Former WorldCom CEO sentenced to 25 years

The rise and fall of Bernie Ebbers

Joseph Kay
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On July 13, former WorldCom CEO Bernie Ebbers was sentenced to 25 years in prison. For Ebbers, who is 63 years old and has a heart ailment, this will likely mean spending the rest of his life behind bars for his role in the biggest corporate accounting fraud in US history. He was convicted by a federal district court in New York of fraud, conspiracy and making false filings.

The fraud carried out at WorldCom amounted to a staggering $11 billion, far greater even than the accounting manipulations at Enron. Thousands of workers lost their jobs and life savings after WorldCom collapsed in the summer of 2002, and tens of thousands of investors were defrauded.

That being said, there is nothing particularly uplifting in the guilty verdict or prison sentence. Any serious student of American corporate history must take a jaundiced view of decisions by the American ruling elite to prosecute one of its own.

Such convictions of individual executives or Wall Street traders have happened before and will no doubt happen again. Their main purpose is always the same—the individual executive is a sacrificial lamb offered up to the god of self-preservation. The prosecution of someone like Ebbers is part of an attempt to bolster the very social system that created him.

WorldCom's bankruptcy three years ago came amidst a growing wave of corporate scandals. They began with Enron at the beginning of the year and continued with Tyco, Xerox, Global Crossing and many others. This was the fallout from the collapse of the stock market boom the year before. Many companies that, like WorldCom, were internally corroded with fraud and criminality were able to contain their problems so long as Wall Street was satisfied and everyone was making money.

As the true nature of corporate America began to come to light, a frantic campaign was waged by the media and the Bush administration to present what was—and remains—a deep social and financial crisis as merely the product of a handful of greedy executives who had gone awry. In July 2002, Bush declared that "no violation of the public's trust will be tolerated," and promised that the government "will fully investigate and hold people [at WorldCom] accountable."

Everyone jumped to condemn the corporate executives. Even the *Wall Street Journal* editorial page, which is hardly known for its anti-corporate rhetoric, called for prosecutions. This was seen as a way to show that the system was working, that problems were being addressed, and that there was nothing wrong with the economy as a whole.

This is itself a giant fraud. The problem *is* systemic. Individual characteristics no doubt played a role. There were certainly greedy people who committed individual criminal acts. However, the ability of these people to rise to the heights of corporate America, to win the praises of the corporate, financial, media and political establishment, must itself be explained.

Bernie Ebbers is a clear example of the promotion of a certain social type who proved capable of serving the interests of the ruling elite as a whole. His early history is fairly unremarkable. He grew up in the southern US, having spent part of his childhood in Edmonton, Canada. He flunked out of college a number of times before settling down at a Baptist college in Mississippi. For almost two decades after he graduated in 1966, he spent his time as a basketball coach and motel owner.

It was only in the mid- to late-1980s, and especially in the 1990s, that he managed to hit it big. Taking advantage of the breakup up of AT&T, which opened the way for smaller companies to enter the long distance telephone service market, Ebbers formed Long Distance Discount Service (LDDS) in 1983. The company grew gradually at first, but in 1989, after it went public, it began to carry out acquisition after acquisition.

Ebbers had hit on one idea and one basic understanding that served him well during the 1990s. It was growth by acquisition. Over the course of its lifetime, his firm bought up 70 companies, including a deal completed in 1998 that gave WorldCom the telephone giant MCI for $37 billion.

Each acquisition was funded by a rise in his company's stock that came from the previous acquisition, accompanied by the accumulation of vast amounts of debt. The company built up over $30 billion of debt on its books, though this was balanced by the largely fictional growth of "good will," an accounting category that WorldCom used to disguise the fact that its liabilities vastly surpassed its assets.

Ebbers understood well that what really mattered to Wall Street investors was not the underlying health of his company—which was quite sick throughout its period of astounding growth—but rather the value of the company's stock. If you were able to keep the stock price up, Ebbers calculated, everyone, or at least everyone who mattered, would be happy. The banks would hop on board; the analysts would give your company high ratings; the media would showcase you and your company in glowing reports; and the politicians would look the other way.

The telecom stock market boom, of which the rise of WorldCom was a major component, was part of a speculative fever that took off in the 1990s. As the WSWS explained at the time of WorldCom's collapse, the rise of the stock market did not indicate that the underlying economic foundation was healthy, but rather the opposite. [See: "Drawing the lessons of WorldCom".] The growing crisis of profitability—the increasing difficulty of generating profits through the actual process of production—engendered an ever-greater emphasis on financial transactions and speculation.

During the 1990s, the rapidly rising stock values of companies in the telecom sector prompted a huge influx of capital, far more than was dictated by calculations based on the social demand for the services that these companies provided. The result was massive overcapacity of fiber-optic lines and other infrastructure, a situation that was bound to result at some point in a spectacular decline of the industry.

For a time, however, Ebbers was able to position WorldCom at the crest of the speculative wave. He had all the characteristics required of the new type of CEO that he personified: greed, a lack of scruples, and, above all, a willingness to do whatever was required to meet Wall Street expectations. Because he himself was a heavy investor in WorldCom stock, his singular focus on pushing the stock price higher expressed both his personal drive for wealth accumulation and the interests of big investors.

In the process, Ebbers won many friends. Among the banks, WorldCom forged particularly close ties with the investment giant Solomon Smith Barney and its telecom stock analyst Jack Grubman. As with Enron, the investment banks played a critical role in promoting WorldCom and Ebbers.

In exchange for boosting WorldCom's stock by giving it high ratings, Ebbers paid Salomon more than $100 million in investment banking fees from October 1997 to February 2002. Ebbers also benefited from Grubman's practice of "spinning," whereby select clients were given special access to highly profitable initial public offerings (IPOs) serviced by the banks.

Ebbers and his chief financial officer, Scott Sullivan, were lauded by the press, winning various awards and front-cover profiles. Arthur Andersen, which was the accounting firm of both WorldCom and Enron, said nothing about the underlying financial problems at the company, even as it pulled in giant accounting and consulting fees.

On the political arena, WorldCom forged particularly close ties with the Democratic Party. In mid-1999, President Bill Clinton gave a speech to WorldCom employees in which he declared that the company was "the symbol of 21st century America." The president added, "You are the embodiment of what I want for the future."

From one point of view, all this praise was well deserved. Between 1990 and its peak in 1999, the company gave stockholders a return on investment of 225-1. A lot of people had made a lot of money, not least Ebbers himself, who by that time had amassed a fortune valued at $1.4 billion.

The rise of Ebbers from a small-town college basketball coach to one of the richest people in the world was bound up with an extraordinary growth of social inequality. Even as real wages for the average worker remained stagnant, or even declined, a layer of the population—including executives like Ebbers and the larger group of people who fed off the stock market boom—did quite well indeed. Capitalizing on a process of deregulation encouraged by both political parties, a very small section of society has carried out what amounts to a looting operation, in which social assets and the individual savings of small investors and workers have been transferred wholesale to the pockets of the rich.

By the year 2000, WorldCom was beginning to face serious problems. A proposed $115 billion merger with Sprint fell through, resulting in a sharp decline in the company's stock.

At the same time, the telecom boom began to unravel. Ebbers personally faced a growing financial crisis, as his fortune was entirely bound up with WorldCom stock. He had purchased much of his stock by borrowing money, and as the stock value declined, these debts came due. To cover his costs, he got the company to advance him more than $400 million in loans—loans he assumed he could repay once the stock value climbed back up.

Absent an ever-increasing stock price, however, WorldCom lacked any economic foundation to continue to post profit gains. Ebbers's response was fraud on a massive scale.

One accounting technique the company employed was to book routine expenditures as capital outlays, so that the expenses were balanced by fictional assets, artificially boosting the bottom line. After these accounting scams failed, Ebbers resigned from the company in April 2002. In July 2002, WorldCom filed for bankruptcy, its stock worth only pennies.

Ebbers, who had thought he had all the "big guys" on board with him, saw himself the target of numerous investigations by the Securities and Exchange Commission, and then the Justice Department. His chief financial officer, Scott Sullivan, agreed to plead guilty and testify against Ebbers. In March of this year, Ebbers was convicted of fraud, for which he was sentenced on Tuesday. To settle another case, Ebbers has agreed to forfeit almost all of his personal assets.

The prosecution of Ebbers is part of an effort to demonstrate that "the system works." It is also a product of anger among a section of investors over the huge amounts lost in the WorldCom collapse. And there are those within the ruling elite who see a need to rein in the worst excesses of CEOs so as to avoid such catastrophic corporate collapses in the future. The fate of Ebbers is meant to serve as a warning.

While acknowledging the enormous damage Ebbers has helped cause to the lives of thousands of ordinary working people, one cannot deny that there is an element of tragedy in his situation. All of Ebbers's worst features were promoted and encouraged by powers that were larger than he, and which he never understood. As rich as he was, he was really in far over his head. When the situation changed, he didn't have a leg to stand on.

The social system of which his rise and fall are but one expression goes on unabated. Multimillion-dollar handouts to corporate CEOs are as prevalent as ever, most recently at Merrill Lynch and Boeing. Not including stock payments, top corporate executives pulled in an average of nearly $10 million in 2004, up 12.6 percent from the year before. The massive assault on working class living standards and social services upon which tens of millions depend continues, as the American ruling elite attempts to solve its economic crisis on the backs of ordinary people. Only Bernie Ebbers no longer has his share of the bounty.