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A guide to the Enron collapse

By Darren Puscas

"You know what the difference is between the State of California and the Titanic? This is being webcast, and I know I'm going to regret this, but at least the lights were on when the Titanic went down."

— then Enron Chief Executive Officer (CEO) Jeffery Skilling's comments at an industry strategy conference in 2001.

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"You must cut costs ruthlessly by 50 to 60%. Depopulate. Get rid of people. They gum up the works."

— Skilling again, this time at an industry strategy conference in 1997.

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With the collapse of Enron, many people have been asking for a basic overall guide to understanding Enron and some of its implications. This report describes what has gone on so far, and then attempts to broaden the debate from the standard, narrow financial or scandal-based story you can read in newspapers like the **New York Times** and the **Wall Street Journal**.

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What happened? A short version

- Enron, a very complex company heavily involved in energy trading and distribution, was the seventh largest corporation in the U.S. (16th largest in the world). Despite its size and its massive profits before its collapse, it managed to pay no taxes in four of the last five years.

- Jeffery Skilling, who had replaced Kenneth Lay as Enron CEO in December 2000, abruptly quit in August 2001 and Lay took over, resuming his old CEO post.

- Enron, mostly through the workings of its former Chief Financial Officer, Andrew S. Fastow, had thousands of offshore partnerships, an accounting mess, and hid over $1 billion in debt through some of them. It was this complex arrangement that led to its downfall when the hidden debt information was disclosed in October 2001.

- Enron admitted it had previously inflated its profits by hiding debt. Consequently, its share price collapsed, which led to its credit rating being slashed, leaving it unable to borrow its way out of trouble.

- Enron CEO Kenneth Lay dishonestly told employees and others that Enron stock was "an incredible bargain," even after he had been warned of "potential scandal" by an Enron executive.

- Enron's bankruptcy is the largest collapse in corporate history, and has led to thousands of lost jobs.

- Employees' retirement savings that were tied to Enron stock were wiped out. As the stock was plummeting, employees were unable to sell their shares for weeks due to what Enron disclosed as "a management change."

- Enron's accountant, Andersen (formerly Arthur Andersen) did not disclose how bad Enron's financial situation was, claiming its books were good until Enron failed.

- Andersen and Enron shredded thousands of documents connected to Andersen's audits of Enron. Andersen executive David Duncan is implicated and was fired for orchestrating the shredding, but he later refused to testify to Congress. It later came out that Enron had been shedding documents up to early January 2002.

- Eleven Congressional committees, plus the Justice Department and the Securities Exchange Commission (SEC) are investigating the collapse of Enron and the role of Andersen.

- Enron and Andersen were both very connected to the Bush administration, the Republican Party, and, to a lesser though substantial extent, the Democratic Party.

- Bush was misleading about his friendship with Ken Lay, insinuating that Lay was more of a supporter of Democrat Ann Richards than Bush during the Texas gubernatorial race in 1994. He also said that he didn't "get to know" Lay until after that election. But in fact Lay donated three times more to Bush than to Richards, and records reveal that the Bush/Lay relationship goes back to the time of Bush Senior's Presidency.

- Lay quit as Enron CEO on January 23, 2002. Two days later, in an apparent suicide, former Enron Vice Chairman J. Clifford Baxter was found dead in his car. On February 3, a report (known as The Powers Report) was released by a special committee of Enron's board. It raised "the spectre that that at the foundation of the company's downfall was a series of multi-million-dollar crimes." These include false valuation of assets, bogus deals, and millions pocketed during this time. This was the same day that Lay, through his lawyer, refused to testify at a Congressional hearing.

Potential troublespots for Enron

Though this crisis is less about who broke the rules than about the validity and acceptability of the rules themselves, there are some potential "smoking guns" and/or criminal implications:

- **Vice-President Dick Cheney's silence:** Cheney has consistently refused to give details of his six known contacts with Enron officials while developing U.S. national energy policy during 2001. This is an industry-friendly plan which the House Government Reform Committee has said includes 17 policies "virtually identical to positions Enron advocated." Cheney has refused to disclose who sits on his Energy Policy Advisory Committee. This secrecy is leading many to speculate that there may be some very explosive revelations that Cheney is hiding.

- **Enron executives' insider information and Ken Lay's lies to his employees regarding Enron's financial state:** Why were Enron's top executives tipped off in time to bail out, while Enron workers were left with nothing? Why did Lay tell employees in late September 2001 that Enron stock was "an incredible bargain" when he had already been warned by an Enron executive that a potential scandal was on the horizon? And why did Enron impose a weeks-long ban on employees selling their stock options after the stock started its biggest freefall?

- **Andersen's shredding of papers:** Apart from the morality of shredding key documents at any time, knowing what Andersen knew about the Enron situation, did Andersen knowingly do this illegally after being subpoenaed by Congress to hand over the papers?

- **Enron's shredding of papers:** Enron was shredding papers relating to its finances up to early January (over two months after a formal SEC investigation on Enron began). This could lead to serious criminal charges against Enron officials.

- **Ken Lay's letter to Federal Energy Regulatory Commission (FERC) Chair Curtis Hebert:** Hebert told the **New York Times** that Ken Lay wrote him saying that, if Hebert changed his views on electricity deregulation, Enron would continue to support him in his new job. Hebert refused the offer and has since been replaced as FERC Chair by Pat Wood, a friend of both Lay's and President Bush's.

The broader economic crisis

- **The free market is shaken:** The "free" market ideology of unregulated markets, tax breaks for the rich, and the privatization of the public sector have been brought into question by this collapse. Championed by the likes of Enron, Bush, Congress, and many intellectuals and media pundits, neoliberalism has come to dominate economic and social planning, but is leading directly to serious problems exemplified by the Enron disaster. Effective regulation and oversight, restrictions on campaign financing, and an arms-length approach of government in dealing with business would have averted this scandal.

  "Enron was the peerless darling of all those who believed that free markets were the acme of existence," Thomas Frank acerbically noted in Salon.com. "Enron's wreckage is as good a place as any to sit down and take stock of the deregulated, privatized state into which we've 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 employees lose their jobs, investors lose millions and customers get to look forward to more rolling blackouts. Profiteering. Bought politicians. Stock market bubbles that eventually burst. Workers thrown out on the streets. Left to its own devices, this is what the free market does."

- **The myth of deregulation exposed:** The mantra of deregulation has taken the hardest hit, especially energy deregulation, as the California power crisis and now Enron's fall have brought under the microscope all of those deregulatory actions that have taken place over the past ten years. Proper regulation of energy supply, energy derivatives, and accounting procedures very likely would have prevented this disaster. Enron made off like bandits in the California energy crisis, as the huge increase in costs of energy translated into massive profits for suppliers like Enron.

- **Campaign finance reform:** Political campaign financing has been given a big boost in the wake of the Enron/Andersen scandal, as the lavish amounts of funds going to Enron and Andersen have been uncovered. With Enron having spent over $6,000,000 throughout Washington over the past decade, including being George Bush's top contributor over that period and Andersen being Bush's fifth largest contributor in the 1999-2000 election cycle, many people have come to recognize the corrosive nature of financing political campaigns.

- **Wall Street's role uncovered:** Simply put, the big investment banks play two contradictory roles—one as investment bankers for the big corporations, the other—in the words of William Greider— "as stock analysts whipping up enthusiasm for the same companies' stocks." A scheme like this is bound to cause stock analysts to fudge a bit on the strength of a company in which they are investing. The contradictory, and ultimately corrupting, nature of this dual role is spelled out with this fact: of all of the stock analysts following Enron, only one recommended that Enron stock be sold last fall, even as it was collapsing.

- **Enron and the case against U.S. Social Security privatization:** The reality that the life savings of many Enron employees were wiped out when Enron collapsed calls for the serious reconsideration of the proposal to allow taxpayers to keep part of their Social Security payments to invest in private accounts. Given the volatility of the economy today, people are beginning to see the risk of playing the stock market in order to increase their retirement savings. The heavy losses sustained by Enron employees should serve as a warning.

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It is important to see Enron more broadly than just its breakdown in 2001. Even if it had not collapsed, Enron deserved to be exposed for its strong-arm tactics backed up by government clout, and its exploitation of people and resources around the world. In fact, due to its human rights abuses internationally, Enron is the only company in history to be the subject of a full Amnesty International Report. Beyond the now famous California energy crisis set off by Enron's (and others') greed, the corporations has been implicated in many controversial projects in other countries, including India and Bolivia.

But let's be clear: Enron is not unique. It is not the one "bad seed" among many virtuous corporations. The difference with Enron is that it is the biggest one (so far) to be caught. Many groups such as Corp Watch, the Multinational Monitor, Public Citizen, and Canada's Polaris Institute knew long ago about the nastiness pervading Enron, but few in power or in the media wanted to listen while the big utility giant was flying high.

Enron pushed the WTO/GATS agenda

Enron's domestic zeal for the free market dogma of deregulation, privatization, and access to markets translated directly into the international realm. Before it collapsed, Enron was one of the most powerful companies pushing for new global trade rules through the World Trade Organization (WTO), especially the General Agreement on Trade in Services (GATS).

The GATS is designed to open up cross-border trade and investment in services. The current GATS negotiations are to expand the scope of the rules to include virtually all services, ranging from health care and education to energy, water, financial, accounting, and transportation services. If the proposed GATS rules are adopted, they will radically restructure the role of government by handing over essential social services worldwide to corporate control.

The GATS negotiations attracted Enron because, to globally market its energy services, it needed favourable GATS rules to promote the deregulation of services in other countries and provide conditions for the privatization of public services. Enron was a key player in a big business lobby group called the U.S. Coalition of Service Industries (USCSI). Composed of most of the largest for-profit service corporations headquartered in the U.S., the USCSI, along with similar services coalitions in Europe, Japan, Canada, and Hong Kong, has shaped the agenda for the GATS negotiations.

The USCSI's close connection to the U.S. government, including meetings with government departments like Commerce and the U.S. Trade Representative (USTR) and its strong representation throughout the International Trade Administration's Industry Sector Advisory Committees (ISACs), gives it unparalleled access to those who make the decisions on U.S. trade policy.

It was as a leading member of the USCSI that Enron positioned itself to play a major role in the upcoming GATS negotiations. A look at many of the other corporations buying access through the USCSI reads like a "who's who" list of those connected to the Enron scandal: Andersen, Citigroup, J.P. Morgan Chase, General Electric, PricewaterhouseCoopers, to name just a few. It is significant that those corporations that control the trade agenda are also many of the same organizations that screwed up so royally in the Enron fiasco.

Enron and privatization

The Enron debacle has much to teach us about the private takeover of public utilities throughout the world—something Enron devoted much of its time and money to achieve. As but one example, Enron took over Portland General Electric (PGE), which had been Oregon's largest public utility. According to Alexander Cockburn and Jeffrey St. Clair in a recent issue of Counterpunch, employees at PGE opposed the takeover, saying it would result in less ability to protect the environment; insecurity for PGE workers; and likely soaring prices.

But the Natural Resources Defense Council (NRDC), which Cockburn and St. Clair argue is often used by corporations to give a seal of approval for "greening" through "market-oriented solutions," worked with Enron to convince the workers and many environmental groups that privatization was needed to gain, in the words of NRDC Energy Commissar Ralph Cavanagh, "a robust assortment of public benefits for the citizens of Oregon."

The employees were convinced, Enron took over, raised its rates, tried to soak ratepayers with the cost of its failed Trojan Nuclear Reactor, put the company on the auction block soon after, and ultimately the employees lost their retirement savings and many lost their jobs in Enron's collapse.

This is what privatization of public services can—and often does—mean to the employees and citizens who rely on them, and the GATS negotiations pushed by the USCSI are intended to open the door to privatization on a much broader international scale.

Ontario Hydro deregulation and privatization: Lessons from Enron

An important Canadian example of privatization and deregulation of services is Ontario Hydro, especially the privatization of Hydro One, the Ontario electrical distribution company which is slated for privatization, and ultimately, full scale deregulation, by the Ontario Tory government in May 2002. The Enron catastrophe tells us of the absurdity of privatizing and deregulating distribution services. Enron is just the type of company that would have been salivating to buy Hydro One and their experiences in the California deregulation disaster, with PGE's privatization in Oregon and ultimately, their collapse, show that deregulation and privatization can have profoundly negative consequences. Some may say, but this won't be Enron in there, it will be a different company that won't be able to do what Enron did. But with deregulation, who will hold them accountable? Should we not at least be using Enron as an example to learn from and begin seriously questioning the value of Hydro One's privatization and Hydro's deregulation as a whole? Higher costs and potential catastrophe deserve more than empty reassurances that the Tory government has offered thus far.

Lessons and actions

We need a structural overhaul of the system, including:

a) new rules prohibiting firms that do the accounting for a company from doing any consulting for that company;
b) thorough campaign finance reform, a committed effort to get big money out of politics;
c) re-regulation and oversight of energy trading and distribution to monitor, detect and punish corporate irresponsibility; and
d) more participation by workers in management decisions, especially when their pension funds are involved.

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Above all, we need to build a strong, widespread struggle against trade agreements such as the GATS, which are really nothing more than mechanisms for the corporate exploitation of the world's people, land, resources, and public services.

These agreements—the GATS in particular—are intended to give the Enrons of the world unrestricted access to private services, utilities and programs: a sure way to create more Enron-type disasters on a global scale.

This is a condensed version of a report by Darren Puscas, a researcher at the Polaris Institute (www.polarisinstitute.org) in Ottawa. At Polaris, he is currently working on an international campaign focused on providing public sector unions and grassroots groups in six countries with research and popular education materials to be used to oppose the General Agreement on Trade in Services (GATS). The full report can be accessed on the Polaris website. Puscas can be contacted at darren_puscas@on.aibn.com.

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