Bank consolidation

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John Pierpont Morgan spent much of the 1907 banking panic playing solitaire in his library, while captains of industry came forward, one by one, with their plans for saving the country. Today, the US has the hyperactive Hank Paulson instead. The drama of Mr Paulson's rescues of Bear Stearns, and then Fannie Mae and Freddie Mac, obscures a larger trend, however. Over the past 10 years, US banking stocks have gone nowhere. The sector, as a whole, is worth less than in 1998. Banks might be profitable places to work. But owning them? No thanks.

The future may be little better. To avoid moral hazard, the US bail-outs wiped out shareholders. Fair enough. But contrast that with the legal agonising over shareholder treatment that followed the UK government's takeover of Northern Rock. The risk, as research boutique **Gavekal** points out, is that fears of US government action will frighten away investors from recapitalising any bank that might conceivably need government support. That is why Merrill Lynch's share price almost halved last week. It is also why Mr Paulson insists there will be no government aid for any buyer of Lehman.

European banks have been busy, meanwhile. The past two months have seen almost €20bn of deals. Deutsche Bank's agreement to buy 30 per cent of Postbank for €2.8bn - pipping a full bid from Spain's Santander - is just the latest. That all these deals have happened in Germany is no accident. German banks, as a whole, have little property exposure and the economy is not mired in debt. Still, deals have not been cheap. Dresdner sold for 1.1 times book value, Postbank for 2 times. Mr Morgan once said that if you have to ask how much something costs, you probably can't afford it. Yet even he might have refrained from buying Lehman - ostensibly a snip at one-seventh of book value - given its large and potentially toxic loan book.