THIRD WAY

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Underappreciated: Dodd-Frank & The Pursuit of Financial Stability

Third Way

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JIM KESSLER: If people could kind of find their seats, Senator Dodd is going to be joining us in just a second. I want to thank everybody for joining us on polar vortex Tuesday. (Laughter.) We're really fortunate to have as our guest this morning one of the giants of the Senate, former Connecticut Senator Chris Dodd, and in this polarized environment, it's hard to imagine a time when senators of opposing parties routinely crossed the aisle and worked with each other and got things done, but it really wasn't that long ago.

And Senator Dodd for decades, was one of those "get things done" senators, and over the past three decades, if you look at nearly every piece of legislation that had to do with children – their education, their health, their nutrition – their family situation, Senator Dodd had his name on it –

Family Medical Leave Act, passed over two vetoes. But we're not here today to talk about kids and healthcare, we're here to talk about banks and Wall Street. And while there was a lot of legislation that had Senator Dodd's name on it, there is only one piece of legislation that is known by his name, and it's the Dodd-Frank Wall Street Reform and Consumer Protection Act, aka Dodd Frank, and the Conference Committee actually named the bill – put Dodd-Frank's name in the bill, and I think that was meant as a compliment.

But this bill – nearly 900 pages – arguably the most important comprehensive reform of the financial sector since the Great Depression, launched in the spirit of bipartisanship, but passed ultimately as a partisan bill. I'd say from my vantage point, and from the vantage point of Third way, represents a tremendous accomplishment – really a legacy achievement for the Congress and for this president, but our event is called "underappreciated," and you don't hear Democrats touting their legislation very much, and Republicans, they grumble about it.

So we have a new Republican Congress. Dodd-Frank could come under scrutiny, and we thought, what better time to bring the author – the Senate author of that bill with us. So with that, I'd like to welcome Senator Chris Dodd to join us this morning. Thank you. (Applause.)

CHRIS DODD: Very nice introduction. I was just enjoying it out there. Thank you very much.

MR. KESSLER: Thank you. You're very, very welcome. The format – we're going to ask some questions – interview you, and then, I'd like people here to think about questions. We're going to have some time at the end where you can answer questions. So let's start out, as the title of this event suggests, Dodd-Frank, arguably one of the most significant laws passed during this presidency, doesn't seem to get respect, attention, love by either Democrats or Republicans. Why do you suppose that is?

MR. DODD: Well, I think there's a couple of things. First of all, it doesn't – it's not been talked about as much, because despite the grumblings – I heard you use the word grumblings – I think the opponents of the bill are kind of hard pressed to really attack it, in a sense. I mean, the issue – the words "crony capitalism" – not that I necessarily agree with those words, but you hear them mentioned by Democrats and Republicans – the new Republicans coming to town. So there's a reluctance and hesitancy, I think, to want to sort of be defending – so the banks, many of whom are paying billions of dollars in fines and the like – every day you almost pick up the newspaper, and there's a story about another financial institution that's having to pay some retribution for its actions during those years of the financial crisis, whether it was in the mortgage or dealing with LIBOR rates and so forth.

So even though you'll hear people grumbling about the legislation, you don't hear any – look, there have been some, obviously, about repealing it and so forth, but not to the intensity, certainly, that the health care legislation – and having been involved in both – in fact, when Senator Kennedy became very ill, I became the acting chairman of the Labor Committee, and was responsible for marking up about 50 percent of that bill, and always felt that the great mistake we made was that – not completing that legislation in July of 2009.

You may recall – those of you who have followed this historically – that the Senate Finance Committee delayed final action on their part of the bill until September. And August of 2009 was, in many ways, the birth of the Tea Party – the town hall meetings which became difficult for members of Congress, Democrats and Republicans, going back. And one of the things we did in the – in the – in the legislation – and you accurately point out – I mean, obviously, I'll be forever indebted, if you will – politically speaking – to Olympia Snowe, Susan Collins and Scott Brown, the three Republicans who supported the final passage of Dodd-Frank, without whom, by the way, the bill would have died. So while it's not bipartisan in the sense, because you have three Republicans – an awful lot – a part of the bill, I mean, is – you've got Republican fingerprints all over it in the writing of it.

One thing I did is, one night, in the middle of this – trying to move this bill forward, I did something – and I had the great good fortune of having as my best personal friend during the 30 years in the Senate was Ted Kennedy. And watching Ted Kennedy legislate was one of the great joys of public life. And he was a master at getting people to do things that they never anticipated themselves they'd ever end up doing.

And one of the reasons was because he respected them, and he would ask them to be a part of discussions about what we were going to do. And so, that night, in the Senate Foreign Relations Committee room, on the first floor of the capitol – for those of you who are staff up there – I asked the entire committee members to meet with their staffs. I didn't even tell my own staff what I was going to do.

And I announced in that room pairings to deal with the legislation. I announced – and I didn't tell any members – so I got away with this, surprisingly, Jim, but I said – I asked Jack Reed if he'd work with Judd Gregg on the derivatives section of the bill. I asked Mark Warner if he'd work with Bob Corker on the "too big to fail" provisions of the bill. Your old boss, Chuck Schumer, working with Mike Crapo on corporate governance issues and the like.

I was waiting for someone to say, who the hell are you to be assigning those responsibilities in this area? No one did. And remember, Bob Corker called me that night and said thank you for doing that. So I gave a Democrat and a Republican to work. Not everyone came to a successful resolution. To a large extent, though, they made huge achievements. Mark Warner and Bob Corker did phenomenal work on too big to fail, setting up the whole set of provisions on the resolution authority with the living wills, the stress testing and so forth.

Jack Reed and Judd Greg didn't quite finish the derivatives section, and the Ad Committee had some jurisdiction over it, but they did a tremendous amount – came very close to an agreement. So, one, we ended up with a lot more cooperation on the bill. Secondly, when we got to the floor of the Senate, we spent 11 days on the floor of the Senate. There were 60 amendments that were debated. Only one – I was determined to show you could actually take a big bill, and you could have a full-throated debate without insisting upon 60 vote margins. So only one amendment had a 60-vote margin. Everyone else was 50 votes – fail or succeed on a 50-vote margin. You could talk as long as you wanted to, provided you didn't become dilatory, and the members actually conducted a good debate.

Ironically, there were 30 amendments offered by Democrats, 30 by Republicans. Not by design; it just happened to work out that way in the end. So there was a sense, even if you voted against it, that you had had an opportunity to be a part of the solution of the bill. We control the narrative, unlike the health care bill, to a large extent, telling the story about what we were trying to do as well.

So to that extent, it didn't invoke the kind of acrimony – and it's really hostility to legislation that gives a piece of legislation more notoriety than what people are for, in a sense. So I think, for a lot of those reasons – and others will analyze it, but it doesn't mean there won't be reviews of it, looking at it, examining whether or not we had intended or unintended consequences and the like.

But overall, despite the fact that I'm sure there will be some movement here and there in the legislation, I don't really expect anyone really wants to stand up – and you're really going to argue to get rid of a Consumer Protection Bureau? I mean, I'd like to see someone make that case to the general public, in a way. I mean, you may argue about how it's structured and so forth, but the idea we're going to roll the clock back and say consumers have no place to go when they feel they've been mistreated or worse by financial institutions? I don't imagine that being a very successful campaign.

MR. KESSLER: I can't imagine that either.

Were you surprised, in the end, that the vote wasn't more bipartisan, because as you say, you did have these pairings; when the bill was being – as the bill was being developed, it did seem certainly much more than health care that there was Republican involvement. You could see the ideas coming through; it seemed like Corker was going to be supportive of it. I know you're very close with Senator Shelby. Were you surprised that in the end this wasn't, like, a big bipartisan – (inaudible) – number?

MR. DODD: I was. I was. I'll tell you the largest – the "too big to fail," I mean, that's Dick Shelby's amendment. And it passed, I think, was it, 90, 95 votes to five. Dick Lugar and Sam Brownback wrote the provisions on the extractive industries in the legislation. I mean, we did a lot of stuff with Kay Bailey Hutchison dealing with regional Fed offices. I mean, I can go down a long list of provisions within the bill that were either authored or played a major role. Clearly one thing, this bill could have – could have had 75 votes if I was willing to do one thing, which I was unwilling to do. And that was get rid of the Consumer Protection Bureau.

If we'd been able to get rid of that, I think you could have had 75 votes for the bill. But I couldn't. How can you do that? How can you, at a time when people had been so taken to the cleaners either through credit cards or bad mortgages and so forth, walk away from a – from something that would give for the first time ever consumers some ability to be able to get a redress for their grievances. But had I been willing to take that out of the bill, then you could have had the kind of overwhelming support for most of the other provisions of the bill.

MR. KESSLER: It's interesting. So I'm wondering if the environment on this is starting to change. So I just want to read you something from The Washington Post. It was three weeks ago. This is from Philip Bump from The Fix. Quote: If you don't know what the Dodd-Frank Act is, Representative Paul Ryan told an audience last weekend, it's "Obamacare" for banks.

MR. DODD: (Laughs.)

MR. KESSLER: Senate – yeah. (Laughs.) I'm not – I can't make this up. Senate Majority Leader Mitch McConnell has been using that expression since last April. Expect to hear the expression more, particularly once a new Republican-led – or probably Republican-led Senate takes over on Capitol Hill – this was written before the elections – end-quote. "Obamacare" for banks is obviously not a compliment. What do you think is behind this criticism? Is this politics? Is there something more going on here?

MR. DODD: Well, it's already come out – now it's – I thought it was net neutrality was "Obamacare" for the Internet. I mean, they kind of – (laughter) – so pick your issue and just throw on "Obamacare" and you can maybe get some traction for the case. So I don't take it very seriously. It's politics. It was the campaign season. And again, I think there was – again, it's sort of like – it's sort of a bumper sticker approach. It's – how do you consider it a thoughtful analysis of the legislation. I'm not suggested that they loved every dotted I and crossed T in the bill at all.

But nonetheless, I don't think it necessarily builds great constituencies for opposition. I mean, I don't know of anyone who really thinks we ought to go back to the fall of 2008 and that we were somehow better off, where you had a situation that was frightening. People forget – I mean, one of the great burdens and blessings of being an American is we have no memory. And so it kind of works for us and against us, depending on how you want to go.

And when you realize we lost $13 trillion of national wealth, 26 million people lost their jobs, 5 million homes went into foreclosure, iconic institutions in investment banking, commercial banking, insurance disappeared – institutions that had been around for a hundred years or more in some cases all gone here – many, many people have still never recovered from that and yet all of these – and when people say this bill is costly, tell that to the 26 million people who lost their jobs or people who watched their entire wealth in savings wiped out because of what happened, that that wasn't a cost, in a sense.

Now, again, I'm not suggesting there are not costs associated with this bill, but the idea that somehow we'd be better off, or that in fact – to have a system in place, a structure in place for financial services that exists or looks like what it did in the fall of 2008, I don't know of anybody who really believes that's the right step.

MR. KESSLER: Did you in any way see this coming? I remember – I read the Bob Kaiser book. And there's a great part in – early in the book. It's September 2008. There's the meeting where – I guess it's Bernanke and Paulson, I believe.

MR. DODD: Hank Paulson, Chris Cox. It was the Democratic and Republican leadership of the House and the Senate in Nancy Pelosi's office.

MR. KESSLER: And there's – they're talking about the meltdown of the mortgage market. And Senator Shelby leans over to you and said: You've been holding hearings on this – about the mortgage market. And they should have listened to you. And I'm just wondering, did you have an inkling that something this dramatic was brewing in the financial system?

MR. DODD: Well, no, because the quote that night from Ben Bernanke is one of those things that to my grave I'll remember the exact words. And he – and he – and Ben Bernanke is not one to necessarily engage in hyperbole. He's kind of a low, soft-spoken guy. And he said the following to the 14 or 15 of us in that room that night. He said: Unless you act – speaking to the – basically the – more the congressional leadership – unless you act, within a matter of days the entire financial system of this country and a good part of the world will melt down.

Needless to say, the most important central banker of the world announcing that in a room full of legislative leaders, the oxygen left the room. And there was immediately a sense of Kumaya. Everybody was going to work together. Didn't actually work out that way in the final analysis but that was – coming out of the room that night with John Boehner and Harry Reid, Mitch McConnell and others, obviously, that sense of we really need to roll up our sleeves and get to work.

About – less than 48 hours later, Hank Paulson sent a bill up – not a memo, a bill – a legislative proposal. It was two and a half pages long. It said: Give me $700 billion and no court, no regulator can intervene. When that became public by Saturday morning, the country exploded, and rightfully so – the idea we were going to write a check for $700 billion to bail out a bunch of banks without any ability to have some say over how it was going to be spent or what was going to happen to it.

Judd Gregg, my great pal from New Hampshire, very different, obviously, in our politics in many ways, we became the co-authors and wrote the TARP legislation, which passed the Senate 75 to 24 on the night of October 1st, 40 days before the national election. And I'll go, again, to my grave believing that had we not done that we'd be living in a different country today. And I'll always admire my colleagues who knew that it would probably cost them their re-election.

Gordon Smith from Oregon, that night I mentioned to him that his colleague, Ron Wyden, was going to vote against it and that if he wanted to vote against it I had the votes to pass it and I would certainly understand given the hostility people felt about all of this. And I'll always remember what he said that night. He said: I have to see a constituent in the morning. And I said, who do you have to see in the morning you'd have to explain this to?

And I'll never forget his answer. He said, the mirror – (chuckles) – because I happen to believe it's the right thing to do. And I cast the vote and lost the election. Bob Bennett from Utah, a conservative Republican, lost his election two years later, and a major reason because of his vote on this. So a lot of people cast courageous votes that night to do this. So it was important.

MR. KESSLER: Senator Shelby will be taking over the banking committee. I know you worked well with him during your years. He also has some issues with the law, naming the consumer finance board. What do you expect from Senator Shelby as chairman? Do you think he's going to attempt to make holistic changes to the law, gut the law? Is there an obsession with the consumer finance board that is, you know, far beyond what it deserves?

MR. DODD: Well, first of all, we're – Richard Shelby and I are very good friends. So I – and I have no idea what his intentions are specifically. I can just go back and – we did work together on some issues. I mentioned earlier that the – Barbara Boxer actually offered the very first amendment to make it against the law for banks to be bailed out. And then the next big vote was the Shelby-Dodd amendment, which dealt with "too big to fail" in a more detailed way. So Richard played a major role in the very first major amendment on the floor of the Senate to deal with "too big to fail."

He has expressed concerns about the Consumer Protection Bureau going back, but I remember Dick as well joined Sherrod Brown in supporting the amendment to break up the large banks. Dick Shelby voted for the Volcker Rule when those amendments came up. So Dick has a kind of interesting, more populous kind of view of some of these issues. So I wouldn't necessarily predict exactly what he's likely to do and how he's apt to approach all of this. He voted against the bill, obviously, in the end, expressed those views early on as we even began.

In fact, in the fall of 2009, when we had our first hearing before actually completing the bill in the summer of 2010, he expressed strong opposition to almost every idea of dealing with a bailout, if you will, of financial institutions. Dick had also been opposed to the Chrysler bailout, going back earlier. He had a strong feeling about the federal government bailing out private institutions, if I can say that for him. I don't try to speak for him. But – and those are strong-held views, longheld views as well. So I would anticipate that nothing's changed on that front.

MR. KESSLER: You brought up the Boxer amendment, you brought up – you know, against bailouts and "too big to fail." Of course, nobody ever wants to bailout anything, but particularly a bank. But as you noted, if we didn't pass the TARP bill, we would be in an entirely different universe than we are today. As much as we might find it distasteful or reprehensible that we're – we have to bail out a bank, is it important to still have that ability – for the feds to still have that ability to do it should a situation like this arise again –

MR. DODD: Yeah.

MR. KESSLER: – if it can arise again.

MR. DODD: Well, that was Tim Geithner's view. You may – for those of you who have read his book or followed his conversations about this bill, his big complaint about the bill, if you want to call it that, the fact that we – I believe we have shut down the possibility of doing it. It's against the law today to do what happened in the fall of 2008 now. It's not just a question of whether you'd like to do it or not; it's against the law to do it.

First of all, as a practical matter, I can't – I'm trying to envision a time that might come up at some point in the next 20 or 30 years when someone might actually try to bail out a bank, in a sense, and to get the votes to pass it. I mean, I just think as a practical matter that's not going to happen –

MR. KESSLER: Right.

MR. DODD: – given the recent experience. But also it's important, I think, that we send messages about all of this. And it isn't just to say, no, you can't do it, but then how do you provide for a resolution of an institution that is so big and so interconnected? It's not just size. It's the complexity of the institution. We sometimes confuse size and complexity as if they were synonyms, and they're not at all. I mean, the size of an institution is important, but it's that risk is more related to capital, liquidity, interconnectedness and so forth.

And so my own view on that, you know, is that you set up what we did, a resolution authority – having living wills, having stress tests and so forth – so that institutions were able to determine whether or not they posed systemic risk to the system and globally. And that's more important, in a sense, than sitting back and saying, I hope you don't screw up. And if you do, by the way, I guess we'll have to find some way to bail you out.

I just think you have to shut down that. You've got to say to them – they don't like doing it. I know they don't. They hate having stress tests. They hate having living wills, talking about what they've got to do, but that's building in some discipline into these institutions, causing them to actually become banks again and stop, you know, taking high risk with other people's money and put the country, as we saw, at great financial peril in the past.

So if we hadn't tried to pass a bill that didn't actually end too big to fail – and I often get asked, do you think it did that? I don't know yet. I mean, I think we did the best we could on this and I think it's going to work, but we'll never know until we actually test it whether or not it could work.

MR. KESSLER: Right.

MR. DODD: But the idea of not doing that and saying somehow we're going to leave some safety valve here that will allow us to come in and write a check to pull your chestnuts out of the fire, we'd be talking about a bill that never made it into – made it into law.

MR. KESSLER: I agree.

MR. DODD: Yeah.

MR. KESSLER: I agree. What do you think is left to be done? What do you – what wasn't in there that you think maybe should be in there?

MR. DODD: Oh, this is – if I had been king for day, one of those things?

MR. KESSLER: Sure.

MR. DODD: Well, I had a whole different view. The bill I introduced in the fall of 2009 eliminated all of these – we created one prudential regulator, got rid of everyone. I mean, these regulators have grown over the years, not that anyone sat back and said, gee, wouldn't it be nice if we had all these – the OTC and then the OCC and the –

MR. KESSLER: Right.

MR. DODD: It just went on and on and on. So the idea was if you really want to reform the financial services sector, then we ought to consolidate into a single prudential regulator. In fact, I was even willing to consider incorporating the Consumer Protection Bureau within that so you'd have some symmetry between prudential regulation and consumer regulation, because obviously one or the other can actually pose risk to the other if you don't have some communication and cooperation.

I would have – I would have – frankly, having these regional banks in the Federal Reserve – I say that respectfully, but we're talking about a century-old system.

MR. KESSLER: Yeah.

MR. DODD: It was 1914, under Woodrow Wilson, that created the Federal Reserve system.

Q: Yeah.

MR. DODD: And we have two federal – two regional banks in Missouri and one in San Francisco because nothing existed to speak of in 1914 between Missouri and San Francisco. The idea that we're still relying on a structure a century later without examining whether or not it actually is necessary – in my view is worthwhile. The supervisory function of the Federal Reserve, I couldn't find anybody at a single meeting that had ever talked about the supervisory function of the Fed, no.

So there were a lot of other things I would have done. I wish we had done more and could have done more in bankruptcy because it needs – you need to have more than one-off, and our bankruptcy code is more designed to deal with one-offs, and it should be dealt with. And my hope is that something, maybe this Congress, might take a look at how you make, in the resolution authority, the bankruptcy provisions to work better.

We certainly tried to deal with the Fanny and Freddie issues in a way – not that I believe this was the cause. It was tail wagging dog, in my view, but nonetheless I think a legitimate issue because I happened to believe that there's a legitimate role for government to be involved in creating housing opportunities, and the present structure doesn't – or the one that existed doesn't really work terribly well, in my view, because of the conflicting interests between shareholders and mission statements of those institutions. But we didn't get to it. As Judd Gregg pointed out on the floor of the Senate in the debate, it wasn't for lack of trying. We sat down and spent hours trying to figure out if we could come up with some system that would work better.

The credit rating agencies – needs work. Again, I don't think we're going to come up with a very good answer. And again, there's no due diligence by credit rating agencies when you're evaluating the mortgage-backed securities. You're relying basically on what the banks are saying about them rather than an objective analysis of whether or not they're worth what they claim they're worth, in a sense. Those are a few areas that we didn't actually end up addressing that I think would have been helpful if we'd been able to add more to them.

We didn't – we didn't – what we tried to do – if you look at the bill, most of it deals with architecture and structure. So things like resolution authority, the FSOC, the significant financial institutions, the Office of Research, these are structural arrangements and they're too big to fail. And how you deal with problems as they come down: Can you spot them early enough through FSOC? Are you bringing people together where they're actually talking to each other so you have some idea, are there products out there or institutions that are posing significant risks to some extent?

One thing I never mentioned during the debate much at all, in April of 2008 the G-20 came out with some 20 recommendations for financial reform globally. This bill tracks almost every one of those financial recommendations in the G-20. And I wasn't going to write this, obviously, in the law, but I kept very much in my mind the notion of harmonization of financial rules.

MR. KESSLER: And you're starting to see that. You're really starting to see that.

MR. DODD: Yeah, because, you know, this is – and if we didn't lead on this issue – if the United States didn't lead, someone else is going to lead. And we've led in financial services for years and I don't want to see us abdicate that role and have others, particularly the Europeans, take on that responsibility, and also have to follow along based on their rules rather than our own, which I think have been far more supportive of capital markets and the creation of wealth than they have historically. I say that respectfully.

So my concern was that if we can write stuff here that would possibly attract not duplication but harmonization, and the next time you have a crisis – and there will be a next time – are we going to spot it early enough? Do we have the tools in place to allow us to react to it in a way by that major institution that all of a sudden gets itself in trouble, we can actually pull it out of the system without causing everyone else to collapse around it, for instance. I think time will tell whether or not we're able to achieve all of that, but that was certainly very much in my mind.

And lastly, I would say to you, Jim, that, again, the one word I thought about all the time during this thing was the word "confidence." This financial system of ours works based on one hugely important principle, and that is confidence, that people have confidence that the system works fairly, that you may not get a return on your investment, you may make a bad bet, but you don't get up and worry at night about whether or not the structure is corrupt or rigged in such a way as to take advantage of you.

And what had happened is our financial services, if you will, structure had lost the confidence of investors and it lost the confidence of consumers. And I can't write a regulation or a law that guarantees you that, but I could tell you what existed and what happened in the fall of 2008 destroyed that confidence.

I remember very well a manager of a sovereign wealth fund saying to me the reason he parked as much of his country's wealth in this country – for two reasons: One, we're very good at making money. But he said, far more importantly, the first reason, he said, I've never lost a wink of sleep worrying about whether or not the architecture and structure of financial services in America was fair and sound. He said, that has been shattered and you've got to get it back. And I think we're getting it back.

MR. KESSLER: Yeah.

MR. DODD: And again, I didn't write the Ten Commandments with this bill. I tried to write a bill. And I had – I couldn't lose a single vote. I had to get a 60 – final passage required 60 votes and I got 60 votes. Had one other senator decided to change their mind, this would be an academic conversation we'd be having. (Chuckles.)

And so getting 60 votes is not pretty. I've been asked a thousand times why certain things happened in certain ways. I get asked all the time about the Volker Rule: Why did you settle on 3 percent? I love to give the answer. I said, I organized a meeting of the finest economists in the world, who sat around for a whole weekend and debated and discussed proprietary trading, and some people wanted 10 percent, some wanted zero, but I can get 60 votes with 3 (percent).

MR. KESSLER: Yeah.

MR. DODD: And so I'd love to tell you it was some genius economic –

MR. KESSLER: Right.

MR. DODD: – conclusion on all of this, but you're – like any great piece of legislation you're working on, you're always – the calculation is can I get the votes to pass it? A brilliant idea that doesn't attract 50 votes, or 60 votes in this case, is nothing more than maybe a brilliant idea. And so there are things that I would have done differently, I would have handled a bit differently, but if I was going to keep people and moving them towards the ultimate adoption of a piece of legislation – it's massive. I mean, it's huge here. And in some ways the easier thing is to be against it.

I always tease – you know, Dick Shelby had the view, and I sometimes tease with him, you know, he said, any bill that's longer than three pages has something wrong with it, I promise you. And that's usually pretty true. There's something wrong with it. They start getting 900 pages and, believe me, there's a lot more than one or two things probably wrong with it. And so it's always safer to vote no on something than to vote yes. And so that was always going to be part of that challenge.

MR. KESSLER: I'm going to ask one more question and then we have a few minutes where the audience can ask some questions. My last question is not about Dodd-Frank. It's about Congress and polarization. And what are your thoughts on – what is your advice to this Congress –

MR. DODD: Blech. (Laughter.)

MR. KESSLER: – because you got things done.

MR. DODD: Yeah.

MR. KESSLER: You know, you did get those 60 votes.

MR. DODD: People have asked me, now that I'm – now that I'm the head of the Motion Picture Association of America people will say to me, what are the – are there similarities between – (laughter) – the Senate and the Motion Picture – I said, the only one I know of is that I left one group of bad actors for another group of them. (Laughter, groans.)

MR. KESSLER: Hey, I like that. That's good.

MR. DODD: Boo. (Laughter.)

And first of all, I'm not as pessimistic – I mean, I – you know, it's – we sometimes think that the Senate or the Congress has been on a – on a trajectory that's been uninterrupted and sort of always improving and always getting better and always dealing with the issues of the day in a more thoughtful and constructive way. And it's anything but a clear trajectory. If you read – probably the best 200 pages on the history of the Senate was Robert Caro's second volume with dealing with Lyndon Johnson, "Master of the Senate." I mean, it's been anything but a clear trajectory. It's a bumpy ride, a term – there have been great years; there have been bad years.

I often cite the example – and someone in this room may challenge me on this, and you're probably right but I'll cite it to you anyway. I'd make a case to you that certainly a good part of the 1950s were about as rough a decade in the 20th century for the Senate as any other decade. It was the era of Joe McCarthy finger-pointing. People's loyalties to America and patriotism were challenged if you didn't agree or sign on to the notion that there were communists in every institution in Washington. It was not a pretty time, to put it mildly.

The next decade, the 1960s, particularly between 1961 and 1968, was probably – in fact, it dwarfs, in my view, the hundred days of Roosevelt – the Roosevelt administration in terms of changing America. And I don't know of anybody who thinks we're – we would have been better off without the Voting Rights Act, the Civil Rights Act, Title I education, Medicare. Go down that long list. It was a remarkable set of achievements.

There were 11 seats difference between the United States Senate in the closing years of the 1950s and those years in the 1960s. So you don't have this fundamental alteration. There were different members but party changes were not – there was only 11 out of the hundred members of the body. So one decade you have the finger-pointing, dreadful acrimony in the place, and the next decade – now, there were events that happened: the tragic assassination of an American president, the elevation of Johnson to the presidency and his knowledge of the Senate as an institution, how to make it work.

My point simply is we kind of buy into these notions that because we're on one spot that we're predetermined to somehow to be stuck there forever. I'm hopeful and optimistic that people will realize that it's in their common interest to find – and enlightened self-interest to do things. And I had lunch yesterday with a couple of my former Republican colleagues. I did this morning. I just left a meeting at 8:00 at the White House dealing with the Trade Partnership Act and what's likely to happen or not happen there, and conversations are occurring.

My one personal advice, because I think it's the harder thing to do – when I arrived in Congress, or shortly before I did, the federal government paid for two round-trip tickets a year to go home to your state or district. After that you were on your own, or your campaigns, I guess. Today you can go back and forth to your district 10 times a day if you have a, quote, "public" reason for doing so.

The idea that we have the staggering number now of people who come in on Monday nights and Tuesday mornings and leave Thursday night or Friday mornings – no one knows anybody. The only thing I know about you is what party you belong to and how you vote occasionally, but beyond that most members' knowledge of each other is pretty much a blank piece of paper, unfortunately. And what you find out is my – the day I left the Senate on January 3rd, 2011, a sitting senator today from a very conservative point of view came up

– who I’ve known a long time – and sort of tweaking me a bit said, all right, you’re leaving; I’m arriving today. Give me your big advice.

And I said, well, my big advice is the following: I was sitting at my desk on the floor of the Senate – I sat next to Bob Byrd for 25 years on the floor of the Senate – and I – and I said, I want you to look over on this side of the aisle, pointing to the Democratic side of the aisle. I said, no one is going to pay much attention to you the first year. You’re in the minority and you’re a freshman. You don’t have a lot to do.

But if you’ll take out each one of these people over here who you think you’re a complete, total ideological opposite and take them for breakfast, lunch or dinner, you’ll find out three things: One, you like them a lot more than you ever want to acknowledge to anybody. And I’m going to scare you even further because I’m going to tell you you’re going to agree with each other far more than you want to believe. And as a result of the first two, you’ll work together. And that’s what makes this job interesting, finding that common ground with people that you don’t think you can have any relationship with.

I often cite the example of trying to lift the travel restrictions to Cuba. I was looking for a Republican partner and I wasn’t having much luck. But I always believed you knock on everybody’s door. You don’t give up on anybody in the place. So I was sitting with John Ashcroft on the floor of the Senate. I said, John, I’ve got a great idea for you. And for those of you who are new or don’t remember, John Ashcroft was a very conservative member of the Senate. (Laughter.)

And I said, John, I’ve got a great idea for you. He said, what’s your great idea? I said, I want you to be my cosponsor on lifting travel restrictions to Cuba. It’s ridiculous. It’s the only country in the world where we ban people from going there. Even North Korea doesn’t ban us. They may not let you in but we don’t stop you from going there. Cuba is the only place where we – we’ve got to lift that restriction.

I went on and gave him my – when I got all through he said, put me on the bill. I said, John, was it the brilliance of my argument, my eloquence that did this? He said, no, I've got a bunch of rice farmers in southern Missouri. We'd like to sell into Cuba if we can. Put me on the bill. My point being that you never would know that if you didn't have the conversation with John, in a sense.

And what I worry about is people aren't talking to each other and getting to know each other and trusting each other. If your only relationship is one-dimensional, then the only thing you can talk about is that relationship – how you vote, what your views are and things. If you begin to know people, particularly people you don't agree with – the more multi-dimensional your relationship is with people you disagree with, the greater likelihood you're going to find common ground. That takes work. That requires an effort.

In the past it happened naturally. Kids went to school together. You went to the same church or synagogue. You lived here. For most of the term you were here. You went back to your district occasionally but not all the time. Those relationships developed naturally. Today it takes an effort. And if you don't make the effort, then you end up exactly where we could be, and that is an acrimonious, highly charged political environment with people not knowing each other terribly well. And they're missing – they're missing the great success of the institution, and that was these relationships where people actually got to discover that there was a lot more to that colleague across the aisle.

I tried to get on the last day I left to see if someone wouldn't make a motion to eliminate the center aisle from the Senate and just say, let's take that word out of the vocabulary. You can sit anywhere in the chamber you want based on seniority, but there's no longer a center aisle – (chuckles) – in a sense, and not just for joint sessions of Congress but actually on a day-to-day basis. It's a lot more difficult, if you're sitting cheek-to-jowl with someone, to have a bitter, acrimonious screaming match with them, in a sense, if you're actually sitting more closely physically with someone.

Anyway, just some thoughts. So I'm more optimistic that the place could work if, in fact, we get back to that level.

MR. KESSLER: Thank you. That was fantastic. That was terrific.

Yes? Over here.

Q: Thank you very much, Senator Dodd. My name is Eric Garcia. I'm a reporter on MarketWatch. Obviously, you know, you mentioned – you mentioned consolidation of financial regulatory institutions. This has been something that's been discussed largely with us in the problems with the "flash crash" and then last week with the foreign exchange markets with the five banks in the chat rooms.

Do you – what do you think would be – do you still think that there would be some advantages of consolidating financial regulatory institutions? Given the fact that our financial regulatory institutions are so interconnected with commodities and futures and securities, is that still an advantage that we should consider and look into?

MR. DODD: I think we should. I mean, you know, people – I think I got, like, three votes of the people on the committee, on the Banking Committee when I raised it. It was actually a bill. I presented it in November – I think it was November 2009. And I posed it and it got – I mean, not just my Republican colleagues, my Democratic colleagues attacked it. So I don't think we had, like, two or three votes for it. But recently I've heard people begin to speak more favorably about the idea of consolidation, where you end up – you get away from this kind of acrimonious debates that you have between the SEC and the CFTC over matters and so forth, which seem so bizarre today when we start talking about whether something's a future or not a future and so forth, when consumer interests and financial institutions interests would be better served, I think, by having a consolidated approach to some of these questions, so whether or not you'd consolidate into one or two or whatever. But if you look at the history of the regulatory alphabet soup in dealing with financial services, there's no overall consistent plan; it's just that from generation to generation or decade to decade, we've created these institutions in response to some crisis or another, adding to the alphabet soup and the legitimate concerns people have about an overduplicative regulatory environment that poses the kind of problems that people have identified.

Q: You said that complexity and risk are more important than size.

MR. DODD: Yeah.

Q: So do you think that the $50 billion threshold for systematically important institutions is arbitrary or needs to be changed?

MR. DODD: Well, what we did was – that was one of the criteria, 50 billion (dollars), but it wasn't – after that, it was the complexity of the institution and the interconnectedness of them that would qualify you to be a significant financial institution. So I've been asked the question about why some institutions that are kind of vanilla, that are not terribly complex – they're large – that are not brought into that category, others that are, non-banks, if they're major financial institutions, to my view, we ought not to make that mistake again, to have people run around and try to redefine themselves in a way to avoid regulatory scrutiny in a sense then posing the kind of systemic risk they can to the system.

I know they don't love this idea, but it's not a question of whether or not we love them, like it or not, but whether or not we're going to have the intelligence to determine whether or not some institution – and some of them are capable because they are so interconnected – can pose major, major risks to the financial services sector of the country and beyond that. So, as the language was and history shows, it's really – again, I think.

And I realize there were a lot of people that talk about breaking up the bank. We actually provide for that. Under the FSOC, if you read the legislation carefully, the power to actually break up a bank exists under this law. We've given them the authority to do it. Now, they don't mandate it in every case and they have the authority to do it. I'm not sure we should have a necessarily mandate. We have banks in Canada that are larger than anything we have here. It's not size alone. We get all preoccupied with the size of an institution. I'm far more concerned about product lines and complexity of institutions and their interconnectedness as posing a greater risk than the mere size of an institution. And if you got capital and you got liquidity standards in there, then the size gets less of a problem.

And I believe in strong capital requirements, and we did that in this bill, I think. Others would like to see us do more. I know that my colleagues up there have talked about raising it to 15 percent and the like. And again, I'll leave that to others who are far more knowledgeable than I am about this whether or not we've got it about right. Most seem to think we have. And we're getting a lot of conformity international on capital requirements as well, which I think has been helpful. So that you can dial around. I don't consider those the kind of structural changes we made in the legislation dealing with architecture, like FSOCs and Resolution Authority, too big to fail and the like. Those are the structural changes that really allow us to be far more forward-leaning and looking at financial services globally.

I didn't say this earlier. I started to. In this crisis, it was basically a European-U.S. crisis, and so relatively easy to get some harmony on that. The next crisis that comes will not just be Europe-United States. It will be Russia, it will be India, it will be Brazil, it will be China; and you try putting that genie back in the bottle when that happens, if we don't really begin to settle on some international guidelines. I can't tell you how many times someone would come into my office, as a member of the Banking Committee, and say, if you continue to regulate in these areas, we're all packing up and going to

London. And then you talk to our London Parliament – parliamentary counterparts, and people were showing up in London and saying, if you don't – continue to regulate, we're all going to pack up and go to New York. Arthur Burns, the former great head of the Federal Reserve, used to describe that as the race to the bottom, in a sense, where you have a spiraling down in a regulatory environment. And so we're trying to reverse that and begin to look at some harmonization of rules so that we don't end up with this kind of pitting of countries against each other for who's going to offer less and less of a regulatory environment posing greater risk to all of us – again, because of the interconnectedness.

MR. KESSLER: I know you have a class, so we have time for one more question.

Q: Good morning. One of the criticisms – and it was echoed by Senator McConnell in his post-election remarks – is that you created Dodd-Frank with the Wall Street banks in mind, with the big banks, and in the process you really harmed the Main Street banks, the community banks. Your thoughts on that?

MR. DODD: Well, of course, the community banks supported the bill. The head of the Community Bankers Association, Mr. Fine at the time – we wouldn't have passed the bill without the support of the community banks. Now, having said that to you, I'm not suggesting we wrote the Ten Commandments in this.

And I think oversight – if you ask me what should be done here, oversight is critical. Did we do – in fact, in writing the stuff dealing with the large institutions, did we have the unintended consequences of having an adverse impact on community banks? That's a very legitimate question.

And if you were to ask me what the committee ought to be doing, that's what I'd be doing. I'd be looking at these kinds of questions: Did you in fact do that? I think saying it as a conclusion is one thing; asking the question and determining whether or not it's the case is another. So I'm not rejecting the idea of examining it. I think it can have – very legitimate question to be raised, but again, I like to remind people that we never would have passed this bill if the community banks – I didn't get near the dual banking system in this bill; I mean, trying to change that and the like.

And again, you know, again, just as large banks don't necessarily cause problems, smaller banks and product lines can, and so you don't want to just bypass all of that. In fact, a lot of our community banks did very little of mortgage lending, were more involved in commercial lending. And again, there was a lot of bad loans that went out on small banks in commercial areas that pose a set of – different set of problems for people.

But – so because someone's big shouldn't necessarily be broken up; because someone's small, small doesn't mean they shouldn't be looked at.

MR. KESSLER: Senator Dodd, thank you so much for joining us.

MR. DODD: I enjoyed it. Thanks very much. Yeah. (Applause.) Thanks.

MR. KESSLER: Thanks for your service.

MR. DODD: I should tell you, you know, in all the years, I've never – I don't know why it is, in financial services, but you go back to Glass-Steagall and Graham-Leach-Bliley and Sarbanes-Oxley, it's the one area of law that names get stuck on bills. (Laughter.) And it was about 4:00 in the morning during the conference report, and Congressman Kanjorski – I remember the moment very well – is the one who proposed naming the bill. And he first proposed it to be called the Frank-Dodd bill. He was a good House member, trying to protect the House over the Senate. I don't blame him; I understand those things. And Barney, who's got a wonderful sense of humor, said, no, you can't do that, they'll think it's one person if it's Frank-Dodd. They won't know what the hell you're talking about on this thing. (Laughter.)

MR. KESSLER: And you can't argue with Barney.

MR. DODD: You can't argue with Barney. (Laughter.) But I want you to know – and not because I – obviously, I think we did a good job with the bill. I mean, these things are hard to do, and you hope you're doing the best you can on these things, making the best choices you can in the end. But I was the one voice to object to the naming of the bill, because it's such a deception in so many ways.

The people who worked on this – I was incredibly blessed with remarkable people on my staff. Amy Friend, who's now at the OCC, was my legal counsel. I better not start naming names, but they're just tremendous people. Barney had great people. We had great outside help, stakeholders. We met with everybody on this and talking it through. And so the idea that two names end up on a bill don't do justice to the fact that there were an awful lot of tremendous advice and counsel we got through all of this to produce these products. And I sometimes wonder that we lose sight of the fact that these are far more – almost community efforts to try and put something like this together.

And I'm grateful to my Republican colleagues. We had a great relationship. Bob Corker was terrific. We ended up not coming to a final agreement. And he and I have talked a lot about it and so forth. He made a great contribution stepping up at the time. It was hard to find a partner who was willing to do that. In my 30 years, there are very rare occasions when I didn't have a Republican partner on a piece of legislation, and so this was one of them, disappointingly, to me, that I didn't have a Republican partner on this bill that I could – whose name was associated with this. It wasn't for lack of trying, I promise you, and trying to have that be the outcome, because I think that strengthens it tremendously in the final analysis.

And ironically, you know, because the Senate is not a meritocracy, you have to outlive and hope your friends lose elections for you to move up the food chain. And I was – I sat on the Labor Committee, the Banking Committee and the Foreign Relations Committee. I sat next to Ted Kennedy, Joe

Biden and Paul Sarbanes. They never moved, for 28 years. (Laughter.) And I sat next to them all those years, great friends all of them. And then all of a sudden Joe Biden becomes vice president, Paul Sarbanes retires and Ted Kennedy dies, and all of a sudden I'm placed in a choice of picking the chair of one of three committees.

Banking wouldn't have been necessarily my first choice. I heard Jim very graciously talk about the work I loved the most in my 30 years in the Senate were the children and family issues. Started with Arlen Specter – the Children's Caucus in the Senate back in 1981, '82, the child care development block grant I wrote with Orrin Hatch 26 years ago; the Family Medical Leave Act I did with Kit Bond and Dan Coats. Not that either one of them talk about it much today – (laughter) – but nonetheless, they were my cosponsors on the bill.

And just a long line of – autism, premature births, infant screening, after school programs – that cluster I get passionate about. And Foreign Relations; I was in the Peace Corps and served in Latin America and had a great interest in that part of the world. So given the choice, I probably – if I could have had my choice – but I honestly felt coming into this – and it wasn't just 2008. And I appreciate, Jim, your mentioning this – what was so infuriating to me is, when I became chairman of the committee for the first time in January of '07, these problems were obvious were growing. I didn't think it would necessarily come to what it did in the fall of '08, but all of '07, I had 90 hearings in the Banking Committee on the growing mortgage crisis – 90 hearings. I couldn't get, with all due respect, the administration to pay much attention.

Hank Paulson had been secretary of the Treasury since July of 2006. He wouldn't even come and testify unless he was allowed to testify in China, which – that became the argument for the first hearing in February of '07. And then, all of that year, nothing happened. I couldn't get any attention. Then you had Bear Stearns on March 15th, 16th, 17th of 2008. And that was one-off. Not a big problem, just a unique occurrence that happened. And then, six months to the day, you have Lehman Brothers, and then, of course, AIG and the cascading effects. But this wasn't just the fall of '08. I mean, Jim Bunning and Jack Reed were having hearings on the mortgage crisis in '06, two-and-a-half years earlier, about the problem, and couldn't get any traction or attention on the issue.

So it didn't have to come to this. It never had to come to what it did, in my view, had people been willing to step up earlier and recognize what the problems were and address them. It would have been a major problem, but never have become what it did become where that massive amounts of wealth and homes and jobs were lost that caused our country and a good part of the world to suffer as much as it did.

Thank you all very much.

MR. KESSLER: Thank you again, Senator. (Applause.)

(END)