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Larry Summers less than 6 degrees of separation from Hootie Johnson

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I find the lobbying for the next Federal Reserve chairman humorous. A process that in years past was only chronicled in the financial press has become a low-grade gender proxy war in Washington. And it also has an academic overlay and jockeying within the Democratic party about policy priorities, rather than a Democrat versus Republican or urban versus rural dynamic. Larry Summers, an accomplished and apparently confident man, badly wants the job. Fed Vice Chairman Janet Yellen's supporters are adamant that she will get the job — though she has not indicated that she wants it like Summers wants it. *The New York Times* weighed in via a July 30 editorial, that Yellen should get the job. It was an apparent first for a newspaper to endorse a contender for the Fed chairman.

It looks like a bad assignment to me that tempts fate. The Fed seems to be hoping that someone will discover the economic equivalent of cold fusion to create meaningful growth and rescue government finances and an underemployed population so that it can extract itself from open-ended bond purchases and its zero-rate policy. Press reports indicate Summers' views about QE, and I assume zero-rate policy, are closer to much of the U.S. business community — free money for speculation and monetization of the government's deficits. Yellen, a Fed dove from the University of California, Berkley, is closely aligned with Bernanke and has broad support from Wall Street, which does not want to see an end to near 0% repo rates used to finance inventories, rising stock prices and bigger W-2s.

Life has a funny way of proving to be interconnected — degrees of separation that narrow with friend-of-a-friend extensions. Larry Summers is a case in point. After serving as U.S. Secretary of the Treasury during 1999-2001, Summers was named president of Harvard University. He lost the support of the faculty after musing about women and the sciences in 2005. That Summers is aggressively lobbying for a job that may preclude the first woman being named chairwoman is ironic. Senator Dianne Feinstein and House minority leader Nancy Pelosi are openly supporting Yellen. A cadre of men from the Clinton and Obama Administrations are supporting Summers.

But the degrees of separation narrow further. Summers is well-connected in Washington, Wall Street and academia. It has to be a commanding perch. Summers worked for (or with) Robert Rubin when Rubin was Secretary of the Treasury during 1995-1999. Rubin left the Treasury in 1999 after Graham-Leach-Bliley was enacted and joined Sandy Weill and then Chuck Prince in running Citigroup Inc. into the ground. It was during this period that Summers was retained as a consultant by Citigroup while others, such as current Treasury Secretary Jack Lew, were employed at Citigroup.

After alienating the Harvard faculty, Summers joined hedge fund D.E. Shaw in 2006. D.E. Shaw is a multi-asset and macro-focused fund with a credit bent that was founded by Columbia University professor David E. Shaw. In 1997 the fund returned capital to investors via a credit facility that was arranged by the legacy Bank of America Corporation. The relationship also had Shaw entities manage certain portfolios for Bank of America in which the two split profits. The SEC would later characterize the $1.4 billion loan as a (levered) equity investment.

In the summer of 1998, NationsBank Corporation and Bank of America agreed to merge in a deal structured more or less as an MOE with 55% ownership for NationsBank, 45% for Bank of America. In August and September of 1998, Wall Street nearly had a Lehman moment when highly levered Long-Term Capital Management, which was populated with PhDs and Nobel Memorial Prize recipients, failed. Overlaid on markets was the August collapse of the Russian ruble that further disrupted markets.

Bank of America incurred a $372 million writedown in the third quarter of 1998 when trading strategies employed by D.E. Shaw backfired as credit spreads widened and U.S. Treasuries rose in price as a result of the crisis. While Charlotte may have been a backwater in 1998, executives at NationsBank were no hayseeds. CEO Hugh McColl dispatched Chairman William Woodward "Hootie" Johnson to San Francisco to extract Bank of America CEO David Coulter's resignation in a move that assured the dominance of NationsBank and Charlotte within the combined company.

So, Summers' separation with Johnson narrows with the connection to D.E. Shaw that in a sense enriched both. But it narrows further. Hootie Johnson is an iconic banker from South Carolina, who sold his bank (Bankers Trust of South Carolina) to NationsBank predecessor NCNB in 1986 and thereby partnered with Hugh McColl to parlay backwater Southern banks into Bank of America. He was named Chairman of Augusta National in 1998. Johnson would become embroiled in a public dispute with Martha Burk in 2002. Burk, the chairwoman of the National Council of Women's Organizations — whose childhood name also was "Hootie" — objected to Augusta National's since-repealed policy against women members. The dispute played out in public and was not waged by proxies as is the case with Summers-Yellen. (I assume Don Kohn was a throwaway comment by President Obama on July 31 when he protested that Summers was being criticized unfairly.)

Johnson wrote a letter to Burk arguing that the club was free to choose its members just as are other organizations, such as junior leagues and sororities among others. In fairness, Johnson was an important player in helping desegregate South Carolina's universities decades ago and very publicly supporting

African Americans in public and corporate institutions.

So Johnson had a female problem that he probably did not want, but may have egged on a bit, while Summers' loose lips in 2005 and ambitions in 2013 come across as insensitive. I hope no one reading takes offense to this; I point it out in a light-hearted way to poke fun at the current chairman/chairwoman debate. And as far as I know, Larry Summers' nickname is not Hootie.

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