Book Review

Enron: A Mere Symptom of the Post-Industrial Culture of Corruption

by Harley Schlanger

Conspiracy of Fools: A True Story
by Kurt Eichenwald
New York: Broadway Books, 2005
742 pages, hardbound, $26

On Jan. 30, 2006, the trial of Enron's top corporate officials, Kenneth Lay and Jeffrey Skilling, opened with much fanfare in Houston. For those who have come to see Enron as epitomizing all that is wrong in contemporary America, there is the hope that, at long last, the truth will come out, the bad guys will be punished, and justice will be done.

The banner headlines from the first day of testimony seemed to feed this belief. "Enron Corporate Officials Lied," a typical headline screamed, referring to testimony presented by the former head of investor relations, Mark Koenig. He described how corporate officials routinely met earning targets by selling off assets, creating the misleading impression that the company was generating profits. He said that both Lay, the CEO, who faces seven counts of conspiracy and fraud, and Skilling, the former CEO, who faces 31 counts of conspiracy, fraud, lying to auditors, and insider trading, knew he was committing fraud when he presented the dummied-up reports, but did not correct him.

They were afraid, he said, to undermine the "growth story" of the company, which enabled them to jack up Enron's stock price, even as the company was losing money and falling hopelessly in debt. By meeting Wall Street's earning estimates, even if it required fraudulent accounting to do so, the company's stock surged, and corporate officials and shareholders were happy.

Koenig, who entered a guilty plea in 2004, is the first of several former top Enron officials expected to be called to testify by the prosecution. Sixteen former Enron executives have already pleaded guilty.

The trial will likely provide details of some of the illegal actions perpetrated by Enron's top executives, which led to its spectacular collapse. It is not likely, however, that the prosecution will get to the deeper, underlying causes of the debacle, for to do that requires something that few in law enforcement, regulatory agencies, or legislatures have had the courage to address: that Enron is merely a symptom of a process of disintegration of the U.S. economy which has been under way for four decades.

Greed, Corruption Run Rampant

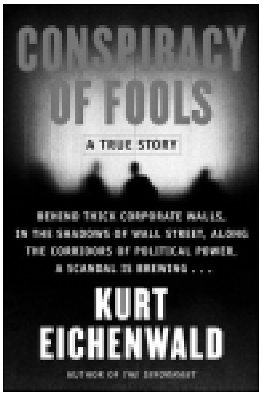
This is a story which has yet to appear in the popular media, despite voluminous coverage of the case, nor in the eighty-plus books which have been published about Enron since it filed for bankruptcy on Dec. 2, 2001. It has attracted such attention because it is a Texas-sized drama, one that was, in its early days, a publicist's dream—the myth of how a group of aggressive entrepreneurs introduced new ideas to a staid industry, which created a virtual money machine, turning their firm into the seventh largest corporation in the United States.

Its collapse and fall had been even more impressive. In less than a year, its stock price fell from over $90 a share to 26 cents, while its executives, who had been hailed as bold and brilliant on the way up, were scorned as the latest poster boys for the era of greed, as Enron came crashing down, along with the IT bubble it paralleled in the late 1990s.

While some of the books on the story offered useful information on the accounting gimmickry used to manipulate the stock price—usually buried underneath a choppy chronology, that focussed on the personalities of the major players—they largely failed to answer the question they all unfailingly asked: Why did it happen?

Even the best of these books were unsatisfying in this regard. One of these was *Enron: The Smartest Guys in the Room,* by Bethany McClean and Peter Elkind, which offers an insider's view of the story of how Enron and its leaders dazzled Wall Street, and captivated American investors, taking them on a wild ride from an obscure gas pipeline company, to the pinnacle of wealth and power, and then the corporate junk heap. They give readers a glimpse into the corporate culture, where ambition was surpassed only by greed, and the rewards included rubbing elbows with the President of the

United States, expensive cars, strippers galore, and macho travel adventures.



But greed, arrogance, even stupidity—each of which was in abundance at Enron—do not explain adequately either its rise or fall. One must go deeper, to look at Enron in the context of the destruction of the physical economy of the United States, due to the hegemony of the ideology of the "post-industrial society," which has been imposed on the economy by Wall Street Synarchist financiers since the mid-1960s.

The only place the real story has been told has been on the pages of this magazine, most frequently by Lyndon LaRouche.

It's the System, Stupid

One will look in vain to find this deeper examination in the much-hyped book, *Conspiracy of Fools,* written by former *New York Times* reporter Kurt Eichenwald. The hype begins with the author himself, who proclaims this to be "the full story of America's biggest corporate scandal."

He gets off to a good start, in the Prologue, identifying Enron as part of a larger phenomenon: "No single person bore responsibility for the debacle: no single person could. Instead, the shortcomings of a handful of executives—along with a community of bankers, lawyers, and accountants eager to win the company's fees; a government willing to abide absurdly lax rules; and an investor class more interested in quick wealth than long-term rewards—merged to create an enterprise destined to fail."

He continues in this vein:

"This, then, is more than the tale of one company's fall from grace. It is, at its base, the story of a wrenching period of economic and political tumult as revealed through a single corporate scandal. It is a portrait of an America in upheaval at the turn of the twenty-first century, a country torn between its worship of fast money and its zeal for truth, between greed and high-mindedness, between Wall Street and Main Street. Ultimately, it is the story of the untold damage wreaked by a *nation's* folly—a folly that, in time, we are all but certain to see again" (emphasis added).

Eichenwald weaves this theme throughout his book, that Enron was operating in an overall climate where ethical and legal lines were crossed, presenting examples of complicity from outside firms in response to dubious propositions from Enron. For example, leading banks were intimately involved in its questionable and illegal actions. He reports that Enron was given the highest rating by Chase, based on its "potential for bringing in future fees." The chief of global investments at Chase, Jimmy Lee, once wrote a note urging participation in a dubious Enron scheme pitched by Enron's Chief Financial Officer Andrew Fastow: "I am skeptical because the guy running it is inexperienced and sounds very naïve. However, the relationship [of Chase with Enron] is very big and important. We 'may' have to do a little."

There are similar reports of battles over accounting, as not everyone in the Arthur Andersen accounting firm was willing to sign off on Enron's accounting. However, Eichenwald points out that those who objected to such "innovations" as "mark-to market" accounting, in which the expected revenue from long-term contracts was counted as present income, were taken off the case.

He also presents several cases in which internal opposition emerged against Fastow's schemes. One involved the special group of funds set up by Fastow called "Raptors," which were designed to aid in hedging assets. An attorney in Enron's wholesale division wrote a memo, "Overall Book Manipulation," in September 2000, in which he reported that "we have discovered that a majority of the investments being introduced into the Raptor funds are bad ones." The attorney concluded that this "might lead one to believe that the financial books at Enron are being manipulated in order to eliminate the drag on earnings that would otherwise occur," i.e., demonstrating that many of the investments pushed into the Raptors were losing money!

Such reports were either ignored or dismissed by Lay and Skilling and their underlings, as they might interfere with making Enron the "World's Best Company."

Eichenwald's Sleight-of-Hand

While Eichenwald offers detailed and often dramatic accounts of some of the wild schemes and tricks that will be at the center of the government case against Lay and Skilling, he shifts away from his initial assertion of the systemic nature of the corruption, ultimately adopting what will likely be the theme of the high-priced defense attorneys: Blame Fastow!

It was Fastow who created the Raptors, and other exotically named funds, such as Chewco and JEDI, which were used to hide losses. According to Eichenwald's account, Fastow, virtually single-handedly, manipulated the company to adopt hare-brained schemes that, in hindsight, were so far-fetched that it is impossible to believe that anyone could have missed the criminal implications of adopting them!

To accept this argument, one would have to believe that Skilling—who is described throughout as brilliant and driven—must have been too manically obsessed with his own legend to have paid attention to his subordinate (Fastow), and that Lay appears to be, in the words of Andrew Feinberg in his Kiplinger.com review of this book, the "ultimate corporate narcoleptic."

(In fact, Lay's legal defense appears to be shaping up precisely along these lines. Some legal wits are calling it the "I was duped" defense, or the "Sergeant Schultz" defense, after the cartoonish Nazi prison camp guard in the lamentable

1960s "Hogan's Heroes" television show, who proclaimed repeatedly, "I see nothing, I know nothing.")

There is no excuse for this shift in Eichenwald's analysis of the Enron case. Since he had already identified, in the Prologue, the systemic nature of corporate corruption, how can he then argue that the fall of Enron is the work of one man?

'There Is No Alternative'

The secret to this seeming paradoxical view is that there is, in reality, no paradox at all. Eichenwald is just playing by the rules. He buys into the argument put forward by fellow *New York Times* scribbler Thomas Friedman, that "there is no alternative" to the globalized post-industrial model, and that, to succeed, corporations must adapt to the rules which have been imposed by Synarchist financiers over the last 40 years.

It should be noted that, after completing this book, the author left the *New York Times* to go to work for a hedge fund—perhaps inspired by the amount of money made by Fastow through his creation of hedge funds at Enron!

Lay and Skilling were both apostles of this new gospel. They preached free trade and deregulation at every venue available to them. In their corporate incarnation, they were the ultimate opportunists, taking advantage of the open field created by "globalization" and the extension of the "free market" to all areas of the U.S. economy, placing "shareholder values" above physical production.

They taunted their competitors and others weighed down by the axioms of the "old economy." Why produce a physical product when you can make more money by selling what others produce? And you can make even more money when you can manipulate the market! For them, accounting rules were meant to be bent, or ignored, in pursuit of higher stock prices.

The accelerated attack on government regulatory powers after 1971 literally gave Enron a license to steal. This was advanced by ideologues such as Sen. Phil Gramm (R-Tex.), who along with his wife Wendy—who was placed on the Enron Board of Directors after she deregulated derivatives trading as chairman of the Commodities Futures Trading Commission (CFTC)—worked diligently to seriously weaken regulation of financial entities. It was furthered by former Federal Reserve Board Chairman Alan Greenspan, who repeatedly intervened on behalf of deregulation.

In his coverage of Enron's looting of California, Eichenwald accurately portrays the pivotal role played by Greenspan. In a conference call with Gov. Gray Davis, Greenspan insisted that the energy crisis, which crippled that state beginning in the Summer of 2000, was due not to deregulation, but not enough deregulation! As prices skyrocketed by 200-300% and higher, Greenspan told Davis that the solution is that "prices for consumers are going to have to go up."

Davis countered, "I really feel the problem is the energy producers. They're manipulating the markets and forcing up prices," to which Greenspan replied, "They may be. But that's beside the point. That's not causing the problem; that's making it worse. The real problem is supply-and-demand imbalance."

EIRNS/Joe Jennings

The LaRouche Movement hit Enron hard, because it exemplified the corruption of the deregulated economy, and was a close political ally of the corrupt Cheney-Bush Administration. Here, a demonstration held in front of the corporate headquarters in Houston in 2001.

Though Eichenwald covers this vignette, he does not draw the obvious conclusion: that Lay was convinced that Greenspan believed that the looting which was under way was not just good for business and good for the nation, but completely within the law! Likewise, when prices jumped as much as 1,000% per megawatt hour during winter of 2001, Vice President Cheney protected Enron, by ruling out either a price cap or an investigation into market manipulation. Lay and Enron once again were given top-level backing for what were criminal business practices.

The California case is a perfect example of the system gone bad, with Enron both creating the system (Enron lobbyists helped draft the California deregulation law), and then taking full advantage of it, with high-level backup. It was most definitely not due to criminal machinations of Andy Fastow!

How Enron Hedged Enron

EIR first carried warnings about Enron and how it was used as a tool of Synarchist financiers to break down barriers to more "financialization" of commodity trading (i.e., more looting of the physical economy by grabbing up raw materials and physical plant, while spreading risk to small-fry investors and institutions) as early as 1996. The most important piece on this was written by *EIR* economic analyst John Hoefle for the Jan. 1, 2001 *EIR,* entitled "Southern Strategy: Assault on the American Republic." Hoefle explained how Enron had been set up by networks "Behind the Bushes," such as those affiliated with the oldest Synarchist firms of Schlumberger and Lazard Frères, to "financialize" energy and related raw material trading. Hoefle wrote that "Enron . . . plays an important role in allowing the financial sharks, under the guise of deregulation, to get their hands on the income streams generated from the production and consumption of electricity, natural gas, and related energy products."

After detailing how this network was behind both Bush Presidencies, with ties to Cheney and Houston-area Congressman Tom DeLay (R), Hoefle wrote that their ultimate goal was to position themselves to "grab control of as much of the world's supplies of essential raw materials, strategic minerals, food supplies, and similar assets as possible." This would enable them to be prepared for the blow-out of the financial system, before it occurred.

Though Eichenwald would reject Hoefle's analysis, he actually describes how this was set up by Enron, through the hedge funds established by Fastow. Skilling brought in Fastow to aid him in transforming Enron from an energy production firm to a trading company. Eichenwald writes that, under Skilling, "This company of pipelines and rigs, populated by leather roughnecks . . . was grabbing on to intangible concepts of risk, attracting buttoned-down investment bankers with manicures."

Fastow's background was in "securitization," the pooling of loans and other dubious assets, which can then be packaged for sale to outside investors. As Fastow was presented by his superiors with the task of dealing with growing losses, he used the funds he created (the Raptors, etc., which morphed into hedge funds) to push the losses "into the future." Eichenwald writes that this would "increase Enron's long-term exposure, all to avoid a quarterly loss"—exactly what Koenig described in his first day of testimony.

One Enron employee who spoke against Fastow's off-the-book partnerships was risk analyst Vince Kaminski, who described them as an "idea so stupid that only Andy Fastow could have come up with it." Fastow asked him if a hedge could be used to offset business losses, to which Kaminski replied that, if it could, "We can all just make money by hedging."

Ultimately, Fastow did set up partnerships designed to hide losses, fostering the impression of increasing corporate profitability. In reality, Eichenwald correctly concludes, "Enron, by any definition, was hedging with itself."

When Fastow was challenged by outside attorneys about Chewco, one of his funds, he launched into a tirade which echoed Skilling about the transformative nature of Enron. "Enron is not just some pipeline company. We're like an investment bank. We do the same things. And if investment banks can do this, there isn't a damn reason Enron can't."

Eichenwald reports that the attorneys backed off, after advising him to "consider Enron's interest."

The Post-Enron Era

Once LaRouche blew the whistle on Enron in California, and the LaRouche Youth Movement began a campaign to expose the role of George Shultz and Dick Cheney in the looting of over $70 billion from the state, the writing was on the wall for Lay and his pirates. He was riding high in March 2001, at the peak of the California crisis, but crashed and burned by the end of the year.

Perhaps Lay is right, and he is a dupe, after all. With his company, Enron, he played a key role in pushing through deregulation, not just of natural gas and electricity markets, but in other areas, as well, especially derivatives. He also played an important role in electing Bush and Cheney, as he and Enron were the largest contributors to Bush's campaign.

Yet, when he most needed help, George W. Bush turned his back on "Kenny-boy," as he once referred to Lay, and Enron all but disappeared, with its last hurrah taking place today in a Houston court house. However, the process of "financialization," which was pioneered by Enron, continues, as the Synarchists have escalated their drive for control of strategic metals and raw materials, energy and power production.

In October 2002, less than a year after Enron filed for bankruptcy, the CFTC rewrote its rules to exempt hedge funds dealing primarily in commodities, from regulatory oversight. While some Congressmen warned of the potential for manipulation in over-the-counter derivative markets, their efforts to expand regulatory supervision was defeated. Greenspan defended the expanded freedom for hedge funds, saying it would "add liquidity" to the markets.

A year later, the Federal Reserve relaxed rules regulating commercial banks, so they could take possession of physical commodities—such as oil—allowing banks to deal in commodities derivatives. Randall Dodd, director of the Financial Policy Forum, which studies regulation of financial markets, said of this move, "It is an effort by banks to move into the terrain that Enron abandoned in their bankruptcy. This is moving that risk into our core financial infrastructure, so the consequence of a failure becomes even larger."

None of this is reported in hedge-fund-dealer Eichenwald's book.