future of the companies to their shareholders.[6]

The 1962 nationalization had important implications for the stock market and the entire economy. The electrical groups had a crucial role in the stock market: they not only represented around one third of the total market capitalization, but they were a nucleus of economic and political power to a large extent free of government control. The first effect of the nationalization was a sequence of mergers inside these groups. These were later followed by mergers among these groups. The payments obtained from the nationalization were invested rather than paid them out to shareholders. With few good projects available for investment, most of the resources in the hands of private entrepreneurs were channelled towards the chemical industry, giving birth to Montedison, which soon came under government control (Eni). Time revealed that investing in the chemical industry was not a good idea.

4. Stock market and ownership structure

Recent research shows that the Italian corporate governance regime exhibits low legal protection for investors and poor legal enforcement (La Porta, et al., 1998), underdeveloped equity markets (La Porta, et al., 1997), pyramidal groups and very high ownership concentration (Barca, et al., 1995). Arguably because of these institutional characteristics, private benefits of control are high (Zingales, 1994), and minority shareholders are often expropriated (Bragantini, 1999). How did this corporate governance system emerge?

In the first section, we focus on the evolution of the institutional and political environment affecting the stock market. In the second one, we study the development of the ownership structure of traded companies.

4.1 Evolution of the stock market

Figure 1 plots the number of companies traded on the Milan stock exchange, the main Italian stock exchange, over the Twentieth century as a raw number and as a fraction of population (in million). The latter measure is proposed by La Porta, et al. (1997) as a good indicator of stock market development. The evidence in Figure 1 suggests a highly non-monotonic pattern of development. The strong growth of the beginning of the century lasted until 1914 and was followed by a slow decline until the middle of the Seventies and a substantial growth since then. A similar non-monotonic pattern is shown in Figure

[6] This plan was modeled on the railways nationalization of the beginning of the century. The compensation paid to railways companies on that occasion provided them with the resources to invest in and give birth to the electric industry.

2 where the total market capitalization over gross national products is plotted over time. How can one explain this pattern?

One testable prediction of the law and finance approach is a positive relationship between investor protection and stock market development. To test this prediction we compare the stock market development across the three sub-samples identified in section 3.1. As shown in Table 2, panel A, there is no monotonic relationship between financial development and investor protection. Indeed, the sub-sample 1942 – 1973 is characterized by higher investor protection but lower stock market development than the sub-sample 1900 – 1941. The comparison between the second (1942 – 1973) and third (1974 – 2000) sub-samples is instead fully consistent with the theory: higher investor protection goes together with more financial development. In panel B we create a variable (legal score) to classify the degree of investor protection in each of the three sub-samples. We give a score of one to the observations in the first sub-sample, two to those in the second, and three to the remaining ones. We find that this variable is not positively related to stock market development as suggested by the theory. On the contrary, there is a negative, although marginally significant, relationship. The development of the stock market is best described by a non-linear and non-monotonic trend as shown in regression (3) in panel B.

These results suggest that the law and finance view cannot offer a satisfactory explanation of the pattern of development of the Italian stock market. It is important to mention a caveat to this conclusion. Indeed, one may object that this is not a correct test of the law and finance approach. The reason is that with time-series data on one country only we are effectively holding legal origin constant. If the country's legal origin really matters rather than the degree of investor protection, the law and finance view would have no testable prediction on the evolution of the Italian stock market. A satisfactory test comes only with panel data on a set of countries. Following this approach, Rajan and Zingales (2002) are able to reject the law and finance view. The finding in this section simply confirms their result for Italy.

The main prediction of the political economy view is instead a negative relationship between stock market development and state ownership of companies. Figure 3 plots the evolution of stock market development and public ownership of traded companies over time. The initial period of growth ended with the Great Depression and was followed by a long period of stagnation, which lasted until the 1980s. Only in 1985 the number of companies on the stock market got past the level it had reached in 1930. When combined with the observation that the Gross Domestic Product increased by 200 percent in real terms between 1950 and 1980, these data emphasize what a poor relevance to the Italian economy the stock market has had since the Great Depression. While the stock market stagnated, the role of the government increased. From 1950 to 1980, between 15 and 20 percent of traded companies in Italy were controlled by the government. The correlation between the two series is –70 percent. This result is consistent with the political economy view. In Table 3 we combine the two theories in one regression. The results show that once we control for government intervention investor protection has the predicted positive impact on stock market development.

4.2 Evolution of the ownership structure of firms

As shown by Barca, et al. (1994) and La Porta, et al. (2000), the Italian corporate governance system is recently characterized by very high ownership concentration. In this section, we explore how ownership concentration has evolved over time.

In Table 4 we compare ownership concentration in 1947, 1987 and 2000. We use four measures of ownership concentration.

The first measure is the fraction of voting rights owned by the largest shareholder. On average, the largest shareholder owned about 45 percent of the votes in 1947, 55 percent in 1987 and 48 percent in 2000. According to this measure ownership concentration is higher in 1987 than in 1947 and 2000, while there is no difference between 1947 and 2000. This result suggests that ownership concentration has changed in a non-monotonic fashion by first increasing and then decreasing. The increase in ownership concentration between 1947 and 1987 is inconsistent with the prediction in Shleifer and Wolfenzon (1998). Indeed, the increase in ownership concentration has been associated with an increase in investor protection, contrary with the theory. Conversely, between 1987 and 2000, consistent with the theory ownership concentration has gone down while investor protection has improved. The observation that ownership concentration has not been affected by the improvement in investor protection is consistent with the political economy explanations.

The second measure is a dummy variable that takes value 1 if the company does not have a controlling shareholder (that is, no shareholder with more than 20 percent of voting rights) and 0 otherwise. Excluding banks and insurance companies, there is no difference in this measure of concentration over time. Only between 3 and 7 percent of the companies had no controlling shareholder. This suggests that control was equally valuable across the three samples. This suggests that the improvement in investor protection has not affected the value of control.

So far, we have considered all companies in the sample. In companies with a controlling shareholder, it is possible to reconstruct the chain of control finding out the identity of the ultimate owner. Two other indicators then characterize ownership concentration in companies with a controlling shareholder, that is, with a shareholder with at least 20 percent of the voting rights. The fraction of control rights owned by the ultimate owner is the total fraction of votes controlled (directly and indirectly) by the ultimate owner. This measure is significantly larger in 1987 and 2000 than in 1947. On average, the ultimate owner owned about 60 percent of the voting rights in 1987 and 2000 against only 50 percent in 1947. The fraction of income rights owned by the ultimate owner is the fraction of cash flow rights owner by the ultimate owner. This measure takes into account the layers of control in a pyramidal is significantly larger in 1987 and 2000 than in 1947. On average, the ultimate owner owned about 60 percent of the voting rights in 1987 and 2000 against only 50 percent in 1947. This suggests more separation of ownership and control in 1947 than later. A further interesting result is the increasing trend in cash-flow exposure.

5. Pyramidal groups and family capitalism

The image of a group of companies controlled and managed by a family via a complex chain of holding companies is what most observers associate with Italian capitalism. In this section, we explore first the birth of pyramidal groups and then the evolution of family-controlled groups.

5.1 Pyramids

Figures 4 and 5 describe the evolution of the control of traded companies over time. Firms are classified into six classes of control: first, we distinguish whether the firm is a stand-alone or belongs to a pyramidal group; second, we differentiate between family, widely-held and state-controlled firms. The figures show that stand-alone companies were never more than 30 percent in value and 40 percent in number of all traded companies. It is interesting to observe that from the Great Depression on, the importance of widely-held pyramids steadily declined. This trend has been reverted only recently with the government's program of privatization. To gain were state- and family-controlled pyramids. Family-controlled pyramids represented 30 percent of market capitalization of Milan Stock exchange in 1950 and increased steadily to 40 percent in the middle of 1980s. More recently, they declined to 20 percent at the end of the 1990s.

Table 6 shows that the separation of ownership and control and the average pyramidal level were significantly higher in 1987 than in 1947 and in 2000. The findings suggest a strong non-monotonic relationship, which is evidence against the "law and finance" theories. What explains the puzzle?

The "political economy" view predicts that pyramidal groups should be associated with a large involvement by the state in the economy. As shown in Figure 3, the involvement by the state as measured by the fraction of companies controlled by the state in 1987 was the same as in 1947 (and was significantly larger than in 2000). Hence, the political economy view does not help differentiating between 1987 and 1947. There are alternative explanations.

The first possibility is the taxation of inter-company dividends. Italian fiscal system provided significantly different tax incentives for creation of vertical business groups through the sample period, taxation of inter-company dividends being the most important of such incentives. Before 1955, the Italian tax system was based on schedular taxes differentially levied on different sources of income[7]. Since dividend income was not taxable under this system, there was no double taxation of inter-company dividends. In 1955, Italy introduced a new tax on corporate income at an average rate of 18 percent, including surcharges. This additional tax was not deductible in the hands of recipient corporations and therefore discriminated against vertical groups[8]. Pure holding companies received 25 percent reduction of the corporate income tax.[9] Under the general income tax reform of 1974, the additional tax burden on vertical groups further increased as inter-company dividend income became taxable at 25 percent rate in hands of recipient company. However, pure holding companies became eligible to taxation of dividend income at 7.5 percent rate[10].

Crucial changes in the taxation regime for groups were introduced in the mid-seventies, again in compliance with the European Commission directives. In 1977, the law n.904, December 16th, introduced a tax credit on dividends that removed the double taxation. In addition, since 1975, new rules were introduced to reduce the tax burden on spin-offs, mergers and major corporate restructuring with a likely overall effect of encouraging the creation of groups. However, the double taxation of intercompany taxation introduced in 1955 did not have any impact on the average pyramidal level. Hence, we can safely conclude that intercompany taxation is not a satisfactory explanation of the evolution of pyramidal groups.

An alternative explanation is that pyramidal groups enable the firms to take advantage of market optimism. Pagano, Panetta and Zingales (1998) show that, in recent years, Italian public holding companies have done better in timing the market when deciding to list their subsidiaries than private companies. Figure 6 shows that waves of births and deaths of companies generally correspond to waves of market optimism. Vertical bars below horizontal line describe number of delisted companies while vertical bars above the line describe IPOs. The correlation between the difference of numbers of IPOs and delistings and median market to book ratio for all companies listed on the Italian stock market in

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[7] The tax burden on corporation was approximately 40% under this system.

[8] Dividends were taxed both as corporate income of subsidiary and as dividend income of its parent.

[9] They were paying 40% less if there was prevailing state participation.

[10] Such favorable taxation of pure holding companies may explain why many Italian traded companies chose to present themselves as pure holdings and were classified as such by stock market guides. In what follows, we go beyond this superficial approach and classify such companies by the major line of business of their subsidiaries.

the previous year is 40%. The investors rapidly become disappointed with the IPOs that they acquire. The average market to book ratio of these companies in the year of IPO is 2.1, while it goes down to 1.4 two years later.

5.2 Families and Power

The three major family-owned companies in 1928 were Pirelli, a rubber and tyre producer owned by the Pirelli family, Italcementi, a producer of cement owned by the Pesenti family, and FIAT, a car company owned by the Agnelli family. Their growth largely benefited from the market power enjoyed in their industries. This insulation from foreign competition in their core sector partly continued after the war. Hence, these three major families were able to invest outside their core sectors, acquiring electric companies, real estate firms, banks and insurance companies.

The history of these three family groups is remarkably similar. Pirelli was founded in 1872 by Giambattista Pirelli, Italcementi was set up in 1865 by Carlo I Pesenti, and FIAT in 1899 by Giovanni I Agnelli. The first went public on the Milan stock exchange in 1922, the second in 1925, and the third in 1924. Each of them soon acquired control of their product market with shares between 60 and 80 percent of the domestic market and then expanded outside their industry. The Pirellis expanded in the electric sector and abroad; the Pesentis invested in banks and insurance companies; the Agnellis mostly invested in the mechanical and electrical components sectors, and in real estate.

In what follows we present in details the evolution of the Pesenti group and discuss more in general the fortunes of the other families.

5.2.1 Evolution of the Pesenti group

The history of the Pesenti group, one of the oldest on the Italian stock exchange today, provides an illustration of the main findings of the paper. Figure 7describes the evolution of the traded part of this group with arrows showing the directions of control links.

The first company of the Pesenti group, Italcementi, was set up in 1865 by Carlo I Pesenti and went public on the Milan Stock Exchange in 1925. The group started the expansion outside the cement industry in 1945, when Carlo II, grandson of the founder, took over what had become a very profitable and powerful cement group. According to CGIL (1948), at the time Italcementi was producing 60 percent of the cement in Italy. In the following decade, several diversifying acquisitions were made through a non-traded subsidiary of Italcementi, Italmobiliare. Turani (1980) and Galli (1984) argue that the acquisitions were financed with monopolistic profits enjoyed by the group in the cement industry and with unlimited credit obtained through strong political connections with the ruling Christian Democratic party and the Vatican. By 1953, Italmobiliare had gained control of an important stake in a traded company producing machinery, Franco Tosi, after subscription to its major capital increase, it had acquired a 38 percent controlling stake in a traded insurance company RAS and obtained indirect control of its traded subsidiary l'Assicuratrice Italiana. In this early period, the group also owned several non-traded banks, including Banca Provinciale Lombarda and Credito Commerciale (a third bank, Ibi, was acquired in 1967).

In 1967, at the apex of its expansion, the Pesenti group was involved in cement industry, construction and real estate, mechanical and automotive sector, banking and insurance. At that time the Pesenti family was second in wealth only to the owners of Fiat group, the Agnelli family. The expansion in so diverse industries financed with high leverage was a very risky strategy. The first trouble came in 1968 when Carlo II had to sell the control of a troubled car company, Lancia, acquired in 1960, to the Agnellis, sustaining considerable losses. The second problem came in 1972 when Michele Sindona, a Sicilian banker, acquired the control of 36.5 percent of Italcementi. This acquisition threatened the Pesentis' control of their empire and Carlo II had to buy out Sindona. As a result of financing the buyout with loans from Banca Provinciale Lombarda, still controlled by Italcementi through a nontraded subsidiary Italmobiliare at that time, the leverage of the group increased even more. In 1979, Carlo II had to fend off an attempt of another takeover, this time by the Agnelli group, which had acquired control of 10 percent of Italcementi and was also threatening the Pesenti's market power in the cement industry through the expansion of Agnelli's cement company Unicem. In order to strengthen the control over the group, the Pesentis decided to change its organizational structure. In 1979 Italcementi distributed the stake in Italmobiliare to its shareholders on the basis of one company share for every two Italcementi shares held. The operation led to a listing of Italmobiliare on the Milan Stock Exchange (MSE) in 1980. In the same year Italmobiliare acquired 50.22% of Italcementi's capital from the Pesenti family and became the holding company for the newly formed group.

The huge debt incurred during three decades of expansion of the Pesenti group lead to its implosion in the early eighties. In 1981 l'Assicuratrice Italiana was delisted from MSE after being acquired by RAS in 1980; in 1984 the controlling stake in RAS was sold to the German group Allianz. Credito Commerciale was sold to Monte dei Paschi di Siena in 1982, Ibi was sold to CARIPLO in 1983, and the last bank, Banca Provinciale Lombarda, was sold to San Paolo Group in 1984. Adding to its own financial problems, Italmobiliare was also heavily involved in the infamous bankruptcy of Banco Ambrosiano, being its largest minority shareholder at the time of its collapse in 1982. Carlo II Pesenti died in 1984 during court proceedings against him and other executives of Italmobiliare for fraud related to Banco Ambrosiano.

The present and the future of the Pesenti group have being shaped by Carlo's son, Giampiero, who took control of the family business after Carlo's death. Under Giampiero, the group turned back to its origin by refocusing on the cement industry. In 1987 Italcementi went public with two subsidiaries, Cementerie Siciliane and Cementerie di Sardegna on a wave of investor optimism. By 1995, the year of investor pessimism, both Cementeries and the manufacturing company Franco Tosi showed losses. They were all delisted from MSE after merging with their respective holdings in 1996 and 1997. All three buybacks were financed by capital increases and a subsequent swap of shares of holdings and subsidiaries. In 1997 Italcementi increased its presence in the cement industry by buying a controlling stake in cement company Calcemento, a former member of the bankrupt Ferruzzi group. This subsidiary was merged into Italcementi two years later. Franco Tosi was taken private through a share exchange with its parent Italmobiliare the same year.

There are several stylized facts that can be learned from the Pesenti story. First, market power, access to capital and political power are intertwined in Italy. Second, traded groups expand through acquisitions when they are big and have significant cash resources; they sell out companies when the groups experience financial difficulties. Third, groups time the market in going public with companies and taking companies private. Fourth, they acquire and sell companies in bundles, with companies in the end of the chains more likely to be acquired and sold. Fifth, the costs of taking company private are usually paid in shares.

5.2.2 General findings

In Table 8, we show the ten largest groups per market capitalization at the end of 1930 and at interval of ten years until 2000. The table indicates in italics the name of groups controlled by families. As one can immediately see, in 1930 there was only one family-controlled group in the top ten: the Agnelli group. A large widely-heldinvestment bank, Banca Commerciale, was at the head of the largest group on the stock market. Several management-controlled public conglomerates were at the top of the chart. Among those, Edison was the largest holding company in the electricity sector and Montecatini controlled mining and steel. In 1940, after the collapse of Banca Commerciale, Iri, the government-controlled agency created in 1933, was the largest group per market capitalization, simply because it had taken over all companies previously controlled by Banca Commerciale. One new family made its appearance in the top 10, the Pirelli family.

The presence of family groups in the top ten increases steadily reaching four in 1960: together with Agnelli and Pirelli, we find Pesenti, Olivetti, and Sindona. Family-controlled groups took five of the top ten spots from 1970 to 1990. A change in trend is evident in 2000, when only two family-controlled groups were in the top 10, the Agnelli and the Berlusconi groups.

This table confirms the view that family capitalism became important in the Fifties and Sixties and seems to have lost some ground in recent years (after 1990). By contrast, widely-held groups decreased in importance after the Great Depression and even more after the nationalization of the electric industry. The widely-held conglomerates merged together and were taken over by the government. This trend was reverted in 1980s and 1990s because of the massive privatization program started by the government.

Table 7 also shows the level of concentration of the stock market in the hands of the largest 4 and 10 groups. It is interesting to observe that only in 2000 the stock market has become less concentrated. This is consistent with out finding that only recent development of the Italian stock market.

6. Conclusion

Today, there are signs that Italian capitalism is undergoing an historical transformation. The crisis at FIAT and the recent death of Giovanni II Agnelli symbolize this revolution. Interestingly, all three major family groups of the past have experienced significant changes in recent years. Pirelli came close to a financial collapse in the 1990s and was rescued by a manager, Marco Tronchetti Provera, who married into Pirelli family and steered the group away from tyres towards cables and fibre-optics and is now the company's largest shareholder. The Pesenti group went into financial distress in 1980s and had to refocus on the cement sector by selling all control stakes in banks and insurance companies. The family still controls the group although has lost most of its economic relevance. Finally, the Agnelli group might not survive the current crisis in FIAT.

Since 1980s the stock market has grown in significance for the Italian economy. Many important private companies, like Benetton, Luxottica, Campari, De Longhi, are now traded. Many more are considering public listings. Furthermore, recent governments have been committed to a program of privatization and have been engaged in a stream of reforms to improve investor protection. At the same time, the control of the largest traded companies has become relatively more contestable. Currently, out of the top ten groups in terms of market capitalization, only the group led by prime-minister Silvio Berlusconi is controlled with more than 30 percent of votes. Finally, investors have become more aware of corporate governance issues. As a consequence, several groups have started simplifying their control structure by taking the holding companies in the intermediate layers of their pyramidal groups private.

These changes suggest that Italy may be finally in the process of evolving from family capitalism to managerial capitalism. But the history of Italian capitalism indicates that this revolution might still be stopped and reverted, as it happened in the early Twentieth century.

Appendix - Description of the data

This paper uses a unique set of yearly data on valuation, financials and control structure of all companies traded on the Milan stock exchange (MSE) from 1900 to 2000.

The data has been hand-collected from several sources.

The investment guide *Indici e dati*[11] is the main source of financial data and year-end market capitalization. *Indici e dati* covers most companies traded on the MSE and selected companies traded on small exchanges. Another investment guide, *Guida dell'azionista*,[12] was useful for this purpose because it reports some financial indicators for all companies traded on all Italian stock exchanges. Unfortunately, this source provides less information than *Indici e dati* on many key variables, most importantly, describing valuation of the companies: as a matter of fact, unlike *Indici e dati*, *Guida dell'azionista* shows only maximum and minimum yearly price instead of market values of the companies. In most cases we are able to correct this problem by calculating market value using share prices on the last day of December published in a newspaper *Corriere della Sera* and the number of outstanding shares from *Guida dell'azionista.*[13] Since *Indici e dati* does not have balance data after 1977, *Guida dell'azionista* and *Calepino dell'azionista*[14] become the source of financial data for the second half of the sample.

Taccuino dell'Azionista[15] is the primary source of information about control over the companies in the sample. This publication gives brief histories of the companies listed on MSE every year. Most recent volumes (since 1987) also present data on exact shareholding breakdowns. Most traded Italian companies have majority shareholders controlling more than 20% votes in recent years. In 1996 the average share of the votes controlled by majority shareholders was around 60% [Bianchi et. al., 1997]. This concentration of voting power makes our definition of control unambiguous in most cases. Before 1987, we have precise information on ownership of all traded companies only for 1947, from CGIL (1947). For all other years, we have reconstructed the chain of control that ends with the ultimate owner (a family, the state or a widely-held company), where we have used all available source to track all transfers of controls however defined. One limitation of this approach is that the definition of control may vary across sources. However, the information for 1947 suggests that ownership has

[11] Mediobanca (1950-2000).

[12] Credito Italiano (1929-1931, 1961-1972, 1976, 1980-1997).

[13] We use an arithmetic average of maximum and minimum market values for the few cases when we are unable to find price data for the year-end.

[14] Mediobanca (1983-1997).
[15] Il Sole 24 Ore-SACIP (1920-2000).

always been quite concentrated. Hence, the definition of control may be consistent across sources for most firms. Since we prefer to be conservative in defining control, we assume that control rests in the hands of the most recent controlling shareholder unless we have explicit information otherwise. In some cases our sources describe the control structure as a coalition control or as a widely held company. The first usually corresponds to an agreement by a group of shareholders to exercise relative majority control through coordinated voting of stakes with combined share of votes less than 20%. There is no controlling shareholders or controlling coalitions in the second case. We do not distinguish the cases of coalition control from the cases of widely held companies in the analysis. An incomplete list of our sources on control is the following: Amatori and Brioschi (1997), Amatori and Colli (1999), Barca, Bertucci, Capello, and Casavola (1997), Brioschi, Buzzacchi, and Colombo (1990), Chandler, Amatori, and Hikino (1997), Ciofi (1962), Colajanni (1991), Grifone (1945), Scalfari (1961), Scalfari (1963), Scalfari and Turani (1974), Turani (1980).

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Table 1. Chronology of the most important regulatory acts on traded companies and financial markets in Italy.

Stock Exchange:	
Aug 4, 1913:	Regulation of stockbrokers.
Apr 8, 1974:	Creation of Consob: agency in charge of the supervision over the stock markets.
Mar 31, 1975:	Definition of the powers of Consob.
Jun 24, 1977:	Regulation of the small market by Consob
May 17, 1991:	Law on Insider Trading.
Nov 14, 1991:	Regulation by Consob on the disclosure requirements by companies offering securities to the public.
Feb 12, 1992:	Takeover Regulation.
Bankruptcy code:	
Mar 16, 1942:	Bankruptcy Law. Two are the main procedures for non-state-owned firms: liquidation (*fallimento*) or reorganization (*amministrazione controllata* or *concordato preventivo*). State-owned companies follow a different procedure in case of liquidation (*liquidazione coatta amministrativa*).
Jan 30, 1979:	Introduction of a special procedure for large firms (*amministrazione straordinaria*).
Mar 31, 1982 - Aug 23, 1988:	Several modifications of the special procedure for large companies in crisis.
Jun 5, 1986:	Modification of liquidation procedure for state-owned companies.
Banking:	
Mar 12, 1936:	Delegation to Bank of Italy of the supervision over the bank system. Distinction between Commercial and Investment banks: only the second group can engage in long-term lending and can own equity stake in manufacturing companies.
Sep 1, 1993:	New Law on Banking and Lending. Universal banking is allowed.
Information disclosure by traded companies:	
Mar 16, 1942	Civil code prohibits shares with multiple votes and limits cross-shareholdings.
Jun 7, 1974	New disclosure requirements to induce investment in stock market by the general public. Permission to traded companies to issue non-voting shares (*azioni di risparmio*).
Mar 31, 1975:	Requirement of external auditing of the annual report.
Jun 4, 1985:	Removal of a restriction to trade shares (*clausola di gradimento*).
Apr 9, 1991:	Introduction of an EC directive on the requirement of consolidated balances for groups.
Feb , 1998:	Strengthening of minority shareholders' rights.
Institutional Investors:	
Mar 23 1983:	Open-end mutual funds are allowed to operate and are subject to Consob's supervision.
Jan 2, 1991:	Regulation of institutional investors.
Jan 27 1992:	Introduction of EC directives on disclosure of information and accounting standards for mutual funds.
Aug 14 1993:	Authorization to the creation of closed-end funds.
Jul 23 1996 - Feb 24 1998:	New Law on Mutual Funds and Financial Intermediaries.

Table 2. Financial development and Law

Panel A.

	(1) 1900 - 1941	(2) 1942 - 1973	(3) 1974 - 2000	Tests: (1) vs (2)	(1) vs (3)	(2) vs (3)
Number of traded companies scaled by population						
Mean	3.66	2.68	3.44	***	0	***
Median	3.76	2.74	3.76	***	*	***

Panel B.

Dependent variable: *Number of traded companies scaled by population*	(1)	(2)	(3)	(4)
Constant	3.61***	3.50***	4.16***	4.77***
	(.187)	(.150)	(.204)	(.279)
Legal score	-0.175*			-0.774***
	(.092)			(.250)
Time trend		-0.004*	-0.044***	-0.035***
		(.002)	(.009)	(.009)
(Time trend)^2			0.0004***	0.0005***
			(.0001)	(.0001)
R^2	0.035	0.027	0.183	0.256
N. observations	101	101	101	101

Table 3. Financial development and Politics

Dependent variable: *Number of traded companies scaled by population*				
	(1)	(2)	(3)	(4)
Constant	4.08***	3.76***	3.85***	4.06***
	(.109)	(.158)	(.107)	(.279)
Public ownership	-0.070***	-0.090***	-0.103***	-0.105***
	(.008)	(.010)	(.010)	(.010)
Legal score		0.296***		-0.377**
		(.084)		(.176)
Time trend			0.012***	0.022***
			(.002)	(.005)
R^2	0.425	0.489	0.549	0.570
N. observations	101	101	101	101

Table 4. Ownership structure: descriptive statistics

	1947	1987	2000	Tests: 1947 vs 1987	1947 vs 2000	1987 vs 2000
Voting rights owned by largest shareholder (%)						
Mean	44.58	55.46	48.00	***	0	***
Median	48.65	54.14	52.11	***	**	***
Fraction of firms with no controlling shareholder (%)						
All companies	10.00	4.35	12.99	**	0	***
Banks & insurance excluded	7.76	3.53	5.62	0	0	0
Control rights owned by controlling shareholder (%)						
Mean	48.98	59.87	57.73	***	***	0
Median	50.10	58.69	55.23	***	***	0
Income rights owned by controlling shareholder (%)						
Mean	40.38	42.11	51.31	0	***	***
Median	44.10	47.00	52.92	0	***	***
Number of observations						
	120	207	231			

Table 5. The evolution of ownership structure

	Constant	Dummy for 1947	Dummy for 1987	Fixed effect	Adjusted R^2	N. observation
Dependent variable: *Voting rights owned by largest shareholder (%)*						
(1)	44.4^{***} (1.36)	-5.99^{**} (2.60)	7.84^{***} (1.99)	Industry	0.586	538
(2)	50.3^{***} (1.61)	-6.65^{*} (3.78)	2.98 (2.45)	Firm	0.281	538
Dependent variable: *Fraction of firms with no controlling shareholder (%)*						
(3)	0.110^{***} (.018)	0.051 (.034)	-0.079^{***} (.026)	Industry	0.118	558
(4)	0.092^{***} (.022)	0.044 (.050)	-0.026 (.033)	Firm	0.300	558
Dependent variable: *Control rights owned by controlling shareholder (%)*						
(5)	57.7^{***} (1.12)	-8.98^{***} (2.13)	2.36 (1.59)	Industry	0.084	494
(6)	58.5^{***} (1.36)	-8.93^{***} (3.25)	0.216 (2.00)	Firm	0.311	494
Dependent variable: *Income rights owned by controlling shareholder (%)*						
(7)	51.3^{***} (1.51)	-11.8^{***} (2.89)	-8.72^{***} (2.14)	Industry	0.070	494
(8)	48.6^{***} (1.90)	-6.67 (4.61)	-4.48 (2.79)	Firm	0.300	494

Table 6. Separation of ownership and control and pyramids

Panel A.

	1947	1987	2000	Tests: 1947 vs 1987	1947 vs 2000	1987 vs 2000
Separation between ownership and control (control rights / income rights)						
Mean	1.91	2.93	1.39	**	**	***
Pyramidal level						
Mean	1.38	1.83	1.27	***	*	***
Number of observations						
	120	207	231			

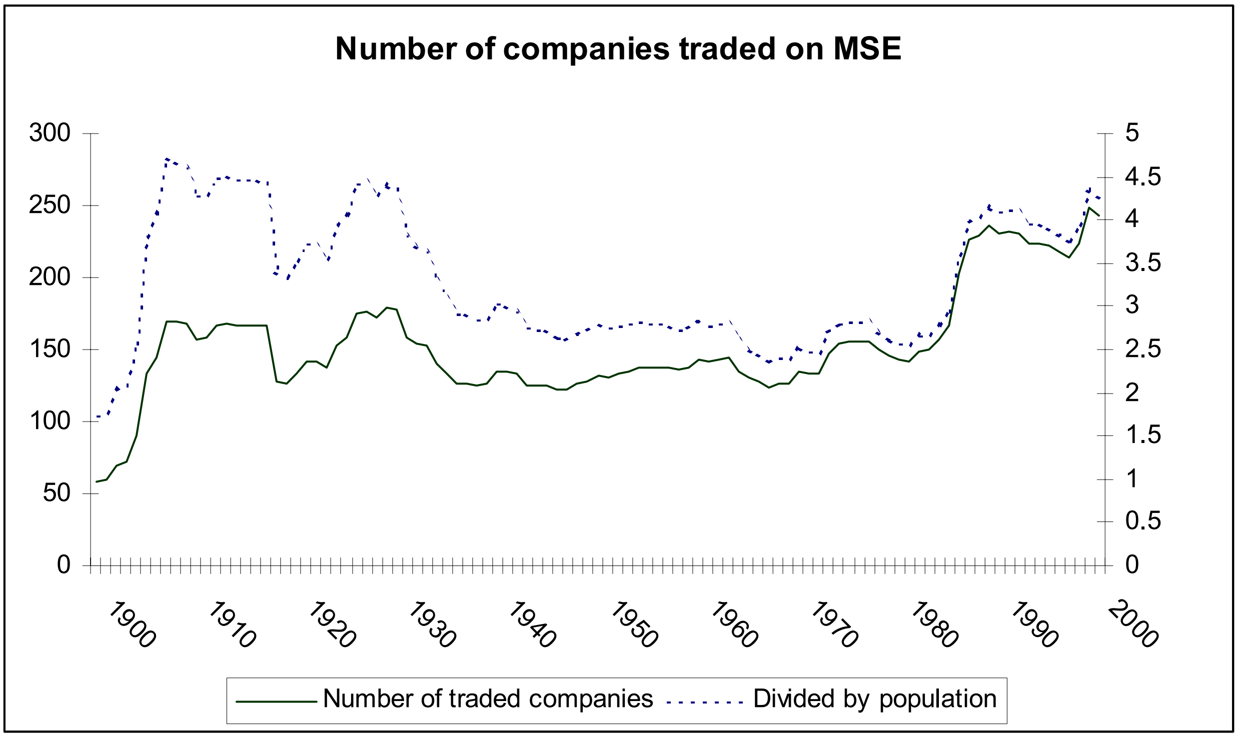
Panel B.

	Constant	Dummy for 1947	Dummy for 1987	Fixed effect	Adjusted R^2	N. observation
Dependent variable: *Separation between ownership and control (control rights / income rights)*						
(1)	1.40^{***} (.229)	0.613 (.439)	1.69^{***} (.326)	Industry	0.075	494
(2)	1.72^{***} (.266)	0.510 (.646)	0.965^{**} (.391)	Firm	0.369	494
Dependent variable: *Pyramidal level*						
(3)	1.29^{***} (.057)	0.355 (.106)	0.550^{***} (.084)	Industry	0.111	558
(4)	1.47^{***} (.064)	-0.220 (.145)	0.204^{**} (.096)	Firm	0.403	558

Table 7. The evolution of groups

1930			1940		
Group name	**N. companies**	**MV (%)**	**Group name**	**N. companies**	**MV (%)**
Banca Commerciale	21	30.68	Iri	19	23.26
Edison	16	13.82	Edison	17	16.45
Montecatini	5	4.46	Montecatini	5	9.09
Sade	6	4.34	La Centrale	4	7.26
Banca Italia	2	4.19	Sade	5	5.65
La Centrale	3	3.96	Bastogi	6	4.46
Gualino	8	3.75	*Agnelli*	2	3.46
Ligure Lombarda	4	3.34	Snia Viscosa	1	3.44
Sme	1	3.13	*Pirelli*	3	2.96
Agnelli	3	2.10	Ligure Lombarda	5	2.66
C4	27.12%	53.29	**C4**	33.58%	56.07
C10	38.98%	73.77	**C10**	50.00%	78.69
1950			**1960**		
Iri	16	17.37	Iri	25	22.07
Edison	11	15.04	Edison	12	14.28
Montecatini	3	8.48	Montecatini	2	7.83
La Centrale	6	5.70	*Agnelli*	3	7.33
Snia Viscosa	1	5.47	La Centrale	6	5.25
Bastogi	4	4.84	*Pirelli*	3	3.97
Sade	6	4.72	Sade	7	3.53
Agnelli	3	4.12	*Pesenti*	3	3.42
Pirelli	4	3.34	Bastogi	4	3.42
Riva	2	3.00	*Olivetti*	1	3.29
C4	27.69%	46.59	**C4**	29.58%	51.51
C10	43.08%	72.08	**C10**	46.48%	74.39
1970			**1980**		
Iri	18	29.30	Iri	18	25.20
Agnelli	8	16.33	Generali	2	12.73
Montedison	3	8.57	*Agnelli*	8	8.14
Generali	1	5.92	Montedison	10	7.84
Pesenti	4	4.60	*Pesenti*	6	7.68
Bastogi	7	3.19	Ambrosiano	5	5.55
Pirelli	2	2.61	*Olivetti*	1	3.99
Eni	4	2.03	*Bonomi*	7	3.59
Sindona	5	1.96	Mediobanca	1	2.93
Olivetti	1	1.94	*Ferruzzi*	3	2.87
C4	22.56%	60.12	**C4**	26.76%	53.92
C10	39.85%	76.45	**C10**	42.96%	80.52
1990			**2000**		
Iri	17	18.54	Olivetti	6	24.07
Agnelli	22	15.00	Generali	3	10.20
Generali	2	11.44	Eni	3	7.59
Ferruzzi	13	10.02	Enel	1	6.55
Eni	9	5.99	Intesa	4	5.48
De Benedetti	10	3.55	San Paolo	4	5.46
Ministero Tesoro	3	3.11	Unicredito	3	4.89
Mediobanca	2	2.82	*Berlusconi*	3	3.61
Pesenti	5	2.39	*Agnelli*	5	2.70
Ligresti	4	2.07	Montedison	7	2.28
C4	23.68%	55.00	**C4**	5.53%	48.41
C10	38.16%	74.93	**C10**	16.60%	72.83

Figure 1



Number of companies traded on MSE
300
250
200
150
100
50
0
5
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
1900
1910
1920
1930
1940
1950
1960
1970
1980
1990
2000
Number of traded companies
Divided by population

Figure 2

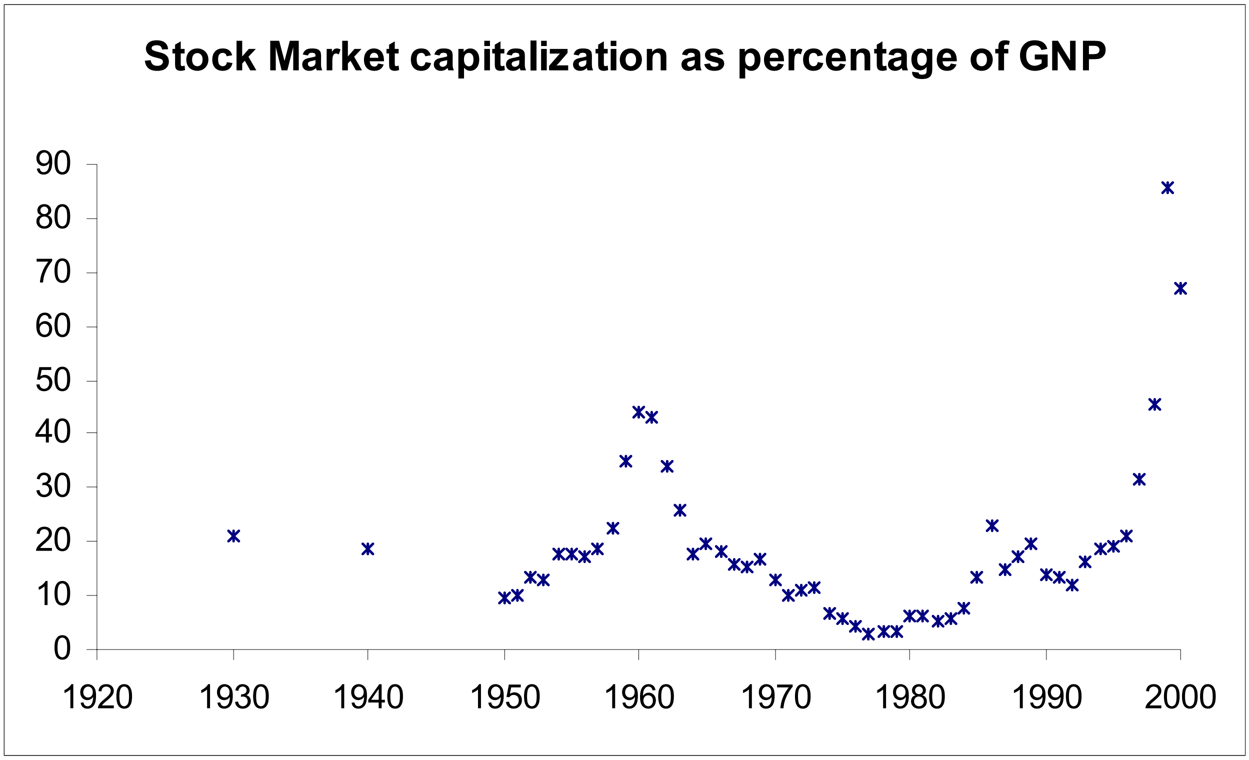

Stock Market capitalization as percentage of GNP
90
80
70
60
50
40
30
20
10
0
1920
1930
1940
1950
1960
1970
1980
1990
2000

Figure 3

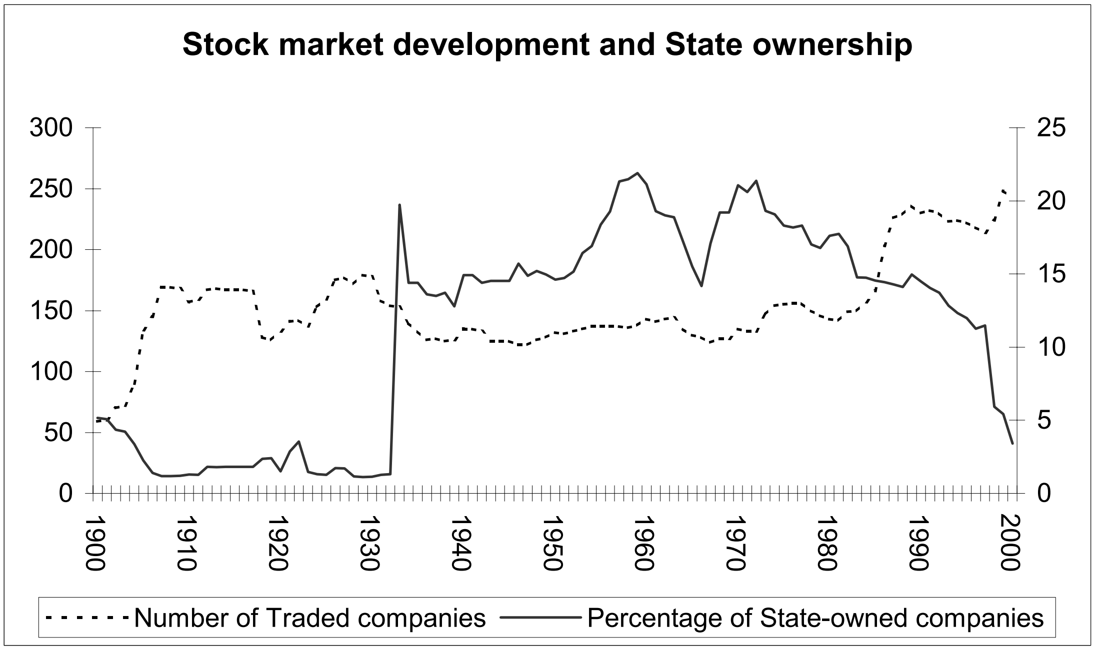
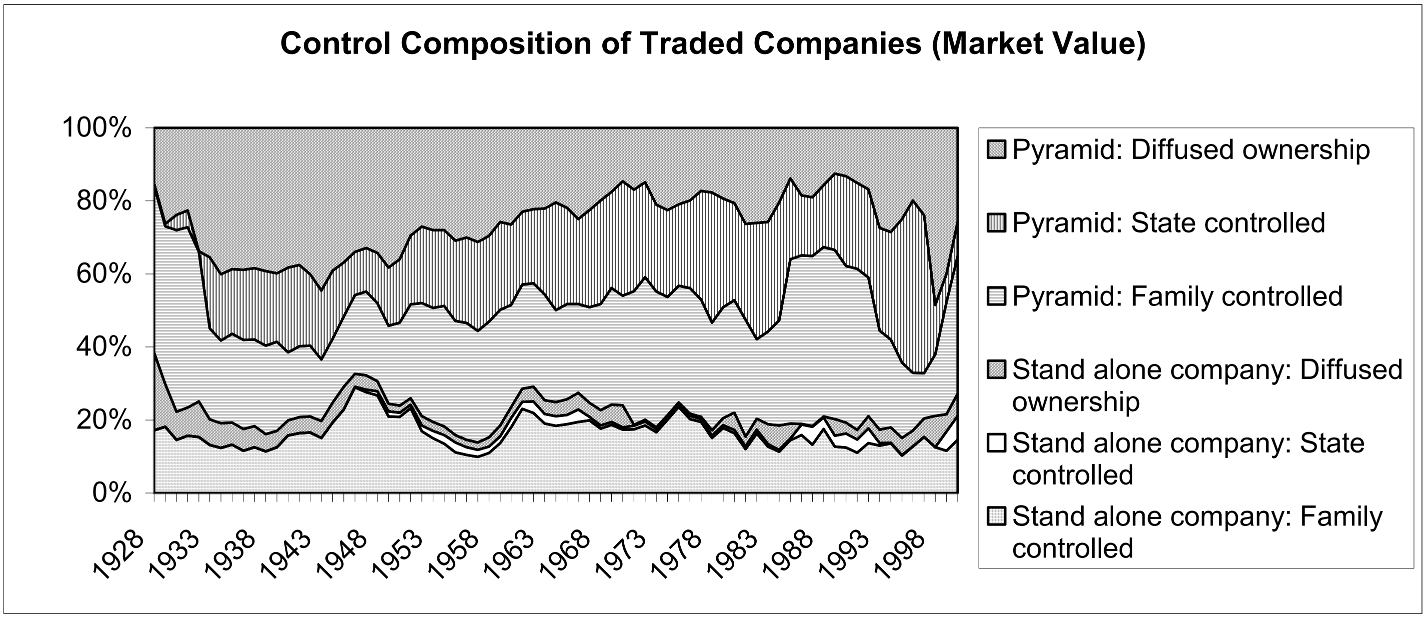
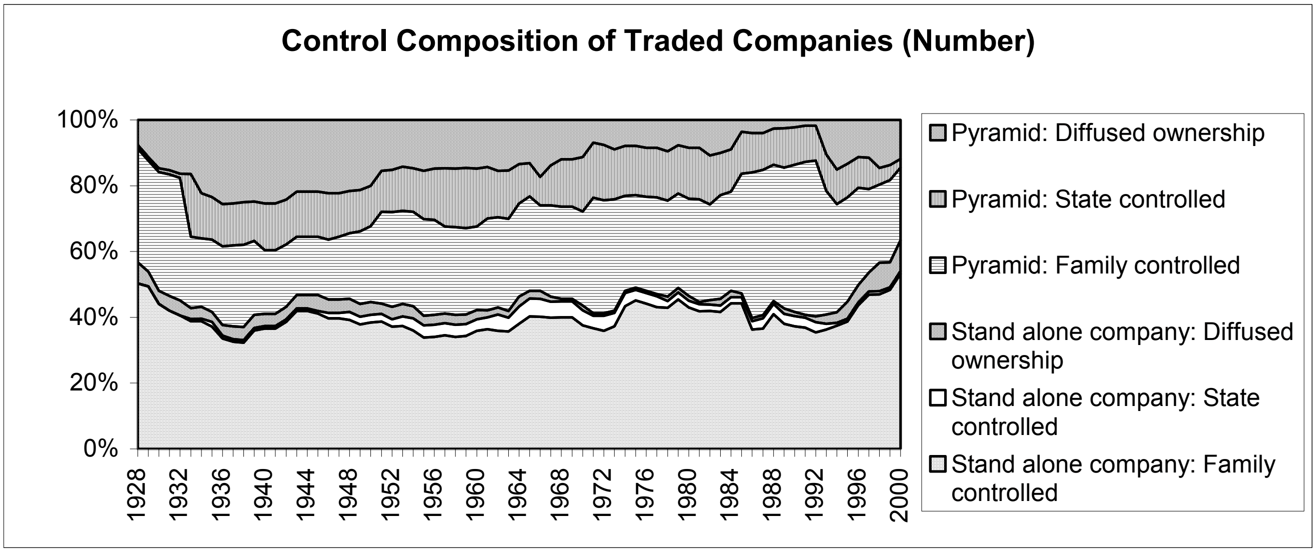

Stock market development and State ownership
300
250
200
150
100
50
0
25
20
15
10
5
0
1900
1910
1920
1930
1940
1950
1960
1970
1980
1990
2000
Number of Traded companies
Percentage of State-owned companies

Figure 4



Control Composition of Traded Companies (Market Value)
100%
80%
60%
40%
20%
0%
1928
1933
1938
1943
1948
1953
1958
1963
1968
1973
1978
1983
1988
1993
1998
Pyramid: Diffused ownership
Pyramid: State controlled
Pyramid: Family controlled
Stand alone company: Diffused ownership
Stand alone company: State controlled
Stand alone company: Family controlled

Figure 5



Control Composition of Traded Companies (Number)
100%
80%
60%
40%
20%
0%
1928
1932
1936
1940
1944
1948
1952
1956
1960
1964
1968
1972
1976
1980
1984
1988
1992
1996
2000
Pyramid: Diffused ownership
Pyramid: State controlled
Pyramid: Family controlled
Stand alone company: Diffused ownership
Stand alone company: State controlled
Stand alone company: Family controlled

Figure 6

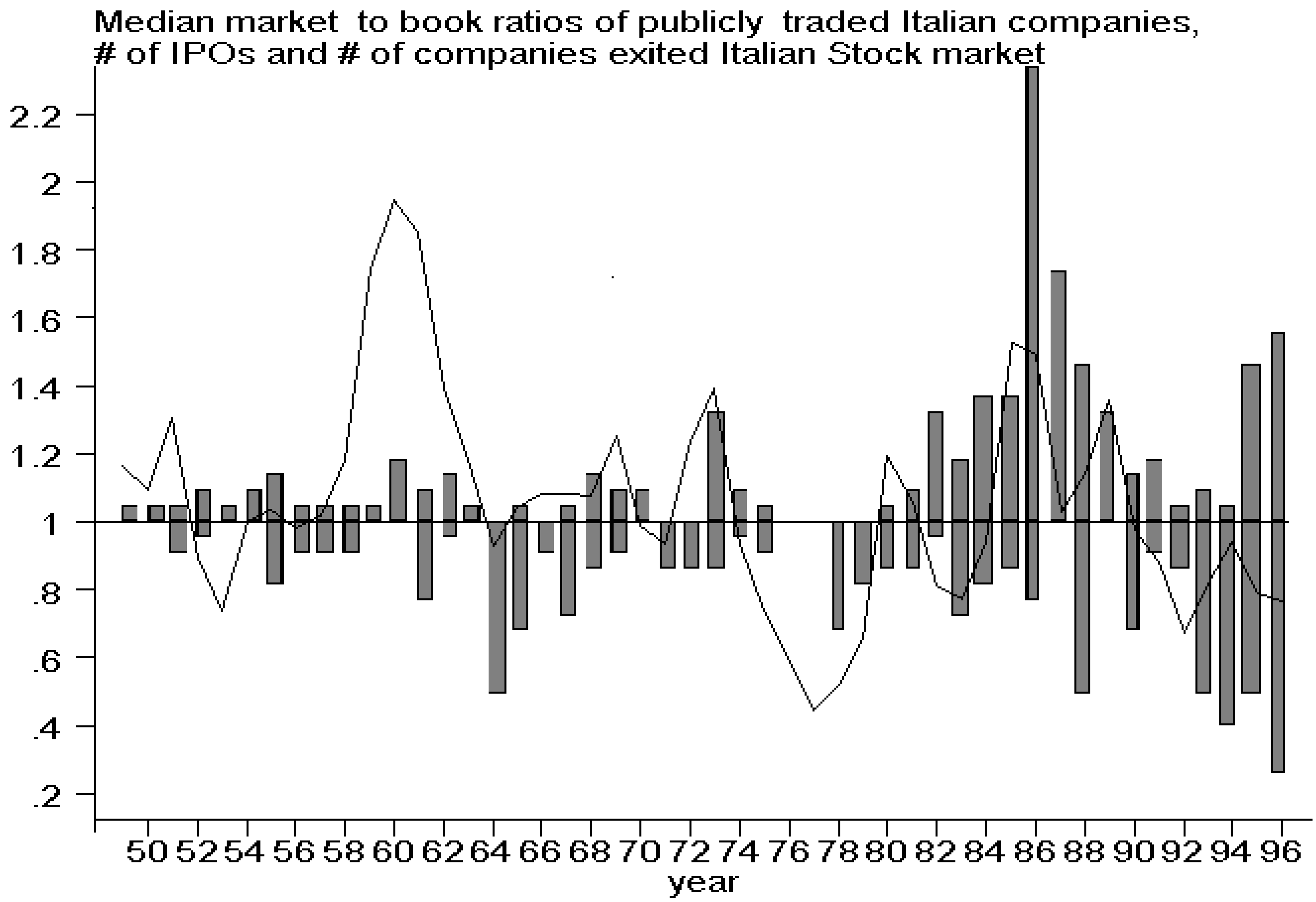
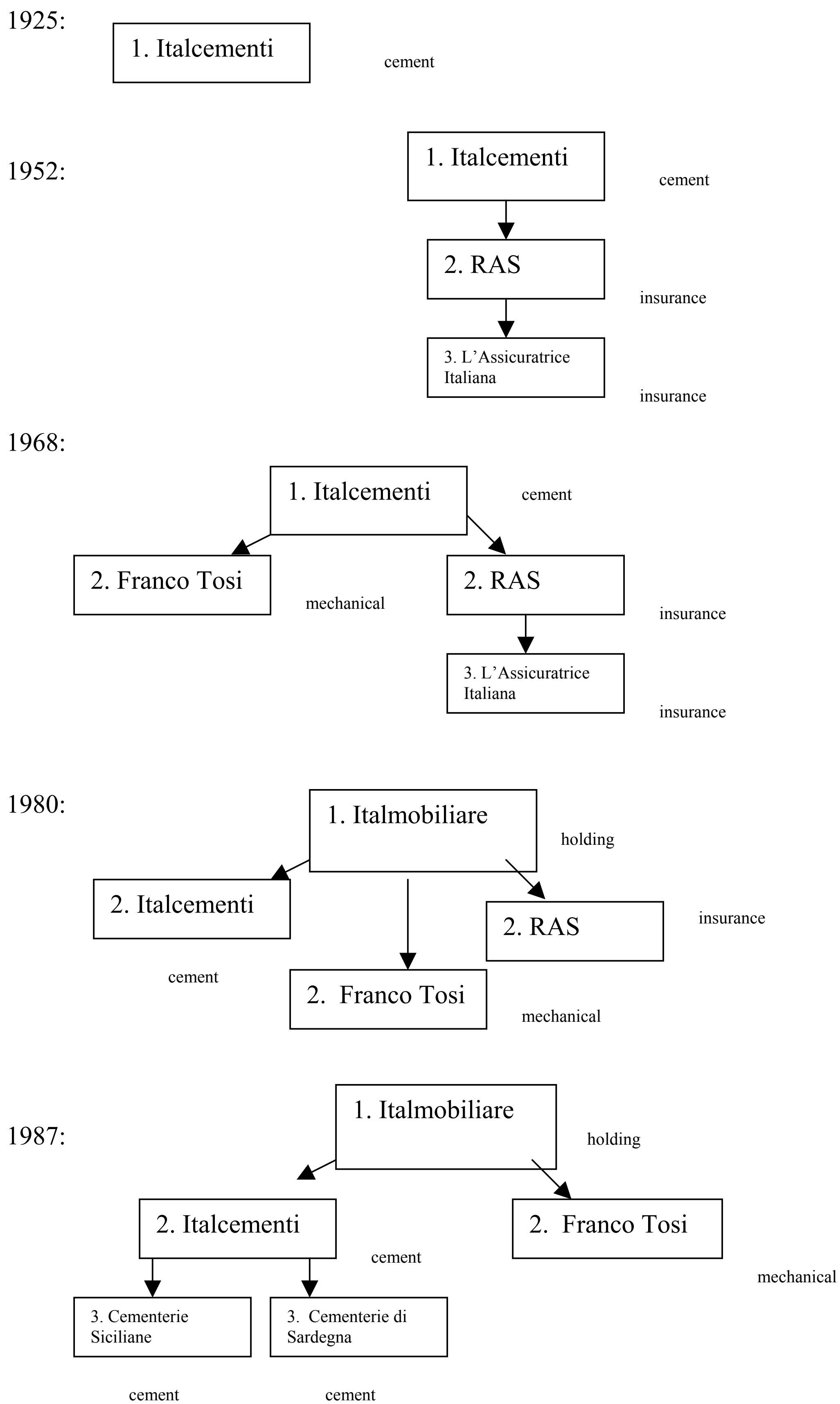
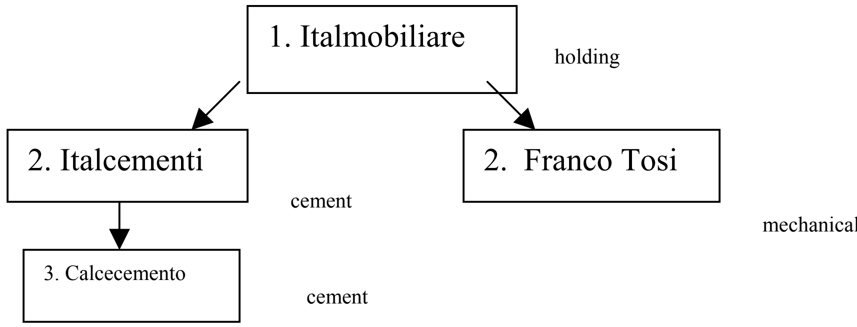

Median market to book ratios of publicly traded Italian companies,
# of IPOs and # of companies exited Italian Stock market
2.2
2
1.8
1.6
1.4
1.2
1
.8
.6
.4
.2
50 52 54 56 58 60 62 64 66 68 70 72 74 76 78 80 82 84 86 88 90 92 94 96
year

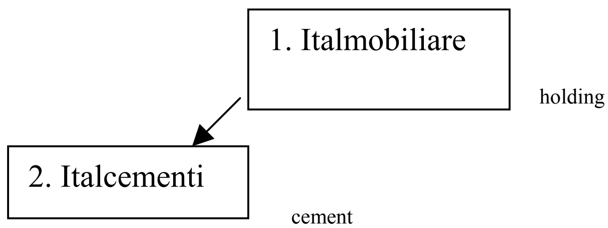
Figure 7. Evolution of Pesentis' group



1997:



1999:



IPOs: Italcementi, 1925
Italmobiliare, 1979
Cementerie Siciliane, 1986
Cementerie di Sardegna, 1986

Acquisitions: RAS, 1952
Franco Tosi, 1968
Calcecemento, 1997

Sales: RAS, 1985

Going private: L'Assicuratrice Italiana, 1980
Cementerie Siciliane, 1996
Cementerie di Sardegna, 1996
Franco Tosi, 1997
Calcecemento, 1999

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