

**Abstract**

We examine the reallocation of profits in the European and US banking sectors in the period of 1995 to 2004. Specifically, we ask whether the restructuring of both industries has contributed to an efficient reallocation of assets. Using a revised decomposition framework, we find that US banks are more flexible in the reallocation of profits than their European counterparts. In the US, efficient banks that appropriate assets decrease industry profitability, as expected in a market characterized by a sufficiently high level of competition. In addition, economies of scale are exploited more in the US than in Europe. Regulatory reforms in the EU, in particular in response to the current crisis, should therefore foster a more closely integrated European market.