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RESEARCH SUMMARY

The Dodd-Frank Act—Bigger May Not Be Better: Why Large Acts Can Cause Deterioration in the Quality of Regulations

The Dodd-Frank Wall Street Reform and Consumer Protection Act (commonly known as Dodd-Frank), which was intended to address perceived problems in the financial system and prevent future crises, is the biggest act of Congress in recent history, in terms of the volume of regulations resulting from it. The sheer size and complexity of the 2010 law can undermine the quality of the regulations that the law authorizes. In "Is Dodd-Frank the Biggest Law Ever?" Patrick A. McLaughlin, Oliver Sherouse, Mark Febrizio, and M. Scott King develop new methods for empirically assessing the size, scope, and complexity of laws and use those methods to analyze Dodd-Frank.

SIZE AND COMPLEXITY CAN UNDERMINE EFFECTIVENESS

Dodd-Frank is part of a general trend toward longer and more complex laws in the United States. For at least three reasons, its status as the "biggest law ever" could make achieving its stated outcomes more difficult.

1) *Congress cannot adequately anticipate the actual effects of large laws such as Dodd-Frank*. Because their time was scarce, members of Congress were unlikely to thoroughly understand the complexity and consequences of Dodd-Frank when it was being debated. This is often the case with bills that are voted on during times of perceived crisis.

2) *Laws such as Dodd-Frank create a surge in the output of regulations*. It has been estimated that Dodd-Frank increased regulatory restrictions for the financial industry by 32 percent, which is more than the increase in restrictions from 1997 to 2010. Such a large volume of new rules can overwhelm the already-capacity-constrained quality control process. Unintended consequences can result, especially because policymakers have less time and resources to analyze individual components of laws.

3) *A large act can precipitate the creation of many regulations by different agencies that target the same industry*. When multiple agencies simultaneously develop rules affecting a particular industry, the interactions between those rules are difficult to know at best and completely unconsidered at worst. Furthermore, the longevity of congressional mandates suggests that any problems created by Dodd-Frank will perpetually guide regulatory agency rulings. For example, the act gave the new Consumer Financial Protection Bureau an organizational structure that leaves it insulated from congressional and judicial oversight.

KEY TAKEAWAY

The length and complexity of financial laws such as Dodd-Frank is concerning because it can lead to the creation of lower-quality regulations. These negative effects will likely be long lived, since (a) Congress does not regularly modify statutes that cause poor regulation and (b) members do not usually possess the context-specific knowledge to evaluate which pieces of legislation are the source of substandard rules.