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House Spending Bills: Restoring Accountability for Financial Regulators

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As federal regulators struggle to implement the massive Dodd–Frank statute, it is obvious that its architects ignored its predictably destructive consequences. Republicans on the House Appropriations Committee this week proposed some logical steps that Congress should seriously consider to increase regulatory accountability and (modestly) decrease costs—at least until the worst elements of Dodd–Frank are scrapped altogether.

Regulatory Excess and Enormous Expense. The financial regulation law entails some 398 rulemakings. As of June 1, according to tracking by the law firm of Davis Polk, the various agencies drafting the regulations have missed 67 percent of the deadlines and finalized just 28 percent of the required dictates.[1] The protracted regulatory uncertainty that this produces severely undermines the private investment necessary for economic growth.

Beyond the tens of billions of dollars in new regulatory costs imposed on big and small businesses alike, Dodd–Frank requires enormous federal outlays for enforcement—including creation of an entirely new agency, the Consumer Financial Protection Bureau (CFPB), and more than 2,850 new government hires.

Taming the CFPB. As currently structured, the CFPB is an independent bureau within the Federal Reserve; its funding is set by law at a fixed percentage of the Fed's operating budget. This budgetary independence shields the bureau from congressional oversight. The proposed spending bill for financial services would make the bureau's funding subject to annual appropriations as of fiscal year 2014 and hence annual congressional review.[2]

Although some financial regulatory agencies also fall outside the congressional appropriations process, they are the exceptions rather than the rule among regulators. There is no justification for allowing the bureau to escape congressional oversight.

The legislation also would require quarterly reports to Congress on bureau activities and spending, which is eminently reasonable considering the CFPB's unparalleled power, which includes consolidated and expanded regulatory authority over credit and debit cards, mortgages, student loans, savings and checking accounts, and almost every other consumer financial product and service.[3]

Spending Discipline Necessary. Meanwhile, the new agriculture spending bill pending in the House calls for a reduction of $25 million—to $180 million—for the Commodity Futures Trading Commission (CFTC), which is tasked by Dodd–Frank with creating a new regulatory regime over derivatives (also known as swaps).[4] The plan also would require that $32 million be allocated for information technology. While House committee members are seeking to trim the CFTC's budget, President Obama is seeking a budget *increase* of $128 million (in part to add 1,015 staff).

Critics of the proposed reductions are sputtering with outrage, claiming that the agencies can't possibly function without ever-increasing budgets. Perhaps they should have considered that before imposing Dodd–Frank. If the new regulations are indeed essential, they might consider scaling back some

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less essential functions to make up the difference.

Demand for More Cutbacks. The Senate has not released a spending bill for financial regulatory agencies, but odds are high that any proposed cuts will be much less than those pending in the House. But as demonstrated in Wisconsin on Wednesday, voters are serious about limiting government largesse and regulatory excess—both of which define Dodd–Frank. The relatively small cutbacks proposed in the House Appropriations Committee would be a welcome start to what, hopefully, will be much bigger cuts to come.

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1. Davis Polk, "Dodd–Frank Progress Report," last updated June 1, 2012, http://www.davispolk.com/dodd-frank-rulemaking-progress-report/ (accessed June 7, 2012).
2. Press release, "Appropriations Committee Releases Fiscal Year 2013 Financial Services Appropriations Bill," Committee on Appropriations, U.S. House of Representatives, June 5, 2012, http://appropriations.house.gov/News/DocumentSingle.aspx?DocumentID=298250 (accessed June 7, 2012).
3. Diane Katz, "CFPB Wields New Powers with Director," Heritage Foundation *WebMemo* No. 3476, January 30, 2012, http://www.heritage.org/research/reports/2012/01/consumer-financial-protection-bureau-concerns-with-its-broad-powers.
4. Press release, "Appropriations Committee Releases the Fiscal Year 2013 Agriculture Appropriations Bill," Committee on Appropriations, U.S. House of Representatives, June 5, 2012, http://appropriations.house.gov/News/DocumentSingle.aspx?DocumentID=298229 (accessed June 7, 2012).