Insight

Dodd-Frank Turns 3: What Has It Wrought?

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The 2008 financial crisis laid bare flaws in our financial sector, and the economy suffered severe consequences from those flaws. We can all agree something should have been done to reform the financial sector. But as Dodd-Frank celebrates its third birthday, it's worth evaluating the costs, the implementation progress, problems created, and consider whether this was really the right reform.

To date, 77 different Dodd-Frank regulations have already imposed $15.4 billion in new regulatory costs for consumers and businesses. This figure only scrapes the surface of the costs of the law's implementation. The law will actually impose 400 new regulations, but the costs and benefits of many Dodd-Frank regulations are simply never calculated. In reality, that $15.4 billion cost is much, much bigger.

One procedural measure, required under the Paperwork Reduction Act, provides a better glimpse of the law's activity. While 77 regulations calculated the cost, 112 measured only the amount of time (in hours) it will take to comply with the law. These 112 regulations total roughly 58.3 million hours of paperwork. To put this in perspective, it would take more than 29,000 employees working full-time (2,000 hours) to complete one year of paperwork. Even worse, New York City could have built eight Empire State Buildings in the equivalent amount of time.

But how much does an hour of compliance cost? The Consumer Financial Protection Bureau (CFPB), created by Dodd-Frank, is now managing 35 collections of information, imposing 39.3 million hours of paperwork. CFPB reports a cost of $842 million, or $21 per hour of compliance. As it turns out, this is on the low side. Some estimates are as high as $400 an hour, while the median figure for Dodd-Frank compliance is around $100 an hour. Apply that to the law's 58.3 million hours that we know of and the paperwork of the law alone costs more than $5.8 billion.

How expensive is that really though? According to Dodd-Frank regulators, the law's reported benefits are $45.8 million. By their own account, the costs of reform outweigh the benefits by 336 to 1 – a pitiful cost-benefit ratio by any measure. And given previous performance, this ratio is unlikely to change drastically when Dodd-Frank turns four.

It could get better, but it likely won't. Much of the law remains in limbo, either without final language or without even a proposed rule. According to Davis Polk, a law firm that tracks implementation, regulators have already missed 62.7% of their deadlines. In addition, more than 120 rulemakings, or 32% of the law, hasn't even been proposed. In other words, roughly two-thirds of Dodd-Frank is overdue and one-third doesn't even exist yet.

Of the rules that have been made final, regulators have already issued 66 corrections, an error rate of about 8%. With more than 100 regulations still pending, the number of mistakes will likely increase, as will the costs.

Perhaps the biggest misconception about Dodd-Frank is that the law is focused on big banks and that it helps consumers and smaller banks. Unfortunately, even the government can't ensure that its massive regulatory overhaul will spare small businesses.

The law that supposedly protects small entities, the Regulatory Flexibility Act, forces regulators to certify that their laws do not impose a "significant economic impact on a substantial number of small entities." To date, 20 regulations have been finalized that could significantly affect small businesses, imposing more than 13.5 million hours of paperwork. Larger entities, with floors of accountants and lawyers, have the compliance staff and the lobbying clout to navigate Dodd-Frank regulations. Community banks, credit unions, and other non-profits do not. The regressive burden of Dodd-Frank is similar to regressive taxation, but the public rarely sees a bill for regulatory compliance.

Dodd-Frank has provided several big numbers during its existence: $15.4 billion in costs, 58.3 million paperwork burden hours, and 66 errors. But even with all these new rules and costs, it's becoming clear our financial system is not better off for it, nor are consumers seeing the benefits. Perhaps this is not only a failure of regulatory analysis but also of the law itself.

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