

The history of US banking, a comparison to the EU banking system, and how the financial crisis  
of 2008 changed the banking system

Kenny Clift

West Texas A&M University

Honors

Dr. Duane Rosa

October 21, 2011

Banking, a foundation of society has been around for centuries. Knowing that it has been around for centuries, makes imagining a world without banks almost impossible to image. Banks in their most basic functions are to be a depository of personal wealth, and a bank has the right to loan that money out to investors. Since a bank is using your money as a way to finance investments, the banks will in turn give you interest to your account since they are using your money. So, that was banking in a nutshell though clearly banking has grown outside of those bounds and does so much more than clearly take a deposit and loan money out. Now, knowing what banking is in its most basic principle. Image a world without the a banking system, a world where we has people had nowhere to store our wealth, no one to go to for loans, no debit cards, no credit cards, no currency, no interest rates, and image what your bank does such as online bill pay, mobile banking, online banking, and each banks unique feature never existed. This is an unfathomable scenario, banking has become so ingrained in us that as people we cannot foresee or comprehend a world that does not have a banking system of some sort. Clearly, the importance of banking is clear. Banking is a foundation of human society and cannot and will not in some form or another remain in place. Banks, as stated, are needed for the ability to loan out money or to store deposits. As banks become more and more regulated we understand that the money we deposit into banks will remain safe and insured. Remember, can you trust yourself with you entire wealth being left outside in the open or outside a vault? Personally, most of us could not be trusted to keep our wealth secure, because of the fact that the unimaginable factors of life happens to ever person at one point or another. For example, no one plans for a house fire. Say, in a world without banks and your wealth was stored in that house that caught fire. Your entire fortune is now up in smoke. Clearly, this imaginary example shows how banks provide a piece of mind that no other institution can provide when it comes to financial security. Now,

seeing how banks make up a needed and important part of society, we will see how banks maintain this piece of mind even in uncertain times. The following paper will explain and examine the history of banks and the banking system in the United States, how technology has changed the banking system forever, then a comparison of United States banking systems to that of the European Union, an analysis of the financial crisis of 2008, and finally how the financial crisis of 2008 has changed the United States banking system.

### **History of the First and Second Bank of the United States**

“How could the richest and most productive economy the world has ever known have a financial system so prone to periodic and catastrophic break down? One answer is the baleful influence of Thomas Jefferson.” (Gordon, 2008), every since the foundation of the United States, the Framers of the Constitution have been clearly divided on the idea of a national bank, or central bank. A central bank understanding is critical to this paper, as much of the changes in banking have involved the power of a central bank, so simply put a central bank is “an institution that usually issues the currency, regulates the money supply, and controls the interest rates... a central bank possesses a monopoly on printing the national currency...[and] to provide the nation’s currency supply, controlling interest rates, and finally has supervisory powers intended to prevent banks from reckless or fraudulent behavior” (Banking, 2010). Thomas Jefferson and Alexander Hamilton were the two who had the biggest disagreement on the idea of a central bank when looking back the Framers of the Constitution disagreement on a central bank, “[Jefferson] fought it tooth and nail, but Hamilton won the battle and the Bank of the United States was established in 1792” (Gordon, 2008). The “bank was based in Philadelphia with branches in eight other cities” (Boyer 2001), though this will be cover later, the first Bank of the United States closely resembles the Federal Reserve of today which has twelve branches across

the United States. Even in the beginning of the foundation of the United States, we can see that the Framers of the Constitution wanted the banks to spread out across the nation instead of one localized hub where the entire nation's wealth is stored. The first Bank of the United States "was a big success and its stockholders did very well. It provided the country with a regular money supply with its own banknotes, and a coherent, disciplined banking system" (Gordon, 2008). Even though, the first Bank of the United States was a success and people benefited from the centralized bank, Thomas Jefferson would not allow his defeat of establishing a first bank to remain unnoticed. The followers of Jefferson philosophies, also known as Jeffersonian, were able to defeat the bank in 1811 when its charter was up for renewal. Then, the War of 1812 once again changed the face of the banking system in the United States, "the near-disaster of the War of 1812 caused President James Madison to realize the virtues of a central bank and a second bank was established in 1816" (Gordon, 2008), and "difficulties in financing the War of 1812 demonstrated the value of a national bank...[and] granted the second Bank of the United States a twenty-year charter" (Boyer, 2001). So one must ask themselves what is the differences between the first Bank of the United States and the second, while surprising there were a lot of differences between the first and second Bank of the United States simply because the powers of the second bank had increased compared to its ancestor, "modeled after its predecessor, the second Bank of the United States also engaged in commercial and central bank activities...[which] built it into a powerful institution by requiring each of its branches to play a defined role within a national economy as determined by the central bank in Philadelphia. The second Bank of United States also proved to an effective regulator of note issues and lending by the 464 existing state banks" (Boyer, 2001).

The success of the second Bank of the United States was short lived, as the most influential figure to ever shape the banking industry in the United States rose to power and become the President of the United States, which is no other than President Andrew Jackson. President Jackson hated the idea of a central bank, and to no surprise President Jackson was a “Jeffersonian to his core, [so he] killed it, [the second Bank of the United States]” (Gordon, 2008). Jackson hated the idea of a central bank, and adopted the same philosophy of Thomas Jefferson, which was allow the states regulate the finances of the government. The country was split on the idea of a central bank, during Jackson time so much so that it the second Bank of the United States “recharter became a political flashpoint” (Boyer, 2001) to the election of 1832. Due to Jackson reelection, he interpreted his winning that the country did not want or need a central bank. So in his second term as President, Jackson removed the “federal deposits from the Bank of the United States” (Boyer, 2001), which effectively made the second Bank of the United States bankrupt. The third bank of the United States would not be formed for the next seventy-years, which would become known as the Federal Reserve, though that will be discussed in detail further on. Cleary, “we paid a heavy price for the Jeffersonian aversion to central banking” (Boyer, 2001), without a central bank the United States could not rely on a central bank to carry out the duties that a the first and second Bank of the United States carried out.

### **The United States banking system without a central bank**

Without a central bank to regulate the other banks across the United States, the banking industry entered into an era known as free banking or wildcat banking, which meant “bank notes were issued against little or no security, and credit was overexpanded; depressions brought waves of bank failures... the multiplicity of state bank notes caused great confusion and loss” (Banking, 2010). This can be contributed to the Jeffersonian who hated the notion of a powerful

banking system. Since, there was no central bank to regulate the banking system. The power of regulating banks fell on the states to regulate the banking industry. Which, in the United States formed either intentionally or inadvertently a dual banking system that in some form is still seen today. It was where either a bank is chartered with a state within the United States or with the federal government. Dual banking system was formed when President Jackson killed the second Bank of the United States, the “resulting void in financial markets was filled by the rapid expansion of state banks” (Boyer, 2001), though the state banks were relatively weak “Jeffersonian made sure they remained small by forbidding branching... [causing] thousands of banks in the country by 1840s” (Gordon, 2008). The dual banking system officially emerged in the nation in 1865 after the Civil War, because of the fact the nation was in a financial turmoil, there was no uniformed currency, and banks were committing fraud left and right to make more money. So to counter this Congress passed the National Bank Act of 1865 “which provided for a system of banks to be chartered by the federal government (Banking, 2010). A national banks and state banks now formed what is now know as a dual banking system. What is the difference between a national bank and a state bank? Well today, nothing besides where the banks charter resides. In 1865 when the National Bank Act was passed, a national bank was “intended to provide a way of marketing the large bond issues made necessary by the Civil War and to give circulation to a paper currency more trustworthy than the notes of state banks had proven to been... the formation of private banking corporations that were to invest a large part of their capital in bonds of the United States and that might then issue their notes as currency” (National, 2010). The formation of national banks stopped “the monetary chaos... banknotes issued by national banks had to be uniform in design and backed by substantial reserves invested in federal bonds” Gordon, 2008) and the “act generated a uniformed national currency, nicknamed the

greenbacks, and protected banknotes holders from loss” (Boyer, 2001). The National Bank Act was a needed boost to the nation’s banking system, as stated without a central bank the United States banks were out of control, and were causing more harm than good. “The establishment of the national banking system carried with it the beginnings of a system of supervision” (Board, 1932), as the National Bank Act gained the momentum, more and more banks traded in their state charters for a national charter, which as stated gave the federal government the needed control over banks. What become of state banks? Well clearly state banks did not disappear after the National Bank Act, because of the simple fact that state banks are still around today, “the number of state banks expanded rapidly” (Banking, 2010), even though “state banks were imposed a ten percent tax on issuing banknote” (Board, 1932). Though, the National Bank brought a balance in the United States banking industry it could not “branch across state lines” (Board, 1932) which effectively still limited the power of banks, and how much control they had in the United States economy.

### **The Federal Reserve**

Once the twentieth century hit, changes in United States banking system happened as if they were daily occurrences. As of now, the twentieth century has seen the most changes in the United States banking system then all other combined. The biggest changes to the United States banking industry has been: the creation of the third Bank of the United States, formally known as the Federal Reserve of the United States, The Savings and Loans Crisis, also known as S&L Crisis, and the Monetary Control Act. “Following a financial panic in 1907, Congress commissioned studies of contemporary and historical banking systems. Most of these studies criticized systems lacking a strong central bank” (Board, 1932), “even Jefferson’s political heirs realized after 1907 that what was now the largest economy in the world could not do without a

central bank” (Gordon, 2008), which led to the “creation of the Federal Reserve in 1913 via the Federal Reserve Act” (Banking, 2001) the country was for the first time unified in the idea of a central bank, and the government responded with the Federal Reserve in an attempt to help and halt financial crisis that had been plaguing the United States economy. The Federal Reserve

“divided the country into twelve districts, each with a Reserve Bank and one or more branches. Reserve Banks were organized as federally chartered corporations owned by member banks. Member included all national banks and those state institutions chose to join. The Reserve Banks became the principal medium for carrying out the credit and monetary policies of the Federal Reserve... Reserve Banks hold the required reserves of the member banks and provide check-clearing and settlement services for them. The Reserve Banks also act as fiscal agents and depositories for the U.S. Treasury and other federal government units. A seven-member Board of Governors of the Federal Reserve, appointed by the president and located in Washington D.C., administers the twelve Reserve Banks and their branches... which meets about twenty times a year to set monetary policies designed to combat inflation, limit unemployment, and promote economic growth” (Banking, 2001).

yet the twentieth century Jeffersonian limited the power of the Federal Reserve until the Great Depression. The Jeffersonian “fought to make it weaker rather than stronger” (Gordon, 2008), which points to how the Great Depression was allowed to become so great and troublesome. The Federal Reserve was “completely reorganized in 1934 and the U.S. finally had a central bank with the powers it needed to function” (Gordon, 2008). Clearly, the formation of the Federal Reserve has been a key factor in the United States banking history, but the S&L Crisis and the Monetary Control Act has led to what banks are today, which are super banks that are so critical to the United States economy that many banks have been labeled too big to fail. The S&L crisis “was the inflation of the late 70’s” (Quick, 2008), and many banks at the time known as a saving and loan institutions, which main focus was loaning out money that the people put in their savings. Though, the S&L crisis was a microcosm compared to other financial problems to plague the United States. The S&L Crisis led to “lending requirements [being] loosened, the FDIC raised the Deposit Insurance up to 100,000 dollars, and finally enforcement of the law by

banking regulators was decreased” (Quick, 2008). Finally, through the Monetary Control Act “Congress allowed interstate banking, creating nationwide banks of unprecedented size” (National, 2010). The Monetary Control Act was almost as big of a game changer as the formation Federal Reserve. Now banks could become nationwide which increases the profitability and assets of a bank. Through this act, banks across the country finally merged and branched outside state lines. Banks increased in power across the nation, and with the Federal Reserve in place. Banks now had a sense of supervision and also a motive to spread across the nation.

The history of United States when it comes to banking is quite complex. As it has been shown that the Framers of the Constitution thoughts on banking have influenced the history of banking institution in the United States. Being Jefferson, who opposed the idea of a national bank, to Hamilton who wanted a central bank, little did they know their disagreement would lead to a uniquely American system known as a dual banking system. Finally, as the United States rose to power to be one of the world’s most powerful economies the country became united on the idea of a central bank, which caused the formation of the Federal Reserve. Finally, the S&L crisis and Monetary Control Act led to what banks are today, which are super wealth holding companies that are tied directly into the United States economy.

### **Banking Technology**

The government made possible the changes needed for banks to become what they are today, but without the help of technology banks would not have expanded and grown as fast as they did. Technology was and still is the leading force in bank changes, and the services a bank can offer. Without the development of technology concerning the banking industry, banks would still be struggling to branch across state lines, and banks would be a slow growth compared what

they are today. The way technology that has changed banks has led banks to develop ways that have made our life easier, and easier to manage our wealth. Most banks today offer services that we use on a daily basis, such as, credit cards, debit cards, checks, online banking which has a plethora of features, and with the emergence of smart phones banks have began carter to this market as well, “Technological advances and efficiencies offered by banks will bring a larger array of services to customers” (Cooke, 1997). Technology will has it has in every other business bring an increase in profits, “technology can improve bank profitability by raising revenue and reducing expenses... profits have doubled over the past 15 years” (Cooke, 1997). Technological changes can now attributed to the fact that banks control so much of the United States economy. Meaning as technology increased so has the services a bank can offer. Briefly, debit cards, credit cards, and checks have been the most used services that banks now offer to customers. Checks were the first major change in the banking industry, which simply put are “document that orders a payment of money from a bank account” (Cooke, 1997). Checks led many Americans to stop carry dollars in change for a book for checks. The main problem with checks though was the inability of a business to verify if the funds were actually in that person’s account. As technology increased and advanced, checks were soon replaced with a debit card, which is simply “a plastic card that provides the cardholder electronic access to their bank account... which relays a message to the cardholder’s bank to withdraw the funds from a designated account in favor of the payee’s designated bank account” (Cooke, 1997). The debit card has become so successful that in some countries it has completely replaced people carrying checks. With the rise of check and debit cards, people begin to see the benefit of storing their money at a bank, while just carrying a check book or debit card. Another major change that technology is that of a credit card, which is “a small plastic card issued to users as a system of payment. It allows its holder to

buy goods and services based on the holders promise to pay for these goods and services. The issuer of the card creates a revolving account and grants a line of credit to the consumer... though credit cards issuers usually waive interest charges, if the balance is paid in full each month, but typically will charge interest on the outstanding balance if not paid in full” (Cooke, 1997). Credit cards have become a major cause of financial stress across the globe, due to the fact that people simply forget that they must pay back what they buy, but on the flipside credit cards also have become a way cheap way for people to finance a purchase, and for banks to give out a line of credit. Now, that it is seen how debit cards, credit cards, and checks are the most successful and most used technological services a bank can provide. Let’s, look at the two growing services of a bank, online and mobile banking. Online banking allows customers to conduct financial transactions on a secure website. Online banking, in a sense, is a person never having to actually enter a bank to achieve what they need. Online services include, but are not limited to: the ability to open new accounts, the transfer money between accounts, pay bills, see your account history, order banking items, apply for a loan, apply for a mortgage, and the list goes on. As stated, in essence online banking allows the consumer to go to a computer with Internet access and achieve most things that a bank offers inside a branch. Online banking has taken off so much that now there are some banks that only operate online and have no physical branches for a customer to walk into. Through the advent of smart phones, banking has adapted to service its customers in this market as well. So as technology changes so does the banking industry to adapt to its customers. Technology has made banks more accessible, user friendly, and changed the way, we as consumers, carry cash, make transactions, and live off of a credit system. Banking and technology together has made Americans more entwined to their bank, just as the Federal Reserve has made banks more connected to the government.

### **The EU and United States banking system comparisons**

As discussed, the United States has a unique banking system as compared to the rest of the world. Briefly, we will examine the European Union system seeing how our cousins' bank system works compared to the American system by examining the difference the ownership structure, social responsibility, regulation, and how each system handles a banking crisis. The biggest difference between the EU and the US banking system is the fact that in the United States the banking system is located into just one country distributed across fifty states with one currency. While in Europe, the European Union consist of twenty-seven countries adopting a single banking policy consisting of four currencies, which are the Danish Crown, Swedish Crown, the Sterling Pound, and, the most common currency, the Euro.

The ownership structure between the two banking systems is different, but the United States is starting to adopt the structure used in Europe. "The vast majority of US commercial banks are owned by bank holding companies" (Comparative, 2006) meaning in essences that the banks in the United States are privately owned, while in Europe "the corporate structure of commercial banks is not uniform... though commercial banks have opted for the public" (Comparative, 2006). In other words, banks in Europe answer to the stockholder while in America the bank answers to the bank holding company, but as stated there has been a shift in the American markets. American banks are now shifting from depositor ownership to shareholders ownership, because it increases a bank ability to raise equity and capital.

Banks across the globe has become Mecca's of financial wealth, and as bank profits increase, so does a bank's social responsibility. Banks in "the US, regardless of the type, are legally required to serve the convenience and needs of all segments of their local communities via the Community Reinvestment Act... a satisfactory CRA-rating is required to get the approval

for charters or bank mergers, acquisitions and branch openings” (Comparative, 2006). This is uniquely American forcing banks to be a part of the community and to help reinvest in the neighbor, because in “Europe on the other hand, there is no equivalent responsibility” (Comparative, 2006). So this is clearly, a major difference in the two systems, because of the fact that the United States government requires the banks to help out the community while, Europe does not require banks to reinvest in the people it serves.

Regulation of banks is quite similar when comparing the United States and the European Union, “the EU countries and the US have gone through similar experiences in the course of the 20<sup>th</sup> century, often deciding to apply similar solutions to similar problems” (Comparative, 2006). Even though Europe and the United States apply the same principles to solve a problem, the regulation system still makes the markets different in each system, “the distinction worth underlining is the fact that in the US, there are important differences in the banking system between the different categories of institutions, not only the perspective of the business model, but also from a legal point of view... this is not the case in Europe where there is no distinction between banks” (Comparative, 2006). Simply put the regulation when comparing the two is that the United States takes in an excess of factors to determine how each bank is to be regulated. Meaning that each bank is regulated on an individual basis, while Europe makes no division between the banks and all the banks are regulated equally, not on an individual basis.

Finally, when comparing the European banking system to United States one must look at the banking markets in which the systems both serve. “The EU banking sector is more than twice as big as the US banking sector in terms of assets... but in terms of financial institutions the US has considerably more in spite of having a great deal less people to serve compared to Europe” (Comparative, 2006). One must take in account the currency exchange rate when

comparing the assets of Europe to United States. It is clear that the dual banking system has led to America having considerably more banks across the nation than that of European Union. Interestingly though “in spite of the EU having a great deal less financial institutions than the United States, it has twice the number of branches, and thus a significantly larger number of branches relative to the population” (Comparative, 2006), which shows how the history of banks in the United States and Europe differ. America at first wanted the banks to weak, which caused thousands of banks to open up shop, but in Europe, they wanted the banks to be powerful institutions which caused for a fewer amount of banks to open up, and allowed those few banks to expand at a much higher rate. Clearly, the US and EU have a different approach on how banks should serve their markets.

This difference shows itself when comparing how the United States and European Union handle situations of financial crisis. The discussion on the United States financial crisis will be discussed later on, but briefly we will look how Europe handles a similar crisis that America is facing. Europe is facing a debt crisis due do Greece masking its deficits, “the European Central Bank responded with its most forceful programs to date, saying it would large amount of bonds in Greece” (Economic, 2011). This is something the United States is unable to do, due to the simple fact that the United States is one country, while the European Union is twenty-seven countries working together. “The financial crisis has highlighted the constraints of the euro membership for these struggling economies. Unable to devalue their currencies to regain competitiveness, and forced by EU fiscal agreements to control spending” (Economic, 2011), the United States has to rely on the Federal Reserve and the United States government, while Europe has the ability to draw on its stronger members to help out the struggling weaker members.

Seeing this ability is clearly the major difference when compared to the United States when comparing how each market handles a financial crisis.

### **The Financial Crisis of 2008**

United States is not immune to financial crisis, even though the United States now has developed safety measures after the Great Depression to ensure that the nation would not have to experience another economic crisis as it did during the Depression. In 2008, the United States faced an economic crisis on levels not seen since the Great Depression. One must look at the Financial Crisis of 2008, being how it happened, why it happened, the government intervention, bank failures, and the notion of too big to fail to understand how the United States handled the crisis.

The financial crisis beginnings are critical for the understanding on the action the US government took to assure the economic viable of the nation.

“roots of the credit crisis stretch back to another notable boom-and-bust: the tech bubble of the late 1990s. When the stock market began a steep decline in 2000 and the nation slipped into recession the next year, the Federal Reserve sharply lowered interest rates to limit the economic damage. Lower interest rates make mortgage payments cheaper, and the demand for homes began to rise... as the industry ramped up, the quality of the mortgages went down... Banks and other investors had devised a plethora of complex financial instruments to slice up and resell the mortgage-backed securities and to hedge against any risk... more banks found that securities they thought were safe were tainted with what came to be called toxic mortgages. At the same time, the rising number of foreclosures helped speed the fall of housing prices, and the number of prime mortgages in default began to increase” (Economic, 2011)

The reason the financial crisis began was due to the fact that the banks were giving mortgages to people who never should have been given a mortgage in the first place. The consumer was buying houses that they did not have the means to make monthly payments, but because of the low interest rates set by the Federal Reserve, banks were able to loan out money and make a high profit off loans. Due to the fact, they could set a higher interest rate than the Federal Reserve.

So, in layman terms the banks outgrew their means and believed that as long as the markets continued the current rates they could continue to make a profit.

Many people are considering what happened to be a black swan event. Since, “recessions are part of normal business cycles, when overconfident businesses overproduce and then have to cut back. This is a balance-sheet recession, which is rare and is caused by an overload of debt” (Clark, 2011) the United States is in a rare type of recession, where all the normal factors a government can normally apply to reverse a financial crisis does not work. The recession was clearly caused by the overspending of banks and the federal government. When banks were loaning out money for the houses, they did not factor in the people could not afford or pay for the houses the purchaser wanted. So, when that person defaulted, the bank took a loss of assets, so the bank would just loan to another person in hopes to recover that lost asset, plus to gain a profit. Simply put the reason why the recession occurs was that “Congress’s attempted to force banks to make home loans to people who had limited creditworthiness” (Gordon, 2008).

Clearly, the banks were in need of some type of government intervention or banks across the nation would be collapsing, though bank collapses are normal “US banks have historically alternated between decades of few failures and brief waves of failures” (Li, 2011), just the United States was facing an unprecedented amount of bank failures. As the crisis became apparent that banks across the United States were citing that they were covered in toxic mortgages. The United States government took action to avert what it believed would lead to another Great Depression. The Federal Reserve and Congress developed a plan, which was known as TARP or Trouble Asset Relief Program. TARP was a “700 billion dollar proposal that would allow the government to buy toxic assets from the nation’s biggest banks, a move aimed at shoring up balance sheets and restoring confidence within the financial system” (Economic,

2011). Yet, TARP was not enough, and only a few months after TARP was passed, another bill was passed to inject more funds to strengthen the banks. This bill became known as the stimulus package and it was a “787 billion dollar plan aimed at to continually stimulate the economy” (Economic, 2011). Throughout American history, a government intervention on this scale has never been seen.

### **The effects of the Financial Crisis of 2008**

Though the United States government intervention to save the big banks, so far has been a success. Many small banks throughout the country have been unable to cope with the stress of the financial markets being volatile markets, and have folded and collapse or merged with other banks. The three biggest mergers was JP Morgan Chase buying out Bear Stearns, Bank of America buying out Merrill Lynch, and finally Wells Fargo buying out Wachovia. Clearly, the bank failures lead to making big banks bigger, and the smaller banks weaker. After it was all said and done only four big banks exist, as of now, which are Bank of America, Citigroup, JP Morgan Chase, and Wells Fargo. These four banks now hold a considerable amount of wealth and have become to big to fail, for if they fail than the United States economy will be considerable damaged.

What is the notion of too big to fail? A company that is "too big to fail" is deemed to be too important to fail. If a company is deemed to be "too big to fail", that means that the company is too important to the economy to go under. If they did go under, then the results would be catastrophic for the entire economy. A company that is "too big to fail" is thought to be too interconnected to let fail. Meaning: their failure would likely trigger the failure of numerous other companies. An example of a company that is "too big to fail" the Big Four Banks. The failure of anyone of those four banks during the darkest days of the financial meltdown would

have resulted in the imminent demise of numerous other companies, meaning that the government had no other recourse but to step in and bail out the banks. A company that is "too big to fail" has the implicit backing of the federal government. "There is almost no chance that a company like Bank of America, Chase, Wells Fargo, or Citigroup would ever be allowed to fail" (Economic, 2011).

Now knowing what caused the crisis and what the government did to help save the economy, one must look at the effects that the government intervention, and the crisis itself played on the banking industry. The crisis has led to a reorganization of banks, government ownership, the growth of the Federal Reserve, the backlash towards banks, and finally the future of banks.

As previously stated, big banks merged or bought each other out to save the United States economy in financial crisis "banks are far bigger and more interconnected than they were just in [2008], making a potential failure far more devastating than if they had collapsed in 2008" (Sanati, 2011). The financial crisis has, as stated, reorganized the banks to make the big banks bigger and a stronger factor in the United States economy.

Through TARP and the stimulus package the United States government has an ownership stake in businesses across the nation. For the first time in American history the government took ownership, though partial in private and public companies. Though, most companies hated the fact of the government having partial ownership so many companies began to "raise billions in stock offerings and debt sales, 10 big financial institutions were allowed to return their share of the government bailout... a move that allowed them to stand without taxpayer dollars and operate without increased government scrutiny" (La Monica, 2011). Government bailouts were seen as a necessary evil to help save the economy in 2008, but even

still in 2011 the bailouts are seen as one of the most unpopular acts to be committed by the federal government. People, in 2011, still protest the fact that the banks were saved from collapsed, but not the average American.

The Federal Reserve has grown since 2008, “The Fed has never wielded as much power as it does right now, but the very expansion of its mission has exposed it to more second-guessing and more challenges to its political independence than ever before” (Butler, 2009). As the Federal Reserve has grown in power since the crisis of 2008, so has the American traditionally being opposed to a central bank. A rise of Jeffersonian has taken place, if you will. More and more Americans see the Federal Reserve as depending on your political affiliation in some form or another against the will of the people, “Republican lawmakers now portray the Fed as the embodiment of heavy-handed big government, and have called for scaling back the central bank's regulatory powers. But liberal Democrats have accused the Federal Reserve of caving in to demands by banks for huge bailouts, for failing to protect consumers against dangerous financial products and for being too secretive about its emergency rescue programs” (La Monica, 2011).

Banking itself has changed due to the financial crisis of 2008. Many people blame banks for the cause of the crisis, so much so that now banks instead of being seen as a bastion, where one could store their wealth banks are seen as greedy corporations out to steal ones money. As banks find new ways to make a profit, due to the government intervention. The banks that used to target businesses for its fees now much target the consumer directly to achieve the lost revenue that the government has taken from them. The consumer not used to being charged for services the bank used to provide for free are turning against the banks. The consumer rising up

against the banks has yet to be seen as day by day the backlash towards banks continue. Clearly, the financial crisis of 2008 has forever changed the banks and the banking industry.

The banking system in the United States is slow to change, but the history of banking in the United States has shown way this is and has always been the case. The Framers of the Constitution, mainly Thomas Jefferson and Alexander Hamilton, could not even agree on a banking system in the United States. A debate that long outlived them, and when the United States finally developed a central bank, it was not until after the Great Depression did the central bank had the powers it needed to be effective. Technology finally made what banks are today. Through the development of technology, banking became easier, more convenient, and more accessible. Which led people in an exodus to the bank that had the most convenient features. When comparing the development of the United States banking system to that of the European Union, one notices that the EU has less banks variety than the United States, but more branches. The EU and the United States handle financial crisis in the same aspect but the regulation of the banks is what causes the difference between them. Finally, the financial crisis of 2008 has become a defining moment for banks. It has been three years since that crisis began, and the dust has yet to settle. Banks have and will continue to change, and though as banks as of now seem as if they are a corporate evil. Remember without banks we would have no currency, no safety net for our money, and so much more. Banks are a defining feature of society.

## References

- A quick summary of the S & L crisis. (2008, June 4). Retrieved from <http://www.uwsa.com/issues/cfr/quicksandl.html>.
- Banking. (2010). Columbia Electronic Encyclopedia, 6<sup>th</sup> Edition, 1-2. Retrieved from EBSCOhost.
- Board of Governors of the Federal Reserves. (1932). The dual banking system in the United States. Retrieved from [http://fraser.stlouisfed.org/historicaldocs/frbgc/download/37832/dual\\_banking\\_system\\_us.pdf](http://fraser.stlouisfed.org/historicaldocs/frbgc/download/37832/dual_banking_system_us.pdf)
- Boyer, P. (2001). Banking and finance. The Oxford Companion to United States History. Retrieved from <http://www.encyclopedia.com/doc/1O119-BankingandFinance.html>
- Buiter, W. (2009, February 21). 'Good banks' are the cost effective way out of the financial crisis: We don't have the resources to subsidize all the troubled institutions. The Wall Street Journal, p. A11.
- Clark, K. (27 September 2011). Are we the next Japan?. CNNMoney.com. Retrieved from [http://money.cnn.com/2011/09/27/news/international/US\\_Japan\\_recession.moneymag](http://money.cnn.com/2011/09/27/news/international/US_Japan_recession.moneymag).
- Cooke, S. (1997, June). The role of information technology. Structural Change in the U.S. Banking Industry.
- Economic crisis and market upheavals. (2011, September 9). The New York Times.
- Gordon, J. (2008, October 10). A short banking history of the United States: Why our system is prone to panics. The Wall Street Journal, p. A17.

La Monica, P. (22 September 2011). Banks: Not too big to flail. CNNMoney.com.

Retrieved from <http://money.cnn.com/2011/09/22/markets/thebuzz/index.htm>.

Li, G., Sanning, L., & Shaffer, S. (2011). Forecasting bank failures: Timeliness versus number of failures. *Applied Economics Letters*. 18(16), 1549-1552.

National bank. (2010). *Columbia Electronic Encyclopedia*, 6<sup>th</sup> Edition, 1. Retrieved from EBSCOhost.

Sanati, C. (22 September 2011). Don't be fooled, too big to fail is alive and well.

Fortune. Retrieved from <http://www.finance.fortune.cnn.com/2011/09/22/big-bank-bailouts>.

WSBI/ESBG committees. (2006, September). A comparative analysis of the US and EU retail banking markets: A contribution in the context of the EU/US retail banking forum. Retrieved from [http://www.esbg.eu/uploadedFiles/Publications\\_and\\_Research\\_\(ESBG\\_only\)/Research/078%20EUUS%20STUDY%20FINAL\(1\).pdf](http://www.esbg.eu/uploadedFiles/Publications_and_Research_(ESBG_only)/Research/078%20EUUS%20STUDY%20FINAL(1).pdf)