The bigger the bank, the bigger the eventual collapse

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From Prof William C. Dunkelberg.

Sir, Lex argues (**"Now, concentrate"**, June 30) that large US banks should be allowed to control more than 10 per cent of domestic deposits (the current limit) because sometimes big banks are needed to acquire other big troubled financial institutions.

This makes little sense. Suppose large US banks were able to fund the assets they created with 100 per cent deposits instead of the 25 per cent observed (another 25 per cent is foreign deposits and 50 per cent is bank debt that only large banks can issue; small banks cannot economically borrow in the bond market and fund their loans with domestic deposits). The mega-banks would have made the same bad investment decisions but put at risk four times the level of deposits.

If the banks were not allowed to grow to uneconomical size in the first place, we would not need a JP Morgan to "save the world from Washington Mutual".

There is no evidence that large banks provide scale economies that benefit customers or shareholders once honest accounting and valuation is done. It benefited only the wealth and egos of top management and traders who sold trash to unsuspecting customers.

The US was lucky to have 8,000 small banks to keep its "main street" economy on a more even keel. It was a mistake to let the top five banks have 40 per cent of deposits.

Banks should be required to have relatively more deposits to fund their investments and less bank debt (leverage), and Federal Deposit Insurance Corporation premiums should be assessed against the assets that put deposits at risk, and rise with bank size.

Larger, more concentrated banks would be a set-up for even larger financial disasters in the future.

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