

MERGERS AND ACQUISITIONS IN BANKING ARE BAD FOR THE ECONOMY

There are very little economies of scale in banking, even many disadvantages, such as increasing difficulty to control banking risk, market power (as experienced in the UK and many European countries) and systemic risk. Thus not only should dismembering of large behemoths be seriously considered, but banks acquisitions should also be made more difficult for any bank reaching a certain size relative to its market, or a certain absolute size. In other sectors like energy we can see all too well how detrimental to the economy's interest most concentrations have been. It is time we recognize that greed and power are the main motive of most acquisitions, not economies of scale or any other fanciful "synergies". Greed of the investment bankers who promote those deals for the "success fees" they bring them; greed and lust for power of the acquirer's management, looking for increased pay after climbing the remuneration benchmark ladder, and even "acquisition bonuses" for doing deals; for them also increased power from a bigger toy and a bigger hold on consumers. The drawbacks and dangers of acquisitions are carefully hidden from gullible boards thanks to reassuring "fairness opinions" from advising bankers with large conflicts of interest, eager above all for their fees.

Adam Smith showed us that economic agents should be free to pursue their economic self-interest, because, in competitive and transparent markets, this leads to improvement of the general interest. Owner-managed companies pursue their self-interest just like any other economic agents, but public companies do not necessarily, because of what economists call the agency problem, the temptation for poorly controlled managers to take advantage of companies they run but do not own. The advantage can be excessive remunerations and perks, the delights of power abuse, cronyism, or a combination of these. UK legislators passing the Bubble act in 1720, Adam Smith, Karl Marx, Berle-Means, and Michael Jensen more recently, knew this all along and warned us of the dangers of power abuse by professional managers. Most M & A's are not motivated by the acquiring companies' interest, but by their management interest, and where the agency problem is acute, many acquisitions are not in the acquiring companies' best interest, often even contrary to it.

Let us learn this most important lesson from the financial debacle, that most public companies have a tendency to grow too big for their own good, and certainly for society's good. Anti-trust laws and rules worldwide should be reinforced, and perverse remuneration for management and advisors, deleted.