

LE MONDE DIPLOMATIQUE, FEBRUARY 2002

THE REAL, VILE MEANING OF FREE MARKETS

Enron: Elvis lives

The collapse of Enron is one of the biggest scandals in US economic history. Besides ruining many of its employees and wiping out their pensions, the affair reveals the cynicism of the directors, the links between US politics and multinationals, and the weird practices of auditors.

By Tom Frank

"I believe in God and I believe in free markets," Enron chief executive Kenneth Lay told the San Diego Union Tribune a year ago (1). What's more, continued this titan of the energy business, Jesus himself was a 1990s-style libertarian: "He wanted people to have the freedom to make choices." Maybe then it was the Lord's work that Enron was doing through the 1990s as it pushed electricity privatisation and deregulation, and transformed itself from a gas pipeline company into an energy trader designed to provide choices and maximise profits in the free-wheeling aftermath. After all, what better sign of the Almighty's favour could there be than Lay's compensation for the year of Our Deregulated Lord 2000: \$141.6m, a full 184% increase over 1999. "We're on the side of angels," the company's former CEO Jeff Skilling told *Business Week*. "In every business we've been in, we're the good guys."

The company may have promised to deliver greater transparency to energy markets, but when it collapsed it became clear that its own affairs were a tangled mess of lies and nepotism and exaggeration that included the overstatement of profits by some \$586m—a revelation that caused panic among investors and a catastrophic collapse for the mighty energy trader. In one year its market value plunged, divided by 350. And 60% of the sums earmarked for Enron employees' pensions were invested in its shares.

The obvious implications of the Enron affair will not be suppressed for long. Enron's failings were directly related to its corporate ideology, its zealous, cult-like love of free markets. Enron fought fiercely and paid lavishly to limit or abolish federal oversight of its trading business; its trading business then collapsed for lack of oversight and accountability. It is not a coincidence when those who run ads mocking government regulators turn out to be engaged in breaking and circumventing the rules.

Enron was the darling of all those who truly believed that free markets were the acme of existence, and its wreckage is as good a place as any to take stock of the deregulated, privatised state into which we have been so rudely hustled over the

last decade. And here is what it looks like: top management walking off with hundreds of millions of dollars while workers lose their retirement money and customers endure rolling blackouts; profiteering; bought politicians; goon squads; stock market bubbles that inevitably burst. Left to its own devices, this is what the free market does.

Enron hoodwinked the world financially. But ultimately the more telling aspect of this corporate tale is the way Enron tricked us politically, the way it persuaded the world that its passion for free markets, particularly in electricity, was somehow equivalent to revolution, to creativity, to human freedom - that only when corporations were free to romp the worlds as gods would we truly have achieved popular democracy.

For management gurus Enron was a particularly saintly operation. Once a simple natural gas pipeline concern, Enron had transformed itself into an energy trader with awesome ambitions, buying and selling contracts to deliver power across the United States. Who needed pipelines and power plants and other mundane physical assets in the age of the internet? This was a New Economy; in its last years Enron's star-struck fans took to describing it as a full-blown "market maker," a near-divine bringer of entrepreneurship and profit-taking to those slow-moving reaches of the economy where before there had only been regulation and an outmoded fixation on public service-water, electricity, bandwidth. And just look at those profits.

This is why recent years saw such precious expressions of Enronphilia as Gary Hamel's 2000 book, *Leading the Revolution*, in which Enron is characterised as a revolutionary company, the home of "radical ideas" which "come from radical people," where "new voices have the chance to get heard," and where top brass say sensitive populist things like "people are smarter than we are at the top." The company's quest for free markets was likened to the doings such folks as Gandhi, Lincoln, and the civil rights protesters of 1963 Alabama.

The mythical bringer of hipness

In April 2000 *Fortune* magazine portrayed Enron as Elvis Presley, the mythical bringer of hipness to the desert of 1950s culture. I still find it hard to believe that the following passage appeared in a responsible magazine of business, so I reproduce it here in full: "Imagine a country-club dinner dance, with a bunch of old fogies and their wives shuffling around halfheartedly to the not-so-stirring sounds of Guy Lombardo and his All-Tuxedo Orchestra. Suddenly young Elvis comes crashing through the skylight, complete with gold-lame suit, shiny guitar, and gyrating hips. Half the waltzers faint; most of the others get angry or pouty. And a very few decide they like what they hear, tap their feet, start grabbing new partners, and suddenly are rocking to a very different tune. In the staid world of regulated utilities and energy companies, Enron Corp is that gate-crashing Elvis."

The adulation persisted to the end. The cover of the September 2001 edition of *Business 2.0* carried a photo of Jeff Skilling, then the company's CEO, giving the reader a big finger-over-lips "Shhhhhhh!" The secret Skilling reportedly wanted us to keep was not the devastating truth about Enron's profits but that the "revolution lives". Yes, the dot-coms had tragically disappeared, but who cared about that? Enron's metamorphosis into a "virtually integrated company" offered "glimmers of a possible future". One trip to Enron's Houston HQ and anyone could see that the "revolutionary" truths of the New Economy still thrived.

By the time the issue hit newsstands, however, it was Skilling who had mysteriously disappeared from the CEO's office, and before many weeks had passed it was the Enron legacy that was being desperately dismissed as insignificant by the New Economy faithful. Enron's scandal and collapse, it is now maintained, has absolutely nothing to do with the company's worship of markets and its efforts to discredit government oversight and its long-running campaign to push privatisation and deregulation. "No linkage!" screamed the *Wall Street Journal*, piling on with five editorials accusing Enron's detractors of *schadenfreude*: the state failed to deregulate enough (2). Enron's PR magic was still having an effect even in critical quarters. One of National Public Radio's financial programmes declared that Enron - bless its soul - had worked hard to keep prices low for consumers and that its demise might lead to a spike in energy costs.

Clearly being a "market maker" entailed packaging a lot of innovative derivatives and contracts. It also entailed considerable involvement in politics. That's why PR was such a large part of Enron's job. Not only did it sell itself as a revolutionary, but it sold deregulation as both a great step forward for human freedom and also as an inevitability, something we couldn't stop no matter what. Wasn't it a question of "power to the people"? And what voters in those states wouldn't give Enron at the polls, the company achieved by other means, chief among them a massive-and perfectly legal-shower of boodle on influential political figures. Kenneth Lay was a donor to the campaigns and a partner in the golf games of (Democratic) President Clinton, whose administration vigorously pushed Enron's foreign initiatives. Enron gave generously to (Republican) House Whip Tom Delay, who thoughtfully introduced an electricity deregulation bill.

And, of course, the company was largely responsible for the grooming of George Bush as a national figure. As governor of Texas, he used to fly around the country in Enron corporate jets. In later years Enron distinguished itself as the single largest corporate donor to his campaign for the presidency. Lay is a business acquaintance of Dick Cheney and co-chairman of Barbara Bush's Foundation for Family Literacy. Such was Enron's clout with the administration that Lay, alone among electricity executives, was permitted to meet face to face with Cheney while Cheney was cooking up the administration's highly questionable energy plan. He also reportedly had a hand in choosing the personnel of the federal agency responsible for regulating his business. In Britain, where Enron profited nicely from the privatisation of a regional waterworks, the company sponsored the 1998 annual meeting of the Labour party.

A more potent Enron weapon seems to have been to provide friendly legislators with sinecures after their work on behalf of Enron had been done. The honour roll includes: Wendy Gramm, wife of the influential Texas Senator Phil Gramm, who secured for Enron a crucial exemption from regulation in 1993 when she was working for the Commodity Futures Trading Commission, and who then slid comfortably into a seat on Enron's board; Lord Wakeham, the Conservative politician who played a major role both in the United Kingdom's disastrous electricity privatisation and in Enron's British water dealings (he later received a seat on Enron's board); Frank Wisner, the US ambassador to India during the first Clinton administration, who helped Enron win the \$3bn contract to build the infamous Dabhol power plant in 1993, and who then applied the necessary pressure when India began to develop

cold feet, and who found a warm board seat waiting for him, too, on his retirement from the foreign service.

We should add to the political figures linked to Enron: the US Republican national chairman, Marc Racicot, the former Secretary of State, James Baker, the Bush economist, Lawrence Lindsay, and US trade representative, Robert Zoellick. You begin to understand how devastating to the free-market crowd-New Democrats and old Republicans alike-any investigation of Enron's mega-million political dealings could turn out to be (3).

Those who are astonished that the name of Enron could even be uttered in the same sentence as "corruption" should know that the company has the distinction of being possibly the only corporation that is the subject of an Amnesty International report, which details the brutal treatment of protesting villagers near the Dabhol plant by Enron's hired goons.

An equally poignant account of the corrupt Enron corporate style was provided by John Kachamila, the Natural Resources Minister for Mozambique, who had the honour of receiving a bid from Enron for a planned natural gas project. Pressure from the US government to accept Enron's bid soon followed. Kachamila described the experience to the Houston Chronicle in 1995: "There were outright threats to withhold development funds if we didn't sign, and sign soon. Their diplomats, especially Mike McKinley [then the charge d'affaires of the US embassy] pressured me to sign a deal that was not good for Mozambique. He was not a neutral diplomat. It was as if he was working for Enron. We got calls from American senators threatening us with this and that if we didn't sign. Anthony Lake even called to tell us to sign. They put together a smear campaign against us, Enron was forever playing games with us and the embassy threatening to withdraw aid. Everyone was saying that we would not sign the deal because I wanted a percentage, when all I wanted was a better deal for the state" (4).

This is what is being referred to when Enron eulogists fret that the company's "legacy" of deregulation is now at risk of being undone. And they are right to fret: Without the muscle behind it that the Enron billions provided, deregulation doesn't stand a chance. If practical business matters-price and service-are the only factors taken into account, most municipalities would quickly choose local ownership or control over the Enron way. During the California deregulation disaster, prices for power shot up all across the state-except in the city of Los Angeles, which owns its own generating facilities.

The New Economy 1990s subjected such mundane stuff as service to the ideology of the market. Markets, we were told, are always better and more democratic. The US business press was happy to agree that Enron was about democracy and creativity, not corruption. Perhaps the true theological lesson to be learned from all this can be found in statement of relief uttered by a California public utilities commissioner when he learned of the great conglomerate's destruction: "There is a God."