Insight

Dodd-Frank turns one

SAM BATKINS | JULY 22, 2011

By Sam Batkins and Ike Brannon

As Elizabeth Warren turns her keys over to Richard Cordray at the Consumer Financial Protection Bureau, she'll at least be able to blow out the candles for Dodd-Frank's quiet one-year anniversary this week. But a year after the passage of Dodd-Frank, there remain a number of questions regarding the law's ultimate impact on financial markets, ranging from how much power the financial regulatory authorities will have to whether the skyrocketing compliance costs will abate any time soon.

According to a recent General Accountability Office (GAO) report, the agencies primarily responsible for implementing Dodd-Frank will require 2,849 additional federal employees through 2012, at a cost to taxpayers of more than $1.2 billion. Warren's erstwhile employer will commandeer the bulk of the new hires with the Commodity Futures Trading Commission (CFTC), claiming another 359 employees to administer Dodd-Frank on their end.

The GAO also cautioned that these estimates do not include the costs to the businesses covered by the legislation, so the estimate of implementation costs is incomplete. To remedy this lacuna, we reviewed more than 150 of the major regulations issued since the passage of Dodd-Frank. Using official estimates from The Federal Register, we tallied that the law has already imposed more than 19.6 million paperwork burden hours on U.S. businesses.

To put this number in perspective, a work-year contains a scant 2,000 hours, meaning in just 365 days of implementation, Dodd-Frank has already imposed nearly 10,000 work-years' worth of compliance costs. Given this administration's Bastiat-like inclinations, perhaps this is what administration officials mean when they talk about creating jobs.

While estimating the number of regulators necessary to implement and enforce the Dodd-Frank bill is tricky enough, assigning a value to the time spent complying with the various edicts found in the bill is even more difficult. For instance, the CFTC uses $100 an hour when calculating the cost of compliance while the Federal Reserve uses $42.95 and the Securities and Exchange Commission (SEC) uses $400.

Unsurprisingly, other agency figures are hotly disputed. For instance, The National Association of Manufacturers disputes the SEC's estimation of compliance costs for "special disclosure of conflict minerals," claiming that the true industry costs will exceed the SEC estimate by an order of magnitude and impose costs of as much as $16 billion on businesses that participate in the diamond business in some way.

What's more troubling is that paperwork hours and estimated compliance costs don't tell the entire story. What effect will strict capital requirements have on the financial sector? With delayed implementation of several major rules, will businesses confront regulatory uncertainty years into the future? What are the total economic costs, and is it defensible to say that they are dwarfed by the benefits of avoiding the next crash?

After a dozen agencies have already implemented the more than 150 major rulemakings in one year, it's not clear that anyone has been given a studied answer to this question yet — or that things have even settled enough to know.

Treasury Secretary Tim Geithner recently defended the legislation, writing that the nation needs "sensible rules that promote the health of the broader economy instead of the interests of the individual firms." While it's hard to disagree with such an anodyne statement, it begs the larger question of whether Dodd-Frank qualifies as "sensible."

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