Enron unmasked, but not comprehended

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Enron: The Smartest Guys in the Room, by director and screenwriter Alex Gibney, produced by Todd Wagner, Alex Gibney and Jason Kliot, released spring 2005

The Smartest Guys in the Room, by Bethany McLean and Peter Elkind, Penguin, 2004

Conspiracy of Fools, by Kurt Eichenwald, Broadway Books, New York, 2005

Despite the Shred-It vans humming away 24/7 prior to Enron's demise, a great deal of information has been assembled to piece together a picture of the dynamics and drama of one of America's biggest corporate implosions.

The Ponzi nature of Enron's arcane corporate structures, its culture of greed and wealth, and the atmosphere of deregulation that sustained them have been brought to the screen in a lively and compelling way in Alex Gibney's documentary film *Enron: The Smartest Guys in the Room*, based on the book by *Fortune* magazine reporters Bethany McLean and Peter Elkind.

That book and the more recent *Conspiracy of Fools*, by *New York Times* reporter Kurt Eichenwald, provide a mass of new detail on the corporate behemoth's fall, over a six-week period, from reported assets of $70 billion (number 7 on the Fortune 500 list) to bankruptcy.

The political significance of the Enron events continues to grow. Delphi, the largest auto parts supplier in the US, recently announced that it misstated its financials every year since it was spun off by General Motors in 1999, to the tune of possibly $1 billion. The corporation is under investigation for accounting fraud. Thus, the "new economy" of Enron has been joined by the "old economy" of manufacturing. [1]

Enron is symptomatic not merely of the most speculative side of American big business, but of twenty-first century corporate America as a whole. Lies, lies and more lies are the prevailing modus operandi, in finance as well as in politics.

Enron's now infamous slogan, "Ask Why," originally meant to highlight its "out-of-the-box" corporate culture, serves, ironically, as a fitting point of departure for examining the causes and significance of its demise. A summary of the major points of interest in the recent film and the book upon which it is based provide a basis for addressing this question, and for considering how the authors of these works seek to provide an answer.

The Enron documentary is very much in the accessible and scathing vein of Michael Moore's *Fahrenheit 9/11*. It has many effective scenes, including those exposing the deliberate looting of California by Enron energy traders, the blatant corruption and right-wing ideology of the executives, and the devastating impact of the corporate collapse on the employees and small stockholders.

From recordings of conversations of Enron energy traders, we hear company officials demanding that California power plants go offline for non-existent repairs, so as to place the system under strain and drive energy prices higher. During the state's energy crisis of 2000-2001, between 30 and 50 percent of the power grid in California went down as a result of Enron manipulations.

We hear the traders laugh about "Grandma Millie" suffering because of rolling backouts and cheer for the millions in profits they are squeezing out of the state, chortling as they chant, "Burn, baby, burn." The utter indifference of these men to the distress of hundreds of thousands of people is chilling.

It is now estimated that consumers paid $5.7 billion in inflated energy prices in the state, as charges rose from $40 a megawatt to more than $1,000 a megawatt. "Gaming California" was accomplished by a number of Enron operations referenced in the film, including those flamboyantly monikered "Fat Boy" (submitting a schedule reflecting demand that wasn't there), "Death Star" (creating imaginary transmission schedules), "Get Shorty" (selling power capacity that Enron didn't have for use as reserves) and "Ricochet" (exporting power out of state and returning it at much higher prices).

Alex Gibney located a number of internal company videos and shows parts of them to great effect, including tapes of US Federal Reserve Board Chairman Alan Greenspan receiving Enron's Prize for Distinguished Public Service in 2001, shortly before the company's collapse, as well as a corporate skit with Chief Operating Officer Jeff Skilling spoofing the "mark-to-market" accounting that underlay the company's financial structure.

This accounting method bears some explaining because it was so essential to the evolution of Enron. In contrast to conventional or historical cost accounting—the only practice used in the energy industry before the rise of Enron—mark-to-market was developed for industries based not on physical assets, but rather on tradable financial instruments.

Originally, mark-to-market was developed to allow the worth of stocks and other financial instruments to be adjusted, for accounting purposes, according to current market values. For example, if a company held soybean futures purchased at $5 a bushel, but the price dropped to 50 cents a bushel, the asset would be "marked to market" and the balance sheet would be downgraded accordingly.

Enron took this accounting technique and adapted it for use in energy speculation—and for cooking its books. In the first place, it conflated multi-year contracts and reported the assumed profits for the delivery of energy over that extended period as corporate assets on its current balance sheet. Secondly, it valued these profits based on its own internal projections for energy markets over decades. With one small adjustment in the projected pricing curve, projected profits increased almost exponentially.

On the basis of this essentially subjective accounting gimmick, the reported worth of a multi-year contract could be upped from $5 million to perhaps $50 million. And this rise in the company's assets would be recorded before any real natural gas had changed hands.

Such accounting practices marked a radical departure from the standards that had prevailed not only in business in general, but specifically in the oil and gas industry, where revenues were booked only when the energy had been delivered and the actual profit was a known quantity.

This change was so important to Jeff Skilling that he made it a condition for accepting employment as chairman and chief executive of Enron Finance in the summer of 1990. In January 1991, to better utilize "aggressive" and "creative" accounting to pump up the company's reported revenues and asserts, Skilling merged Enron Finance with Enron

Gas and Marketing, to form Enron Gas Services, and became the new division's top executive.

Arthur Andersen, the accounting firm that oversaw Enron's books, approved the new accounting scheme. Shortly thereafter, in 1992, the government watchdog agency, the Securities and Exchange Commission, concurred and sanctioned "mark-to-market" accounting for use in the gas industry.

These accounting innovations were well suited to meeting and exceeding Wall Street expectations. Enron's reported earnings growth was impressive indeed, but it masked a huge and growing gulf between reported profits and actual cash on hand to run the business.

A passage from Kurt Eichenwald's *Conspiracy of Fools* provides an inside view of Enron's "mark-to-market" accounting methods:

"This is the stupidest accounting I've ever heart of. It's just crazy."

As he spoke, David Woytek stared across a conference table at Jack Tompkins, Enron's chief financial officer. It was June 1991, and Woytek, the accountant...was attending a monthly meeting of Enron's top financial executives. Now chief financial officer of Enron's liquid-fuels division, Woytek had just heard George Posey, Skilling's finance chief, explain the new accounting his team was pushing.

"Mark-to-market makes much more sense for what we're doing," Posey replied.

"Mark-to-market is all fine and good, but that's not what you're describing," Woytek shot back.

"We're describing mark-to-market."

"No, you're not. You're saying you want to recognize revenues from twenty-year contracts in the first year. I don't know what that is, but *that's* not mark-to-market."

Posey held up a hand. "We're talking mark-to-market," he said. "It's the accounting the investment banks use."

That wasn't the same thing, Woytek argued. Those institutions were valuing their portfolios based on current, actively traded markets. If they owned stock in Exxon and Exxon's share price rose $2, then the value of their investment went up. There was logic to it; the market was independently assessing the value. If an investment bank needed cash, the stock could be sold at the price recorded on its books. But *this* was different, he said. They were making estimates about the total revenue a contract would produce, and then reporting the whole thing right away. There was no independent judgment involved. It wasn't mark-to-market; it was mark-to-guess.

"How can you book twenty years of revenue in the first year?" Woytek asked. "That goes against everything I was ever taught in accounting. You never recognize revenue in advance, only when title passes from own owner to the next. And title doesn't pass on this until you deliver the gas, over the next twenty years."...

As far as the executives at Enron were concerned, they had no choice. They needed the profits they would gain from collapsing the estimated lifetime revenues of their gas contracts into a single year. Without them, under traditional accounting, the company could miss the earnings targets Wall Street was projecting for the year just ended.

...There were other reasons to use this accounting idea that nobody was mentioning. Woytek had already heard that as part of his compensation, Skilling received an ownership stake in his division. When the division's earnings went up, the value of that stake would too. If that division started booking twenty years of contracts in a single year, its earning would go through the roof. (p. 55).

One particularly compelling moment in the film documentary is the statement by former Enron executive Amanda Martin, who, after detailing much of this corporate malfeasance, says, "Enron was not an aberration."

Director Gibney adds in his notes, "Enron is important because it takes the predatory nature of 'business as usual' to its logical extension. Enron is not an exception to the rule; it's an exaggeration of the way things too often work."

Gibney's treatment of the California crisis, however, rests a great deal on interviews with ex-Governor Gray Davis and appears to be an attempt to rehabilitate the Democrat's image. Undoubtedly, the decision of the Bush administration to refuse to intervene and impose energy price caps played a criminal role in exacerbating the crisis. The Bush administration gave a green light to Enron and other energy companies to loot California residents. Nevertheless, Davis and the Democrats had paved the way by passing the deregulation measures for which Enron and other energy companies had lobbied.

Moreover, Davis did his best to impose higher energy prices at the onset of the crisis. After the state treasury had been depleted by nearly $11 billion in energy bills, on top of other tax-related shortfalls, he imposed draconian cuts in education and health care and drastically hiked vehicle registration fees, sparking the outcry that led to his 2003 recall. Misleadingly, the film portrays him as an innocent victim of Enron and the Republicans.

How does the director understand the "why" of Enron? He reportedly views Enron as a modern Greek tragedy, a parable of man's eternal hubris.

The film clearly sees the company's downfall as the product of capitalistic greed, fueled by Republican politics. This is, in itself, unobjectionable. But it is really only the starting point for a serious investigation of the more profound socioeconomic and historical causes of an eruption of corporate criminality and fraud on an unprecedented scale. The film ends its exposure and analysis where they actually should begin.

The result is a timidity that softens the bite of the critique, leaving the viewer with a mundane denunciation of greed and something between a prayer and a hope in the Democrats. With all its outrage, it fails to depart from the standard liberal fare.

Eichenwald's *Conspiracy of Fools* is written in a peculiar manner for a contemporary history. Purported to be "all real," it is a novelistic narrative complete with extended dialogue. It is a chronically arranged series of vignettes. The reader is "in the room" as all the major twists and turns of the Enron story take place. It aspires to be a true-life political thriller.

Even with the most meticulous research, however, how can all this dialogue and internal reflection be accurate? The presentation, while potentially very effective as a screenplay based on facts, cannot pass for genuine history.

Moreover, many of the sources themselves are major figures, including Enron founder and CEO Kenneth Lay and Skilling, who provided in-depth interviews, and when the book depicts what was supposedly in their minds, it provides a spin that is distinctly exculpatory—something understandable from the standpoint of two top executives who face criminal trials.

The depiction of the men at the helm of Enron as fools, rather than criminals, could well emerge as the crux of their legal defense. *Conspiracy of Fools* leaves the distinct impression that Andrew Fastow, Enron's chief financial officer (CFO),whom Eichenwald did not interview for his book, is by far the chief culprit, whereas Ken Lay emerges largely as a glad-hander, a Washington man, far from the madding crowd of fools in Houston.

One also has the distinct sense that Skilling gets off too easily in his portrayal as a troubled and conflicted man, largely ignorant of the most slimy and blatant forms of fraud. These issues of objectivity are, of course, decisive in assessing the book.

Nevertheless, the detailed account of the unraveling of Enron is riveting. There is great drama in this story and an immense amount of technical information. One does get a sense of the evolution of the company, the social relations inside the firm, and the complicated implementation of its business operations.

The minute detail gives a portrait of a sector of American society so venal, so corrupt that it has to be read to be appreciated. On its face, it is an indictment of deregulation, the stock market, the Republican Party, the bull market of the 1990s, the way money is made everyday, the accounting industry, the government's Securities and Exchange Commission, executive compensation and bonuses, the lifestyles of the rich and famous, and contemporary capitalist society.

More important than individual culpability is the overall social source. So what is Eichenwald's "why?"

This question is not addressed in *Conspiracy of Fools*. Its approach militates against analysis, a glaring deficiency. However, Eichenwald told the *Columbia Journalism Review*, "When you actually look at the company and pull it apart, you realize that the combination of incompetence and crookedness is what drove it under. The incompetence created a balance sheet—a financial foundation—that could not withstand a bump in the road.... The illogic and conflicts of interest which came out in the fall of 2001 were the spark. The balance sheet was soaked in gasoline...."

The author continues, "The fact that there was a manipulation of the income statement didn't come out until Enron was *gone*. All we knew ahead of time was that the CFO had been the general partner of a partnership that did business with Enron. That there had been at least $7 million in profits [that went to him]. That Enron had announced [an inexplicable] write-down.... Just from that, the company starts going into a tailspin. Then, November 8 of 2001 comes along, and they announce the restatement of five years of financials, and they announce that two other people in the company had been profiting out of the partnerships. That was the end. Again, these are not the kinds of things that should drive a financially stable company under." (http://www.cjrdaily.org/archives/001401.asp)

Eichenwald contrasts Enron with the accounting fraud recently revealed at insurance giant AIG, arguing that a company with strong profits will not crumble despite being caught in a major manipulation of its financials.

The system works, Eichenwald implies. Enron is no longer with us; it has been weeded out.

The "few bad apples" theory of history clearly informs *Conspiracy of Fools*. The book evades any examination of the historical context and broader social and political significance of the disintegration amidst rampant criminality of one of the most powerful American corporations.

The volume *The Smartest Guys in the Room* is less of a bedtime read and more of a comprehensive account. Nevertheless, its "why" is similar to that of Eichenwald's book (after all, this is a *Fortune* magazine product).

The authors write: "The tale of Enron is a story of human weakness, of hubris and greed and rampant self-delusion; of ambition run amok; of a grand experiment in the deregulated world; of a business model that didn't work; and of smart people who believed their next gamble would cover their last disaster—and who couldn't admit they were wrong" (p. xxi).

Putting aside these banalities and platitudes, one can glean far more history and background from McLean and Elkind than from Eichenwald. *The Smartest Guys in the Room* points to many salient aspects of Enron's genesis and development. For example, the authors deal with the social makeup of many of the key players.

Ken Lay was the son of a Baptist preacher who sermonized about the virtues of the free market. Having obtained a PhD in economics, he believed deregulation "would create opportunities to make money—lots of money. And making money was terribly important to Ken Lay," write McLean and Elkind (p. 3).

Lay made much of his religion and his Christian values. So did the CEO of Enron International and Azurix, Rebecca Mark, also the daughter of a Baptist preacher. So did an entire social layer within Enron.

Lay grew up dirt poor, excelled at school and matriculated at the University of Missouri, where he was a fraternity brother of Sam Walton. In 1972, as a young oil executive, Lay was tapped by Richard Nixon to be deputy undersecretary of energy in the Interior Department.

The oil embargo of 1973 caused a national crisis. People lined up for blocks to get gasoline at the time Lay was in charge of energy policy. Recognizing the implications for profit-making, Lay left government for a position at Florida Gas. Shortly thereafter, he set up a fledgling spot market for natural gas and began pushing for complete deregulation of the industry.

The Smartest Guys in the Room, unlike *Conspiracy of Fools*, provides a historical context that makes it clear how Enron arose in tandem with changes in the marketplace and government policy.

A brief summary of the events depicted in detail in *The Smartest Guys in the Room* shows the larger forces at work in the spawning of the Enron culture. In 1983, the New York Mercantile Exchange began to trade crude oil futures, creating the basis for oil speculation. Lay, now with Enron Oil, saw big opportunities.

In 1985, his traders made $10 million; in 1986, $28 million. However, it turned out that the oil traders had been setting up prearranged deals with other entities, allowing Enron Oil to generate a loss in one contract and have the loss cancelled out by a second contract to generate a gain.

A memo sent to Lay and other Enron executives, unearthed by authors McLean and Elkind, describes these transactions as the creation of "fictitious losses" (p. 18). Interestingly, the accounting firm Arthur Andersen was involved in this early on. Andersen "refused to opine on the legality of what had come to be known internally as 'unusual transactions,' claiming it was beyond their professional competence," a formula that would be used repeatedly at Enron in the ensuing years (p. 20).

By the late 1980s, as deregulation began in earnest, 75 percent of the natural gas in the US was changing hands on the spot market in the course of a few frantic days of deal-making at the end of every month. To exploit this practice, Lay set up Enron Gas Marketing.

He found his idea-man in Jeff Skilling, also a product of a tough childhood, but entirely without sympathy or interest in those suffering from unfortunate circumstances.

Skilling had begun his career in banking, but left to enter Harvard Business School. The book comments, "At Harvard he became a star. He stood out in part because of his brilliance and in part because of his harshly libertarian view of business and markets. The markets, he believed, were the ultimate judge of right and wrong" (p. 31). After finishing school, Skilling went directly into financial consulting, but found himself working mainly for Enron.

Before long, Skilling had the inspired idea of establishing a gas bank, through which producers would sell gas to Enron, gas customers would contract to buy gas from Enron, and Enron would profit in both directions. Skilling was the first to come up with the idea of creating a trading market for natural gas, and thus Enron emerged at the center. The company was transformed.

Now Enron no longer had to own hard assets, but instead could own a portfolio of contracts. Commitment to deliver natural gas became disembodied from the old-line business and became, instead, a financial commitment. The book comments, "In a sense, Skilling's innovation had the effect of freeing natural gas from its physical qualities, from the constraints of molecules and movement" (p. 37).

Alongside this change came the use of derivatives (calls, swaps, options, puts and forwards). While they were commonly used at that time in other commodity trading, derivatives had not previously been adapted for use in the natural gas business.

The reasons for natural gas's relatively late entry into the financial markets included its physical nature, its price variations, its seasonal swings and transportation problems. Enron resolved these complications, and by 1991 the New York Mercantile Exchange jumped in behind Enron and began trading natural gas futures.

Enron had created a new business, and with creative use of "mark-to-market," its trading profits soared.

McLean and Elkind describe the mastermind behind Enron's new ideas as follows: "Skilling believed that greed was the greatest motivator, and he was only too happy to feed it. 'I've thought about this a lot, and all that matters is money,' Terry Thorn, an Enron managing director, recalls Skilling telling him" (p. 55).

Early on, Skilling came to believe that Enron should grow, but not through the standard business model. It would not take on too much debt, nor issue stock nor draw from cash flow. Skilling aimed to remove the traditional constraints on growth: the problems of acquiring capital and the need to avoid overloading the balance sheet with liabilities.

The "out" he found was a practice that became widespread in the 1990s—securitization, which means pooling loans or other claims on future receipts and reselling them to outside investors as securities. Banks securitize credit card loans, retail companies securitize receivables, and as this form of credit spread, *The Smartest Guys* points out, even composers began to securitize song royalties and states took to securitizing their tobacco litigation proceeds.

The problem Enron faced was finding entities to securitize their proliferating projected earnings projects. This was solved with the use of "special purpose entities" (SPEs). In the chapter "Andy Fastow's Secrets," the authors describe this elaborate system of structured finance.

SPEs had different functions. Some kept fresh debt off the books, some camouflaged existing debts. They also were used to book earnings or create operating cash flow. In essence, they enabled Enron to borrow billions of dollars to stay afloat while disguising its real indebtedness.

Some SPEs were used to absorb debt-ridden assets. When an operation went south and Enron couldn't find a buyer for it on the open market, Enron would unload it through a "sale" to an SPE, a purportedly independent entity. Literally billions of dollars of debt disappeared from the balance sheet of Enron Corp. in this manner.

Enron set up dummy companies as buyers—companies whose only significant assets were Enron stock. The accounting rule for SPEs required a minuscule 3 percent of input from outside investors, a requirement that Enron more and more ignored, with the help of Fastow's friends and family, as well as other Enron executives.

These "investors" were then paid millions of dollars in fees, usually within weeks of the transaction. In many cases, there was a parallel transaction, so that these "sales" were actually loans, obtained at significant rates of interest. Typically, there was a promise to "buy" back the asset later at hugely inflated prices. Often, a whole series of companies were set up, like Russian nesting eggs, one inside the other, to satisfy the 3 percent rule, but inevitably the only genuine asset in play was Enron stock.

Enron's most fiendishly complex structures were Andy Fastow's Project Raptors. Together with other Enron executives, Andersen accountants and lawyers at Vinson & Elkins, the CFO designed a "dizzyingly complex" series of transactions in order to lock in paper profits and avoid recording mark-to-market losses.

These four SPEs, Raptors I, II, III and IV, were hedges. A hedge is a derivative contract that commits the seller of the contract to pay a preset price for an asset. It is like insurance—if the price of the asset falls, the hedging party pays for it. Otherwise, the hedging party keeps the money paid for the contract as profit.

Enron used these hedges not to offset potential economic losses by portions of its business, but to conceal actual losses, for accounting and reporting purposes. Enron placed its underperforming businesses in the Raptors. When the Raptors weren't profitable, they (as a hedge) paid Enron a gain to offset the loss. However, the assets of the Raptors were Enron shares. It was essentially a matter of transferring money from one pocket to another.

While the complexity of these deals cannot be easily summarized, the results can: Enron was shielded from $1 billion in losses, effectively tripling its reported profits during the initial fall of the stock market in 2000, and Fastow netted at least $10 to $15 million personally.

The machinations of the Enron finance department, which was considered a profit center, were wildly diverse. Enron securitized fuel-supply contracts, shares of common stock, partnership interests—everything that could be monetized. It lumped one-time gains into recurring earnings and delayed recording losses. It created tax-avoidance entities. All of these mechanisms had one outcome—pushing problems into the future and creating a veritable time-bomb of debt.

By the 1990s, many companies were moving debt off of their balance sheets, lumping one-time gains into recurring earnings, and securitizing. In 1999, *CFO Magazine* gave Fastow its Excellence Award.

Enron was positioned to take full advantage of the bull market of the late 1990s, successfully attracting capital from a new breed of institutional investor that now proliferated. This "momentum investor" bought stocks primarily because they were rising, mainly focusing on earnings per share.

Enron was a classic momentum play. It had created a new industry—energy trading—attracting other companies to become involved in trading energy derivatives with one another and the small group of Wall Street firms that also got into the business.

By 1997, Enron entered the coal market. By the end of the decade, Enron was trying to create similar trading markets for steel, pulp and paper, lumber, freight, and metals. It created weather derivatives, hedges on the price risk of semiconductor chips and even hedges on the movement of advertising rates for the media industry.

Everything shifted with the collapse of the dot.com bubble.

By the time it imploded, Enron had generated 3,000 separate corporate entities, more than 800 of them in offshore jurisdictions like the Cayman Islands. Its corporate tax return for 2000 ran to 13 volumes.

If Enron was a conspiracy, the conspirators were to be found in virtually all of the corridors of power in American society. It should be noted that in the aftermath, JP Morgan Chase and Citibank agreed to pay a combined $286 million in fines for "helping to commit a fraud" on Enron's stockholders. Merrill Lynch was also charged with fraud by the Securities and Exchange Commission and agreed to pay $80 million, agreeing to refrain from making "any public statement...contradicting Merrill Lynch's acceptance of responsibility."

As is well known, the Bush administration had the most intimate ties with the Lay family over decades, beginning with a close friendship between George H.W. Bush and Kenneth Lay. Lay also was closely associated with the Cheneys, joining them on the board of the right-wing think tank, the American Enterprise Institute, back in 1995.

Enron was a huge campaign fundraiser for the Bush 2000 campaign, contributing $2 million, and Lay and his wife were personal guests of honor at the inauguration. Lay was a key player in drafting government energy policy at Vice President Dick Cheney's secret energy policy meetings in 2001. Cheney intervened in the California crisis specifically at the behest of Enron, to prevent government intervention.

These political relations were not limited to the executive branch. Between 1989 and 2001, Enron and its executives contributed nearly $6 million to political parties and candidates, two-thirds to Republicans, supporting the campaigns of 71 of the 100 current senators and nearly half of the 435 House members. Ken and Linda Lay individually gave $880,000, 90 percent to the Republicans during the same period. Tom DeLay, the Republican House leader, and Texas Republican Senator Phil Gramm were major beneficiaries.

Henry Kissinger had a position as a paid consultant for the firm, Wendy Gramm (wife of Phil Gramm) sat on the company's board, Thomas White

(Bush's secretary of the Army) had been vice chairman of Enron Energy, and there are many more connections between the energy giant and the administration. One can only speculate on the extent to which the players at Enron directly shaped today's political landscape.

As for the judiciary, it can be noted that on June 1, 2005, the Supreme Court overturned the obstruction of justice conviction of accounting firm Arthur Andersen for its role in the massive shredding of Enron documents.

The story of Enron is not the story of a few entrepreneurs run amok. The firm was a huge enterprise with global reach, one that lay right at the seat of power in Washington, DC. The list of culprits in the Enron case reads like a who's who of modern economic life. Promoted by the entire financial and academic elite for years, Enron was lionized not only by such corporate journals as *Fortune* magazine (which named Enron the nation's most innovative company for seven straight years, from 1995 to 2001), but also by such prestigious academic institutions as the Harvard Business School.

While this evidence is clearly presented in both books, their authors arrive at insipid conclusions.

When we, as Marxists, "Ask Why" in relation to Enron, we do not remain at the level of personalities and morals. Rather, we examine fundamental trends in society that gave rise to these developments. Such an analysis makes clear that Enron embodies an increasingly speculative, parasitic mode of accumulation that has come to dominate American society.

The ever-growing list of accounting scandals1 at major corporations is one indication of the pervasive character of the practices associated with Enron. When Enron's debacle was followed by similar scandals in the first few months of 2002 at Adelphia, Global Crossing, Qwest, Tyco and WorldCom, the US bourgeoisie reacted in genuine fear of an unraveling.

Desperate to restore confidence in American business practices by attempting to halt the most egregious accounting practices, Congress passed the Sarbanes-Oxley Act, considered the most far-ranging change in federal securities law since the post-Depression legislation of the New Deal. The measure, however, is akin to putting a finger in the dike. The unremitting pressures on corporations to meet quarterly earnings predictions continue unabated, with creative accounting schemes and scandals proliferating into the twenty-first century.

Enron is not an aberration. It is an expression of an overall economic and political trajectory. What has been revealed is the ubiquitous corruption of modern business, the incestuous relations between mega-corporations and government, the fraud of government "oversight," the media's love affair with everything connected to financial success, wealth and power, and the unbridled greed and insularity of the ruling elite.

There was a profound necessity expressed in the development of Enron. It emerged as a concerted effort to overcome the problems created by falling rates of profit within world capitalism. Enron's ability to attract so many eager investors was a measure of the decline of profitability in basic industry and the growing glut on key markets.

This is what made Enron, and financial markets, in general, so popular. This type of speculative frenzy was facilitated, encouraged and glorified as long as the numbers appeared to confirm its success. All the old-fashioned measures of corporate health were pushed to the side in favor of the stunning earnings ratios of Enron and other Wall Street success stories. (As Enron unraveled, it was learned that it had no cash flow schedule, had no maturities schedule, and ended up blowing through well over $10 billion in cash in the course of its business life.)

As Nick Beams explained in the WSWS in 2001, "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 from *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.... 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." [Emphasis added]

Enron's rise—and ultimate fall—was based on its transformation from a natural gas provider to a "market-maker." That is, it became the prime example of a company whose operations were based, not on actual production, but rather on its role as a middleman and nexus for speculation on the deregulated energy markets that were created in the 1980s and 1990s. When the deals and trades could not meet Wall Street's earnings targets, fraud evolved to fill in the gap.

In this sense, the Enron story is a parable of the essential anarchy of the "free market," the anti-social implications of the principle of production and distribution for profit and private wealth accumulation, and the increasingly parasitic character of the profit system as a whole.

Enron's stranglehold on energy in California, and its role in precipitating a huge social crisis in the largest state in the US, exemplified the socially destructive tendencies implicit in the entire capitalist set-up.

Despite their limitations, it is worthwhile to view the film *Enron: The Smartest Guys in the Room*, more valuable still to read the book. Less insightful, but still fascinating, is *Conspiracy of Fools.* The issues in Enron's rise and fall are fundamental for our times.

Notes:

[1] Special mention should be made of the latest case, Delphi Corp. The corporation overstated its 2001 profits by 1000 percent, turning a $6 million pretax profit into a $67 million profit. Over 6 years, Delphi misstated profits by $612.5 million. Another $322 million in payments to GM are not accounted for properly. In one instance, a transaction like many at Enron, Delphi recorded the sale of materials to a third party, boosting its pretax income by $176 million. But Delphi was obligated to buy the materials back, and therefore it was not really a "sale." (CMS Energy, Sunbeam and others participated in this kind of fraud, sometimes referred to as "round-tripping.")

In addition, the following companies comprise a partial list of those admitting to major accounting fraud over the past few years: AIG, Parmalat, CMS Energy, Adelphia, AOL, Britol-Myers Squibb, Duke Energy, Dynegy, El Paso Corporation, Global Crossing, Halliburton, Harken Energy, HealthSouth, Lucent Technologies, Merck, Merrill Lynch, Mirant, Peregrine Systems, Qwest Communications, Reliant Energy, Sunbeam, Tyco, Waste Management, WorldCom, Xerox and Daewoo.