short-term credit, while medium and long term credit was granted through independent branches of the commercial banks and through Special Credit Institutions.

Like other Continental European countries, the stock market is not an important source of finance in Italy. Very few Italian companies trade publicly, even companies that are quite large (e.g., Ferrero, Fininvest, Barilla). In 1993 only 222 firms traded on the stock exchange in Milan (141 in 1980) and the total capitalized value of firms was 120,983 million Euros, approximately 7.8% of GDP. Pagano, Panetta, and Zingales (1998), using a data set highly representative of the Italian economy, state that during the period 1982-1992 there were only 76 new listings of non-financial companies on the Milan Stock Exchange. In contrast, there were over 3000 new listings in the US during a similar time period.[4] Since few firms trade publicly and no large institutional investors exist, the market for corporate control is also poorly developed.

The ownership of Italian firms is tightly concentrated. In a comprehensive study La Porta, Lopez-de-Silanes and Shleifer (1999) find that ownership in publicly traded Italian companies is highly concentrated within a single family and controlling families participate in top management. Using 1993 data for Italian firms, Bianchi, Bianco, and Enriques (1999) find that the largest shareholder owned 51.4% of the firm, on average. In nearly 30% of listed firms, the largest shareholder was an "individual" (a family). Ownership is even more concentrated among non-listed companies. Many other industrialized countries in Western Europe (e.g. France, Belgium, Germany, Denmark, etc.) share the Italian model of corporate governance to a limited degree (Becht and Roell, 1999). As a result, our analysis and empirical findings may be applicable to other European countries.

B. INDUSTRIAL STRUCTURE

Compared with most industrialized countries, the structure of Italian industry is characterized by a very large share of small and medium sized enterprises. In 1996, manufacturing firms in Italy with less than 100 employees accounted for more than 70 percent of employment. In contrast, US data from 1992 shows that firms with less than 100 employees accounted for approximately 20 percent of employment (Trau' 1999). Many have pointed to the proliferation and success of small firms in Italy as an important factor in the development and growth of the economy. Small firms compete successfully in the market for exports and contribute positively to the balance of trade.[5] But while small Italian firms appear to exhibit no

[4] Loughran and Ritter (1995).

[5] Specific examples of industries with a large share of small firms and excellent export performance include industries such as textile, clothing, leather articles and specialized suppliers of machinery such as machine tools.