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Overregulation, Bureaucracy, and Crony Capitalism: One Year of the Dodd-Frank Wall Street Reform and Consumer Protection Act

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It has been just over a year since Congress and President Obama passed the Dodd-Frank Wall Street Reform and Consumer Protection Act. The massive piece of legislation was intended promote financial stability and prevent another major Wall Street collapse. One year later, most of the rules and regulations required by the law have yet to go into effect. However, the law has spawned a massive network of bureaucracy responsible for creating hundreds of new financial sector regulations. Less than ten percent of the over 400 new regulations the law requires have been drafted, but the act has already begun to inflict serious harm on the economy.

Proponents of Dodd-Frank promised that it would create economic growth, but so far it has only placed additional burdens on the economy. The Congressional Budget Office has estimated that within ten years the direct costs of Dodd-Frank, the costs of running regulatory agencies and the cost of expected fines, fees, and assessments, will be over $27 billion. When the costs that businesses and financial institutions will have to pay to comply with the regulations are considered the true cost grows even higher. Less than 10 percent of the rules have been written, but according to the estimates of the federal agencies that wrote the rules, 2.2 million work hours a year, equivalent to 1,100 full time employees, will have to be devoted to complying with existing regulations.

As regulations continue to pile up, the heaviest costs are likely to fall on mid-sized and regional banks. Some regulations will apply only to large banks, but the majority of Dodd-Frank regulations affect large and small banks equally. The largest national banks have more capital available to weather the costs of regulation. Small local banks with less available funds and smaller staffs will struggle to stay abreast of the onslaught of federal regulation.

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One of the most dangerous aspects of Dodd-Frank is the uncertainty that it creates in an already weak economy. When the act was passed, treasury secretary Timothy Geithner promised that the act would, "streamline and simplify" the regulatory environment by eliminating or simplifying existing outdated regulations. However, more than a year later not one existing financial regulation has been reformed or eliminated. Instead Dodd-Frank promises to pile up an ever increasing amount of bureaucracy and regulation. The sheer complexity of the act is mind numbing; the 2,300 page act contains 16 separate titles and several amendments. It creates several new regulatory bodies, and gives 11 separate regulatory agencies the power and the legal responsibility to create over 400 new regulations. At this point no one knows what the final regulatory landscape will look like when all the required regulations are in place. In the face of uncertainty businesses and individuals are less likely to take risks and make new investments, slowing the already weak financial sector.

So far the Dodd Frank Wall Street reform and consumer protection act has not reformed Wall Street or protected consumers. One of the main reasons that Dodd-Frank was enacted was to prevent another bailout, of "too big to fail" Wall Street banks. President Obama said:

> "Because of this reform the American people will never again be asked to foot the bill for Wall Street's mistakes. There will be no more taxpayer-funded bailouts-period."

It appears that once again the president was making an empty promise. In reality Dodd-Frank preserves a system of corrupt crony -capitalism where Washington picks the winners and losers at taxpayers' expense. Dodd-Frank includes provisions which allow the FDIC to purchase assets from failing firms or guarantee a failing firm's dangerous assets with taxpayer money. According to Dodd-Frank the FDIC is permitted to borrow up to 90% of a failing firm's assets, meaning that if Bank of America, the largest bank in the United States, went belly up tomorrow American taxpayers could be on the hook for as much as $2.1 trillion.

The Durbin amendment, which establishes price controls on debit card interchange fees, is one of the more egregious examples of how Dodd-Frank will harm consumers. The amendment, which goes into effect in October, will limit the fees which debit card providers are allowed to charge to retailers. Of course most of the cost to banks and debit card companies will be passed along to consumers in the form of higher fees and cuts in rewards programs.

When Speaking on the long term costs of the Dodd-Frank act Ben Bernanke, who supported the law, said:

> "Has anybody done a comprehensive analysis of the impact on [credit markets, businesses, and job creation]? I can't pretend that anybody really has."

Sadly, Bernanke's remarks are not atypical. Congress and the president simply did not consider the costs that Dodd-Frank would inflict on the economy. It harms consumers, while undermining the free market and further entrenching the same crony-capitalism mindset which led to the Wall Street bailouts. As regulations pile up the costs to the economy will continue to grow. One year after the passing of the Dodd-Frank act we have only seen the beginning of the regulatory storm that it will let loose on the American economy.