

Enron Slime Mold Hit With RICO Suit

by John Hoefle

Enron, its accountant, two law firms, and a number of big international banks have been named in two class-action lawsuits, as current and former Enron employees and holders of Enron securities seek compensation for losses suffered in connection with Enron's collapse. In part, this is a common legal maneuver of going after the "deep pockets" of associated companies, since Enron itself is bankrupt. However, the suits also touch upon a fundamental truth in the Enron affair, which is that Enron did not act alone, but was one part of an organized criminal network designed to loot the public. Enron was not the kingpin of this network, but instead was a tool wielded by those actually running the operation.

Both lawsuits are expanded versions of suits filed earlier in U.S. District Court in Houston against a narrower range of defendants, one by Seattle-based lawyer Steve Berman and the other by San Diego-based William Lerach.

The Berman suit makes the bolder charge of the two, asserting that Enron, five investment banks, accounting firm Arthur Andersen, and Houston-based law firm Vinson and Elkins, were all part of a conspiracy to defraud Enron employees and as such are guilty of violations of the Federal Racketeer Influenced and Corrupt Organizations Act (RICO). The RICO act, originally designed to fight organized crime, has both criminal and civil provisions, which include the assessment of treble damages, giving it a serious bite in civil cases.

"The facts, even without the benefit of discovery, now demonstrate that Enron was a company used by unscrupulous merchants of greed, arrogance, and abuse of power to enrich themselves at the expense of many, including their own employees," the suit charges.

In our coverage of the Enron case, *EIR* has argued that Enron was part of a larger operation designed to insert financial middlemen into the electricity and natural gas markets, as a way of skimming off portions of the energy income stream into the financial bubble. This operation, implemented under the guise of "deregulation," was run by the top levels of the financial oligarchy, through a network of banks, law firms, accounting firms, and consultants; Enron was a creature of these institutions, a tool created for a specific task, to be thrown away when it had served its purpose. Those who view Enron as an independent entity, see the tree but miss the forest.

The Lerach lawsuit, while not containing the RICO charge, has an even larger list of defendants, including the companies Enron and Arthur Andersen, and some of their

officials; the law firms of Vinson and Elkins, and Kirkland and Ellis, based in Andersen's hometown of Chicago; and nine commercial and investment banks: J.P. Morgan Chase, Citigroup, Bank of America, Merrill Lynch, Cr dit Suisse First Boston, Lehman Brothers, Barclays, Canadian Imperial Bank of Commerce, and Deutsche Bank.

"Enron was a hall of mirrors inside a house of cards—reporting hundreds of millions of dollars of phony profits each year, while concealing billions of dollars of debt that should have been on its balance sheet. . . . Enron has turned into an enormous Ponzi scheme—the largest in history," the Lerach suit charged.

The Right Track

These lawsuits have exposed a thread which, if pulled with courage and determination, will reveal much about the inner workings of a much larger Ponzi scheme, that of the global speculative bubble. *EIR*'s investigation into these matters suggests that the mini-bubbles in the dot-com, telecommunications, and energy-trading sectors were all part of an operation to expand the global casino, since pyramid schemes must constantly grow else they collapse. Arthur Andersen, for example, was the accountant for a number of the energy pirates, and wrote a white paper on the use of "swaps" by the new telecommunications companies; in both sectors, revenues were dramatically overstated through the use of accounting tricks. Not coincidentally, Andersen has a long history of working for the Morgan interests, and J.P. Morgan Chase, the world's largest and most bankrupt derivatives bank, is a major player in the telecom and energy schemes.

The corrupt nature of this beast is underscored by charges against Merrill Lynch made by New York State Attorney General Eliot Spritzer. In a recent filing with the New York Supreme Court, Spritzer charged Merrill Lynch's Internet research department, led by the since-departed former superstar analyst Henry Blodget, of "manipulating research coverage for the purpose of attracting and keeping investment banking clients, thereby producing misleading ratings that were neither objective nor independent."

Merrill issued ratings that "in many cases did not reflect the analysts' true opinions of the companies," the filing said, noting that analysts were advising the public to buy certain stocks, which among themselves they referred to by terms such as "piece of crap," "dog," and "powderkeg." In one case, Blodget admitted that the only thing interesting about one stock was the fees the company paid to Merrill.

In effect, Spritzer charged, Merrill converted its five-point rating scale (buy, accumulate, neutral, reduce, and sell) "into a de facto three-point system" in which reduce and sell ratings were never given. This represented a "serious breakdown" of the Chinese Wall between Merrill's banking and research departments, leading to a situation in which even Merrill Lynch's highest investment rating "could not be trusted."