

Europe's Advantage: Banks and Small Firms in Britain, France, Germany, and Italy since 1918. By *Francesca Carnevali*. Oxford: Oxford University Press, 2005. xi + 228 pp. Tables, bibliography, notes, index. Cloth, £50.00. ISBN: 0-199-25739-6.

Reviewed by Forrest Capie

In *Europe's Advantage*, Francesca Carnevali tells the story of “why during the twentieth century Britain developed into the economy with the most concentrated industrial structure in Europe and what part its banks played in this development.” She makes the point that “the structure of [European] economies is the result of design and deliberation.” Her focus is on Britain, and, as the title implies, she brings in the other European economies to illustrate both their differences from and, in this particular respect, their superiority over Britain's. Her thesis, simply stated, is as follows: small firms are good, but in Britain they operate in an atmosphere of hostility that the government should intervene to correct. When governments intervened on the continent, small firms there did better.

Small is first of all defined loosely as “spaces where most local savings found their way to local financial intermediaries and then back into the local economy” (pp. 2, 3). (One might ask what happened to the gains from trade?) Later, small and intermediate-sized firms are said to be those employing fewer than 250 people (p. 5). And then the very smallest firms are “those with less than five employees” (p. 6). Carnevali considers small firms to be good, but she claims that the British banks were responsible for such firms' failure to make the progress that they were capable of. This has come about, so her argument goes, for two main reasons. The first, asymmetries of information, are the result of concentration in British banking. The banks are criticized for being “risk adverse” (*sic*) and for making “high profits.” These are old charges and remain difficult to substantiate. But on the topic of profits, one strategy would have been to use the latest research on profitability and to make comparisons across time and with the rest of the economy. When this is done, her case is certainly weakened.

However, most of the book either does not use, or else explicitly rejects, evidence opposed to the case being advanced. So, for example, the Colwyn Committee on bank

mergers (1918) is described as having been biased. The Bolton Committee (1970) is said to have got it wrong: where it found no problem with the supply of finance, Carnevali claims that all the faults were in the structure of the banking system and the internal structure of the banks themselves. When the Midland Bank followed the committee's suggestion to offer medium-term loans to small firms, the offers were not taken up. Midland is then accused of a lukewarm response. The Radcliffe Committee (1959) recommended the reduced use of overdrafts and the extended use of fixed-period loans. The Wilson Committee reported in 1980 that these suggestions had been carried out, but the author does not acknowledge this.

There are many questions that might be addressed to her thesis. Why is local information lost when big bank A takes over little local bank B? Was not one of the motivations for taking over bank B in the first place gaining the ability to break into a market and use local information? Otherwise bank A could simply have established its own branch, though even then it is likely to have hired local labor and thus to have been able to draw on local information. So it is hard to accept the statement, "Without local banks investment information is trapped in local networks" (p. 10). Further, how can the extent of competition in the market be read from any particular measure of concentration? It is an old issue in industrial economics. And the answer is that it cannot. Such a calculation depends on the contestability of the market. In banking, that raises the question of the role of the clearing houses and access to them.

Further, in the 1950s and 1960s the British commercial banks were doing what they could to restore the structure of their balance sheets. These had been badly distorted in wartime, as advances were being largely replaced by government debt. The banks were therefore seeking to make advances where they could, so the likelihood is that they would have loaned to eager borrowers. Were the borrowers there? Carnevali claims that credit restrictions were part of the problem. But, if so, then that is where the criticism should be leveled—at macropolicy, not at the banks. So there is still a lot of work to do and more questions to be addressed.

In what is another useful contribution to this long-running debate, it is a pity that the author has not been better served by the publisher. The book contains errors of pretty well every kind: spelling, typography, word choice, referencing, and points of fact.

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