

# THE FINANCIAL SERVICES ROUNDTABLE



## *Financing America's Economy*

To: Fast Facts List

On June 7, 2011, Federal Reserve Chairman Ben Bernanke was asked if anyone had studied the cumulative effect of new rules. He responded, “I can’t pretend that anybody really has. You know, it’s just too complicated.”

The safety and soundness of our financial system undoubtedly has improved as the result of recent changes made by Congress, supervisors, and financial institutions themselves. In particular, risk has been reduced, capital and liquidity have improved, and failed firms can be resolved without imposing loss on taxpayers. These are positive developments for the U.S. and the future of financial services.

However, as hundreds of new rules are written – both here and abroad – it is critically important for the sake of our economy, consumers, and the competitiveness of the financial services industry that the cumulative weight of new rules is understood.

The Roundtable has collected [over 65 independent reports, testimonies, speeches, and statements](#) about the cumulative weight of new rules. Over the next four weeks, we will send out weekly notices about themes that emerge from this research. Week one focuses on the economy and job growth. Next week, the research will focus on the availability of credit for consumers and small businesses.

If you have questions or comments, please don’t hesitate to contact Abby McCloskey, Director of Research, at [abby@fsround.org](mailto:abby@fsround.org).

### *Special Edition Fast Facts - Week 1 of 4*

## **Cumulative Weight: IMPACT ON THE ECONOMY**

Many studies claim that the cumulative weight of new rules will adversely impact economic growth and job creation. Quantitative estimates include:

- **Total 2.6% decline in GDP from regulatory changes;**
  - **4.6 million jobs lost from regulatory changes;**
  - **0.19% decline in GDP for each 1% increase in capital requirements;**
  - **0.2% decline in GDP when SIFI surcharge is implemented; and**
  - **\$1.25 billion of budgetary costs incurred by next year.**
- “For the U.S., the path of real GDP would be lower than in a scenario of no regulatory change, with the negative impact rising fastest in the next five years when the economy is struggling to resume a solid growth against the headwinds of a fiscal

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policy reversal.” *Institute for International Finance*, [The Cumulative Impact on the Global Economy of Increased Regulation of the Banking Industry](#). June 2010

- “By insisting on higher and higher levels of required capital, regulators risk making precisely the same mistake as their predecessors at a very similar juncture in the current economic recovery -- with potentially disastrous consequences for the nation.” *Anonymous, Former Senior Fed Official*, [Regulators Risking New Depression](#), June 2011
- “The cumulative effects of the various provisions in Basel III could lead to a decline in U.S. GDP alone of up to \$951 billion over the period of 2011 to 2015 according to the IIF. But as Chairman Bernanke admits, we really do not know the impact; it might be much worse.” *Professor Hal S. Scott, Director of the Committee on Capital Markets Regulation, Nomura Professor and Director of the Program on International Financial Systems at Harvard Law School*, [Testimony at the House Financial Services Hearing: “Financial Regulatory Reform: The International Context”](#) June 2011
- “The estimated medium-term impact of Basel III implementation on GDP growth is in the range of -0.05 to -0.15 percentage point per annum.” *OECD*, [Macroeconomic Impact of Basel III](#), February 2011
- “For each percentage point increase in the target capital ratio implemented over a four-year horizon, the level of GDP relative to the baseline path declines by a maximum of about 0.19%.” *Macroeconomic Assessment Group*, [Assessing the macroeconomic impact of the transition to stronger capital and liquidity requirements - Interim Report](#), August 2010.
- “The loss in jobs in the regulatory change scenario is about 4.6 million by 2015,” *Institute for International Finance*, [The Cumulative Impact on the Global Economy of Increased Regulation of the Banking Industry](#). June 2010
- “By 2015, the downward deviation <of GDP> would be about 2.6%.” *Institute for International Finance*, [The Cumulative Impact on the Global Economy of Increased Regulation of the Banking Industry](#). June 2010
- “Increasing capital levels by the amounts required under Basel III might affect long-term profitability, loan growth and economic growth.” *Bloomberg Government Study*, [Basel III: How U.S. Banks Will Fare Under New Capital Requirements](#), June 2011
- “It imposes direct compliance costs and its distortions induce economic costs in the form of reduced capital investment, inferior risk-sharing, and lost competitiveness.”

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*Dr. Douglas Holtz-Eakin, President, American Action Forum, [Testimony at the House Financial Services Hearing: "The Costs of Implementing the Dodd-Frank Act: Budgetary and Economic."](#) March 30, 2011*

- “The CBO report to Congress during the deliberations over Dodd-Frank **did not** even attempt to address the indirect costs or impacts on our economy, but focused solely on the near-term impact on the federal budget.” *Dr. James J. Angel, Associate Professor of Finance, McDonough School of Business, Georgetown University, [Testimony at the House Financial Services Hearing: "The Costs of Implementing the Dodd-Frank Act: Budgetary and Economic."](#) March 30, 2011*
- “Jeopardizes financial recovery by reducing credit during a severe economic recession; a time when the economy is fragile and there is already too little credit.” *David Evans and Joshua Wright, Mercatus Center, [THE EFFECT OF THE CONSUMER FINANCIAL PROTECTION AGENCY ACT OF 2009 ON CONSUMER CREDIT](#), March 2010*
- “Over the first 2 years of implementation of the SIFI surcharge, growth could be reduced by as much as 0.2 percentage points compared to the growth impact of the Basel III regulation.” *Institute for International Finance, [SIFI surcharges: Fundamental Issues and Empirical Estimates](#), April 2011*
- “The pace of implementation could cause some disruption to trading, and sharp hikes in capital requirements (as much as +\$2 trillion, we estimate) could have the unintended consequence of reducing market liquidity.” *Morgan Stanley, Oliver Wyman, [The Future of Capital Markets Infrastructure \(PDF\)](#), February 2011*
- "If you restrict or require more capital of banks, what will happen is that they have to wait until the deviations [in price] get larger before they intermediate, because they have to make a return on the capital they are employing. As intermediary services stop, markets then become more chaotic.” *Nobel prize winner, Myron Scholes, [Myron Scholes Warns Against Excessive Capital Requirements](#), June 2011*
- “The Government Accountability Office (GAO) has estimated that by this time next year the budgetary cost for Dodd-Frank will exceed \$1.25 billion, which has the effect of siphoning off resources that might otherwise have gone toward deficit reduction or private sector job creation. Moreover, the Congressional Budget Office has estimated that over the next ten years, the Dodd-Frank Act will take \$27 billion

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directly from the economy in new fees and assessments on lenders and other financial companies.” *House Financial Services Committee, [One Year Later: The Consequences of the Dodd-Frank Act. July 2011](#)*

- “The current rulemaking process is sacrificing quality and fairness for apparent speed, risking lengthy court challenges and poor rules that will damage our financial system and hinder economic recovery . . . Rather than using a prudent deliberative process, sweeping reforms are being quickly pushed forward without providing adequate time for meaningful fact-finding or dialogue.” *Committee on Capital Markets Regulation, [The Pace of Rulemaking Under the Dodd-Frank Act: Letter to Congress. December 2010](#)*
- “Operating the Consumer Financial Protection Bureau (CFPB), a brand new agency created by the Dodd-Frank Act, will cost \$329,045,000 for 2012 alone. This amounts to all of the income and payroll taxes paid by 26,000 average American workers. That means 26,000 Americans will work all year to offset the cost of this new government bureaucracy.” *House Financial Services Committee, [One Year Later: The Consequences of the Dodd-Frank Act. Authored by Chairman Spencer Bachus and Vice-Chairman Jeb Hensarling. July 2011](#)*
- “New funding resources related to Dodd-Frank responsibilities during the years 2011–2012 ranged from a low of \$0 for FTC to a high of around \$329 million for CFPB. Funding resources to implement the Dodd-Frank Act accounted for at least 25 percent of the agency’s total budget increase at 9 of the 11 agencies in the most recent year for which data were available... Agencies reported that most of the costs related to implementing the provisions will be recurring.” *Government Accountability Office, [DODD-FRANK ACT: Eleven Agencies’ Estimates of Resources for Implementing Regulatory Reform. July 2011](#)*

For more studies, please view the cumulative weight database [here](#).

***Next week, the research will focus on the impact of credit for consumers and small businesses.***