

Enron: The real face of the "new economy"

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6 December 2001

Karl Marx once wrote that the development of financial parasitism was “nothing but the rebirth of the lumpenproletariat (semi-criminal elements) on the heights of bourgeois society.” It is a characterisation which readily springs to mind as one examines the collapse of the giant US energy trading conglomerate Enron, which this week filed for Chapter 11 bankruptcy. With total assets listed at \$49.8 billion and debts of \$31.2 billion, Enron is the largest bankruptcy in American corporate history.

Enron is now the subject of a Justice Department investigation that will probe the specific role of company executives and leading staff in the collapse and the cover-up which preceded it.

But whatever the specific findings of such an investigation a more far-reaching verdict has already been delivered. Enron, rated at number seven in the *Fortune* 500 list and lauded in the financial press, government circles and academia, was a veritable pillar of the so-called “new economy” based on the unfettered operation of the “free market”. Its demise has laid bare the rot, not to say outright corruption, which lies at its heart.

Formed in the late 1980s by the merger of two gas pipeline firms, Enron’s rise was powered by the deregulation of energy markets in the 1990s. In 1986 its revenue was \$7.6 billion. By 2000 it had revenue of \$101 billion, and a market capitalisation of \$63 billion.

But Enron did not simply take advantage of the new conditions created by deregulation. It worked to create them through its political connections. Its chairman Kenneth Lay is reported to have donated nearly \$2 million to George W. Bush and in the 2000 election process the company spent \$1 million. Lay was even touted at one point as an energy secretary and was regarded as a key adviser on policy.

In the early 1990s, one of Lay’s most well-known recruits to the firm was Wendy L. Gramm, wife of the Texas Republican Senator, Phil Gramm. She was the commodities regulator in the first Bush administration and joined the Enron board in 1993 just five weeks after the Commodities Futures Trading Commission, which she headed, brought down a ruling exempting energy contracts from regulation.

Deregulation of energy markets opened up new frontiers for the accumulation of profit, not through the construction of new facilities and the delivery of energy supplies but by buying and selling in the energy market. Enron was more than just a trader, arranging a deal between a buyer and seller and then taking a cut. It was the energy market equivalent of a financial speculator, buying and selling energy contracts stretching months or even years into the future.

In the space of a decade it had become one of America’s 10 largest companies and accounted for 20 percent of energy trading in Europe and the United States, with operations extending to some 40 countries. Its activities were not confined to the energy sector. The same business model was applied to other areas as Enron moved from trading in gas and electricity to pulp, paper, water and

communications bandwidth.

For a firm such as Enron, whose profits are derived from financial operations, the key to success lies in the constant inflow of funds from banks and other financial institutions, enabling it to increase its leverage and thereby its profit. But the accumulation of debt, to the tune of tens of billions of dollars, depends in turn on confidence—the creation of a publicity momentum in financial markets that the firm seeking the loans is a good investment because of some innovation it has introduced.

Enron could not have done better if it had organised the publicity campaign itself. For six years in a row *Fortune* magazine named it the most innovative corporation and only last August listed the firm as one of the ten growth stocks to last the decade. As recently as last year, the *Economist* in Britain praised Enron for having created what might be the “most successful Internet venture of any company in any industry anywhere.”

The publicity campaign did not stop there. As an article in the December 4 edition of the *Financial Times* noted: “The books of various gurus have singled out the company as paragon of good management, for *Leading the Revolution* (Gary Hamel, 2000), practising *Creative Destruction* (Richard Foster and Sarah Kaplan, 2001), devising *Strategy Through Simple Rules* (Kathy Eisenhardt and Donald Sull, 2001), winning the *War for Talent* (Ed Michaels, 1998) and *Navigating the Road to the Next Economy* (James Critin, scheduled for publication in February 2002—and now, presumably being rewritten).”

The hype generated around the company was summed up by Hamel, who wrote: “As much as any company in the world, Enron has institutionalised a capacity for perpetual innovation ... [it is] an organisation where thousands of people see themselves as potential revolutionaries.”

Besides publicity, good political connections, ensuring a favourable legislative climate, are also invaluable. Enron was not lacking on this score. Its chairman Kenneth Lay had developed close ties with the Bush family, becoming a major fund-raiser for Bush Snr in the 1980s. When George W. Bush became Texas governor in 1994 Lay became head of the Governor’s Business Council.

These connections assumed greater importance when Bush became president this year. A report published in the *New York Times* on June 3 noted: “At least three top White House advisers involved in drafting President Bush’s energy strategy held stock in Enron Corp. or earned fees from the large Texas-based energy trading company which lobbied aggressively to shape the administration’s approach to energy issues.”

Karl Rove, Bush’s chief political adviser, Lawrence Lindsey, his economics adviser and I. Lewis Libby, Vice President Cheney’s chief of staff, all had share holdings in Enron. Lindsey received \$50,000 from Enron in consultancy fees last year, while the value of Rove’s

stock was put at between \$100,000 and \$250,000.

Like other evangelists of the “free market,” Lay was a fervent advocate of what he called “transparency”. In the arcane world of finance, where the real meaning of words is so often reversed, transparency generally means the absence of government controls and regulations and the lack of scrutiny of the activity of the major players in the pursuit of profits.

Transparency certainly did not apply to Enron’s accounting system and its published results. There is a saying in accounting circles that the purpose of a balance sheet is more often to conceal than reveal, and Enron developed concealment to an art form. As Lay himself was finally forced to acknowledge, the company’s financial statements were “opaque and difficult to understand.”

So long as it was reporting increased profits, few questions were raised about Enron’s methods, least of all by the firm’s auditors, Arthur Andersen. The financial watchdog, the Securities and Exchange Commission (SEC), remained silent.

The wheels only started to fall off the Enron operation earlier this year when investments began to go sour. With the crash of the telecom sector, its investments in fibre optics capacity and other telecommunications ventures turned out to have been very expensive.

Then came the sudden resignation of CEO Jeff Skilling, barely six months after he had been promoted as Lay’s successor. Skilling was the man most closely associated with the transformation of the company from the owner of pipelines to a high stakes player in the new economy.

The financial problems came to a head in mid-October when the company reported a \$638 million loss. But even more significant was the revelation that shareholders’ equity had declined by \$1.2 billion in the third quarter as a result of deals with partnerships headed by the company’s chief financial officer Andrew Fastow.

What set the alarm bells ringing was that the write-downs were not apparent from Enron’s quarterly earnings report. This is because the off-balance-sheet partnerships had been set up to hide the company’s debt, ensuring that its credit rating and capacity to borrow was not affected. Besides inflating Enron’s bottom line, the partnerships also proved lucrative for Fastow who received some \$30 million in fees and commissions.

On November 8, Enron filed documents with the SEC revising its financial statements for the past five years to account for \$586 million in losses.

With the company structure now rapidly unraveling, a last-ditch rescue operation was attempted as energy rival Dynegy made a \$10 billion offer for the company in addition to taking over \$13 billion in debt. But on closer examination, Dynegy decided not to go ahead and Enron was forced to file for bankruptcy.

Foremost among the immediate victims of the firm’s demise are its 21,000 employees, more than half of whom had their 401(k) pension plans linked to Enron’s now worthless stock. A significant portion of the life savings of these workers and their plans for the future have been wiped out virtually overnight. There are many thousands more small investors who, following the advice of the financial media and investment analysts, placed their future in Enron stock. Their fate raises the broader social implications of the Enron collapse.

Back in the 1970s, when financial markets in Britain were rocked by a series of collapses and scandals, former Tory Party leader Edward Heath coined the phrase “the unacceptable face of capitalism.” His aim was to present these events as an aberration, and to deflect attention from the more fundamental processes of which they were an

expression.

Similar attempts will no doubt be made in the Enron case. There will be investigations, possibly even demands for action against those responsible, and calls for stricter accounting procedures.

But Enron cannot be dismissed as an aberration. When Heath made his remarks, the processes to which he pointed were only just beginning and the claim that they were an aberration had a certain plausibility. That is not the case today.

Financial market operations of the kind in which Enron was engaged are not peripheral to the world capitalist economy but at its very heart. Every day trillions of dollars course through global equity, currency and financial markets in the search for profit. Since the start of the 1980s as much as 75 percent of the total return on investments has resulted from capital gains arising from an appreciation of market values, rather than from profits and interest.

In this drive for shareholder value, each corporation is compelled, on pain of extinction, to devise measures which attract investment funds by lifting the price of securities above that which would be justified by an objective valuation of the underlying assets. In other words, Enron was only the most graphic expression of what is becoming a near universal “business model.”

Moreover, this increasingly speculative mode of accumulation, with its attendant semi-criminal activities, has come to dominate society as a whole. All sections of the working class, whether they be blue- or white-collar, cannot provide for their future, the education of their children and the health of their families, without placing their limited savings in the investment and mutual funds that form such a key component of the financial system.

But, as the Enron experience has shown, the whole system has come to resemble a house of cards where the accumulated savings of a lifetime can be wiped out overnight. No amount of controls and regulations can rectify this situation because the processes which gave rise to Enron are no longer peripheral but endemic to the present-day functioning of the capitalist economy.

The political task of the day is not a futile attempt to reform the present social order but rather its complete transformation. Today, the social existence of working people, the producers of all wealth, is subordinated to the ever-more frenzied process of profit accumulation for the benefit of the few. That situation must be reversed. That is, society must be re-organised so that the mode of accumulation of wealth is subordinated to the needs and requirements of its producers and is controlled and regulated by them. This is the lesson of Enron.



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