

# ENRON: CAPITALISM IN A NUTSHELL

By  
Anna Pha

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**This booklet is comprised of articles written following the collapse of Enron in The Guardians of February/March 2002 by Anna Pha**

## **Enron: Capitalism in a nutshell**

Enron's annual report for 2000 (dated April 2001), painted a glowing picture of rapidly rising profits and great prospects for the future: Sales and other revenues had risen from US\$13.2 billion in 1996 to over US \$100 billion in 2000. Income before interest and taxes rose 72 per cent in the previous year to US\$2.3 billion.

"The company's total return to shareholders was 89 percent in 2000..." "Our results put us in the top tier of the world's corporations." "In 2000 Enron used its networks to deliver a record amount of physical natural gas, electricity, bandwidth capacity and other products." Emerging markets "present a \$3.9 trillion opportunity for Enron, and we have just scratched the surface." "Our talented people, global presence, financial strength and massive market knowledge have created our sustainable and unique businesses." Enron also boasted of "Risk management skills that enable us to offer reliable prices as well as reliable delivery." What more could a shareholder ask for?

This rosy picture of "the largest energy company in the world" was confirmed by market analysts, high share prices, and Fortune magazine's accolades. The prestigious business publication named Enron as "America's Most Innovative Company", "No. 1 in Quality of Management" and "No. 2 in Employee Talent" of all American companies.

Ranked among the 10 largest corporations in the US, Enron was held up as a model corporation, encapsulating the wonders and genius of capitalism.

And that is exactly what it was, but perhaps not quite in the way that those making such claims would have seen it.

Within 12 months Enron had collapsed and was filing for bankruptcy.

Behind the glossy facade, lay the main ingredients of capitalism: greed, bribery, corruption, deceit, parasitism, speculation, insider trading,

scams, nepotism, tax avoidance, environmental destruction, human rights abuses, exploitation, theft of workers' entitlements, job losses, use of state machinery against workers and Indigenous peoples, cozy relationships with government, and monopoly manipulation of prices and markets.

Enron was one of the most powerful corporations in the world. It (including executives) was the largest donor to President George W Bush's election campaign. Its executives and board members also had strong ties to, Cheney, Rumsfeld, Baker, the Secretary of the Army, the US Trade Representative, Bush's economic adviser, the Securities Exchange Commission, its auditors, banks, the Attorney General, supreme court judges, leading Republican and Democrat figures, to name a few.

Its core business is not energy, but energy-focused financial services. It is in reality an investment bank and broker, dealing in debt and equity securities (shares) and high risk derivatives\*. According to its annual report it buys and sells "virtual electricity", offers a "virtual gas transportation service", weather risk management, trades in currencies and acts as an intermediary in the energy and other sectors.

And it now appears that it made virtual profits. It does own a few utilities and pipelines and sells some real electricity and natural gas, although this is not its main business.

It is very much part of what is described as the "new economy". Enron was also moving into the broadband area, developing a fibre-optic network in the US and had launched a rapidly growing internet venture (EnronOnline) for trading purposes.

EnronOnline had overnight become the largest e-commerce site in the world in terms of dollar volume of trade - logging close to US\$200 billion on 30,000 transactions in just one year.

Globalisation was high on the agenda, with operations in India, Turkey, China, the Philippines, Burma, Brazil, Argentina, Australia, Europe, as well as in North America.

It played a major role in the drafting of the WTO's General Agreement on Trade in Services (GATS), with a view to opening up and deregulating energy markets around the world for its own exploitation. It had not

only not paid income tax in four of the last five years, but claimed in its 2000 annual report, to have US\$254 million in tax credits for future years.

According to Public Citizen's (Ralph Nader's organisation) research, Enron has 2, 832 subsidiaries and other offshoots, 874 of them located in the Hayman Islands and other tax havens where they are protected by weak bank disclosure laws. You would never guess this reading its annual report.

Enron used its (off the books) subsidiaries and partnerships to borrow money for eventual use by Enron. This enabled Enron to raise capital without the debt appearing on its books, thus boosting its reported results and maintaining its credit rating and share prices.

### ***Enron's collapse***

Enron's collapse was just as spectacular as its meteoric rise. Different aspects of Enron's collapse and the role of its auditors Arthur Andersen are now the subject of seven Senate Committee, four House Committee, Justice Department, Labor Department, and Securities Exchange Commission inquiries as well as trade union and shareholder court actions.

The evidence mounts, the public want action. No wonder Bush wages war!

With elected supreme court judges funded by Enron, and almost half of Congress in receipt of Enron donations, it will be interesting to see whether those behind the collapse or who played an indirect role are brought to justice.

Shareholders are reported to have lost around \$65 billion in investments.

Shares fell at one point to as low as US26 cent from a high of over US\$90.

When Enron filed for Chapter 11 bankruptcy on December 2, 2001, there had already been unheeded warnings that the company could "implode in a wave of accounting scandals". It is the largest corporate bankruptcy filing in the US.

One such warning came from a senior officer of the corporation, in an anonymous letter last August to chairman Kenneth Lay. The letter questioned whether the company's complicated and largely undisclosed deals with partnerships set up by Enron officials had helped inflate the company's stock price and, in the end, would be found out to be an "elaborate accounting hoax".

Last November, Enron was forced to include a few of these partnerships on its books and restate its results for the past five years. In doing so it downgraded reported profits by almost US\$600 million and reduced previously announced shareholders' equity by US\$1.2 billion. By then the company was under investigation by the Securities and Exchange Commission.

It was in this restatement that Enron revealed some of the activities of its partnerships ("Special Purpose Entities") and incorporated some of them into the consolidated accounts of the company. A report commissioned by Enron and released on February 2, 2002 said the company had falsely overstated profits by nearly US\$1 billion in the year before it collapsed.

"What emerged at Enron, as described in the report, was a culture of deception, where every effort was made to manipulate the rules and disguise the truth as part of an effort by executives to falsely pump up earnings and earn millions of dollars for themselves in the process", wrote Kurt Eichenwald, in The New York Times. "Money was siphoned back and forth between multiple entities, disguising its true ownership and in turn providing false information about the financial state of Enron", said Mr Eichenwald.

## **Secret partnerships**

In recent months revelations have emerged of a complex maze of intertwining partnerships - some involving Enron and its executives, including its chief financial officer Andrew S Fastow.

These Enron partnerships did business with Enron and with each other and formed other partnerships. Much of this business did not appear in Enron's official annual report.

Billions of dollars (with their profits and debts) were transferred back and forward, along with various speculative instruments, with (often paper) profits and losses being transferred. Both sides of these transactions were at times carried out by the same Enron official, unbeknown to Enron's workforce or shareholders.

Fastow reportedly made more than US\$30 million from his own investments in these partnerships.

Michael J Kopper, a managing director of Enron's finance division and his partner, made at least US\$10 million on a US\$125,000 investment in the Chewco partnership. Kopper also raked in US\$1.6 million in management fees, although the report says there was very little to manage.

Several others made US\$1 million on investments of \$5, 800. One of the aims was to transfer Enron's debt outside the company and get it off the books, without giving up control of the assets that stood behind the debt.

Not surprisingly document shredders have been working overtime.

### **Making markets**

This "largest energy company in the world", in fact owned few utilities. Deregulation of the energy markets had made it possible for a new breed of corporation to buy and sell electricity without necessarily generating or delivering any electricity to the door.

These "electricity marketers" could buy and sell electricity over and over again before it reached the domestic or commercial user. It is similar to the model which is being introduced to Australia in the name of competition.

It is already in operation in the telecommunications sector in the form of parasitic sellers who buy bulk discounted time from Telstra and onsell it to consumers at a higher price.

This type of marketing creates no new value but is a means of creaming off layers of profit, as the marketers buy up the available electricity and use the monopoly control to supply and extract super profits. Businesses relying on electricity cannot cope with such volatile and unpredictable prices so Enron (and other such outfits) comes to their

rescue offering new services - financial mechanisms that allow them to hedge their bets against market extremes.

Enron found a means of creating crises and then profiting from those crises through purely parasitic and high risk speculative derivatives and other products - what it called "price risk management". Enron literally spoke of "creating new markets" in its annual reports. This proved to be a very lucrative exercise, generating millions of dollars of income. Supply manipulation, the creation of artificial shortages by Enron, was a major factor behind the blackouts in California.

*Note: Derivatives are a form of gambling on future prices. In the case of industry, various types of contracts are bought (options, futures contracts, etc) that give the speculator the right to buy a certain quantity of a product at a certain price at a certain time. A business, heavily reliant on electricity might buy such an option to hedge against future price rises. If prices do not go the way anticipated, they can result in massive losses. Stupidity? Madness? Yes, but that is capitalism!*

When the Californian authorities were forced by public pressure to re-regulate energy and cap prices, Enron came crashing down. (More on Enron's energy marketing and deregulation in a future issue of The Guardian.

## **Employees hardest hit**

There have been many casualties including shareholders and pension funds and Enron's workforce who lost jobs, retirement savings and other savings in Enron shares (under an employee share scheme). Many politicians, judges and government officials have lost a lucrative source of funding, and are now running for cover.

Sixty-two per cent of the retirement assets of Enron's employees in the US were invested in Enron stock. Enron had used its own stock to match employee contributions to the employees' 401 (k) (equivalent to superannuation funds in Australia) retirement fund.

Many employees had invested more of their money into company stock, believing the company's hype about how good it was. After all they had seen the value of their savings (in the form of Enron shares) rise at a phenomenal rate over a few years.

But when the company adjusted its results in October 2001, and the shares were in full flight downwards, Enron employees found the company had “locked down” their pension fund so that the employees could not sell off their stock.

Shares that were trading at US\$33.84 when the lockdown came into effect, were worth less than US\$10 a month later.

The 11,000 Enron employees have lost hundreds of millions, possibly billions of dollars, some their entire retirement savings.

“At the peak, I had \$350,000 in my Enron 401 (k) account. Now its worth about \$20,000. A handful of people at the top made a lot of money. It was insider trading”, said Al Kasewaeter, a tester and former lineman for Enron’s wholly owned subsidiary Portland General Electric in Oregon.

Enron board chairman, Kenneth Lay reportedly got in early selling off more than \$200 million worth of stock options. Another executive, Lou Pai sold stock in excess of US\$353 million.

“Ken Lay knew the ship was sinking, yet he kept telling us to buy Enron stock. They were siphoning off our retirement funds to keep the ship afloat. When our Enron stock hit 76 cents a share, they e-mailed us and said we are now free to sell them.”

While freezing workers’ shares and telling them to buy, the executives sold fast, pocketing US\$1.1 billion!

The Portland workers are represented by the International Brotherhood of Electrical Workers (IBEW) which has filed a lawsuit against Enron on behalf of nearly 1000 workers at that plant.

There are many questions to be answered about the political and economic system that enabled Enron to function and its executives to profit as they did, at the expense of thousands of shareholders and employees. Enron is a case study of capitalism, of deregulation and self-regulation, of privatisation, of corporate retirement schemes, of government business relations.

It raises serious questions about the legal, financial, accounting and auditing practices of the big multinational corporations. How many more Enrons are waiting to blow up? It must also be asked how can such debacles be avoided in the future?



## **Corporate takeover**

“Bush was in bed with Enron before he ever held political office”, Craig McDonald, director of Texans for Public Justice told the People’s Weekly World. And when Bush got into office, first as governor of Texas for two terms, and then as the President of the USA, he never let Enron (and no doubt many of his other corporate backers) down for one minute.

The Center for Responsive Politics estimates that Enron, the now bankrupt energy-investment banker, and its auditor Arthur Andersen have together spent US\$26 million since 1995 to influence Congress, the White House and government agencies.

Enron and its senior executives gave a total of US\$5 million to federal candidates and party committees in that time, and spent US\$7.6 million on Washington DC lobbyists since 1997.

Arthur Andersen and its employees contributed US\$3.7 million to federal candidates and committees and spent US\$9.6 million on Washington DC lobbyists since 1997.

Two hundred and fifty-nine current members of Congress have accepted Enron campaign cash. Just over 60 per cent were Republicans, the remainder Democrats. Enron’s largesse is so extensive that it is questionable which if any of the dozen or so current investigations into the company can be considered to be impartial.

### **“Kenny Boy”**

Kenny Boy, as Enron’s Chairman Kenneth Lay was called by his close friend George W Bush, was one of the largest contributors to Republican election campaigns.

Lay was named as one of the top 25 managers in the world for 1999 by Business Week. Rather ironically, his many accolades include membership of the Texas Business Hall of Fame.

Before founding Enron, Lay worked in the Pentagon for the Nixon administration during the Vietnam War. He was energy policy maker for Nixon and it appears has made policy for the Bush and Clinton administrations.

Enron and its senior executives spent millions on professional lobbyists and rewarding government officials, accountants, lawyers and others with share offerings, directorships and other positions.

The list of those on Enron's books or holding an interest in Enron reads like a "who's who" of the White House, the Pentagon, Congress, judicial bodies and other government agencies. It is a story of open doors and revolving doors. See examples opposite.

While it was Republican through and through, Enron left nothing to chance when the then Vice President Al Gore won nomination as the Democrats presidential candidate. Enron set about establishing stronger ties with the Gore camp.

There were dinners with Gore associates and campaign donations flowed to the Democrats.

### **Money well spent**

Once Bush was in office, "The payback was not long in coming. Bush appointed at least 30 Enron executives, consultants and investors to his administration", noted Tim Wheeler, writing in People's Weekly World.

Soon after taking office, George W Bush scrapped former President Bill Clinton's plans to restrict the use of offshore corporate tax havens and secret bank accounts. Enron had around 800 subsidiaries in tax havens such as the Hayman Islands where they could operate beyond the scrutiny of public authorities and shareholders.

The Centre for Public Integrity, analysing the top 100 Bush officials, found that 22 of them had significant share holdings in 33 companies that lobbied their departments.

For example, Deputy Environmental Protection Authority Administrator Linda Fisher served as vice president of government affairs for Monsanto prior to her appointment. She oversaw the chemical and agricultural products firm's lobbying effort to win approval for the use of genetically modified foods, of which Monsanto is a major producer.

## **Policy maker**

Enron officials had at least six meetings in 2001 with Vice President Dick Cheney and other officials who were drafting an energy policy for the US Government.

The Securities Exchange Commission (SEC) chairman was handpicked by Ken Lay for his opposition to government regulation.

The Federal Energy Regulatory Commission's chairman Chris Hebert, whose views on deregulation were not in line with Enron's, was quickly replaced by Enron's choice, Pat Wood of Texas.

Republican representative Tom Delay (another recipient of Enron donations) steered a bill through the House and Senator Phil Gramm helped it through the Senate. It contained much of what Enron had asked for. The end result of the bill and new appointees to the Commission was the exemption of energy and energy derivative trading (Enron's main business) from government regulation (including price controls).

This means companies like Enron can operate unregulated power auctions in electricity, natural gas and other energy commodities in huge volumes without being required to report details to any government regulator.

## **Enron funded courts**

Research by Texans for Public Justice found that the single largest source of corporate donations to the election campaigns of Texas Supreme Court justices was from Enron. (In the US judges are elected.) "Texas High Court justices have taken \$134, 058 from Enron's PAC [political action committee] and executives since 1993", the Texans for Public Justice said.

"During this time, Enron was a party to six petitions for review. The court accepted two of the three petitions brought by Enron (66 percent) and denied all three petitions brought by its adversaries (100 percent). This is an incredible record in a court that accepts 11 percent of all petitions."

## **Privatisation of military utilities**

Questions are now being asked about (Army Secretary) White's private meetings and telephone calls with Lay and his role in the privatisation of US\$60 million worth of contracts to supply gas and electricity to military bases.

In his first major speech in his new Pentagon post, White vowed to step up the privatisation of utility services at military bases. Enron's subsidiary Enron Energy Services (White had been its vice chairman) was seeking the contract with the military.

The then chairman of the Joint Chiefs of Staff, General Colin Powell, picked White in 1989 to be his executive assistant. White was lured by dollar signs in 1990 to Enron where he focused on winning government energy management contracts.

In December 1998, under Clinton, the Pentagon issued a directive to shift control of utilities and military bases to private hands.

## **Overseas investments**

Enron made quite hefty investments in foreign politicians as well. According to the Independent (London), Enron funnelled Labour 30,000 (A\$85,000) in two years and won approval from the British (Labour) Government to purchase one of Britain's largest public water utilities.

There are accusations that US Government representatives stood over state companies and governments in Panama, Argentina, Mozambique, South Africa, and India to gain contracts and purchase utilities for Enron.

"Gas giant Enron Corp's plan to develop Mozambique's Pande natural gas field appears to have been saved from cancellation last month by a blunt threat from the US National Security Council to cut off future US aid to the country." (The Oil Daily, 1-12-95)

## **Argentina**

It appears that Enron played a role in Argentina's economic collapse. The daily La Nacion, reports that George W Bush was operating in Argentina as an Enron lobbyist in 1988. At the time his father was US Vice President.

The Bush family had invested heavily in Argentina and cultivated crony ties to Carlos Saul Menem. When Menem became President in 1989, he ran with Enron's push for privatisation and deregulation. Enron was "granted the first power marketer license in Argentina".

Enron and Shell jointly acquired 50 per cent of the transportation assets of the 1655 mile pipeline owned by a nationalised energy company and 50 per cent of the 1438 mile long pipeline that will reach from Bolivia to Brazil. Enron also owns a pipeline in Colombia.

The Associated Press reported on February 6 that "A top level Bush administration delegation unveiled plans yesterday to widen US involvement in Colombia's civil war, including training, arming and providing air support to Colombian troops to protect a pipeline carrying US oil."

### **Spoils of war**

"When Bush senior lost his re-election bid in 1992, Lay scooped up both Baker and Commerce Secretary Robert Mosbacher as Enron 'consultants'; Bush did a Gulf War victory tour of Kuwait in 1993. Baker, Mosbacher and former Lt Gen Thomas Kelly, a Gulf War commander were on the tour to sell Enron contracts to Kuwait", said Mr McDonald. This raises questions about the targets of US bombing, the blatant targeting of utilities and basic infrastructure as seen in Yugoslavia, Afghanistan and Iraq.

In the most recent case of Afghanistan the US Government is offering aid - much of which will fund the rebuilding of utilities, roads, etc, by US corporations.

It also raises questions about how Shell Oil, Bechtel, GE Capital and Enron won lucrative contracts to construct natural gas pipelines and electric generating plants in more than 20 countries including India, Indonesia, Turkey, Poland and Italy.

People's Weekly World reports that Enron has made efforts to secure concessions to develop oil and natural gas in Russia, Azerbaijan and Kazakhstan, "a key element of the current war policy in Afghanistan, where the Pentagon is already deploying permanent military bases". Cheney has done a great deal for US corporations throughout the Caspian Sea region. Along with the heads of Chevron and Texaco,

Cheney sits on Kazakhstan's Oil Advisory Board to the country's President.

### **India, the Philippines**

Frank Wisner Jnr (see list opposite), former US Ambassador to India, played an important role in Enron gaining contracts in India and the Philippines.

The Philippine contract was to manage a power plant in Subic Bay, where the former US military were located.

Wisner raised a few eyebrows when he joined the board of an Enron-controlled company after retiring from the Foreign Service in 1997.

Wisner's father worked for the CIA from 1947 until 1965, and is believed to have been involved in toppling governments in Guatemala, Iran and in Indonesia on secret operations against President Sukarno. Amnesty International and Human Rights Watch have both blamed Enron for police brutality against local people in a fishing village who opposed Enron's development there. Their investigations revealed that the police were directly on the Enron payroll.

### **Corporate take over**

Enron is not the only corporation writing policies and buying governments and state administrations.

Not only does the corporate sector put governments in place but it actually writes the laws of the land and has had removed the many of the mechanisms that might offer some public oversight or protection for the community.

There are many other corporations in the pharmaceutical, tobacco, health insurance, auto, military, food, finance, and other sectors, who no doubt have strong representation in the White House, Congress and on other state bodies.

When Bush guts the Clean Air Act, withdraws from the Kyoto agreement, proposes withdrawing from the Anti-Ballistic Missile Treaty, declares war on people around the world, cuts corporate taxes, deregulates and privatises - each of these actions and policies is on behalf of corporate patrons.

The direct representatives of the corporations now comprise the government and its administration in the US.

Of the top 100 Bush appointees in the present administration, 50 came from for-profit businesses or lobbying firms and law firms with significant lobbying operations.

The massive donations to politicians, political parties, justices, commissioners, etc, are being used not just to win favours, but to put their own men (and a few women) at the helm. That is, direct dictatorship of capital in the form of transnational corporations.

We are moving in that direction in Australia, but it is no where near as advanced as in the USA.

We are supposed to believe that the Bush administration's adoption of policies that could have been written by Enron was just a coincidence. "When I make contributions to a candidate, it is not for some special favour, it's not even for access - although I'll be the first to admit it probably helps access. It is because I'm supporting candidates I strongly believe in personally", Lay told the New York Times.

The reality is, however, that we now see the establishment of the open dictatorship of government by the transnational corporations making a mockery of democratic processes such as elections and parliamentary government.

## **Lessons of deregulation**

"Despite the fact that Enron did not own a single power plant in the state, its control of the venue in which electricity was bought and sold placed Enron in almost total control of California's energy supply", concluded Tyson Slocum in *Blind Faith: How deregulation and Enron's influence over government looted billions from Americans\**.

*Note: Blind Faith is published by Public Citizen, an organisation representing public interests founded by Ralph Nader in 1971.*

Enron was in this powerful position because of deregulation. Deregulation enabled Enron's directors to play fast and loose and also contributed to the company's collapse.

In the USA, the regulation of energy utilities dates back to the 1930s, when the Public Utility Holding Company Act of 1935 was passed in response to the actions of utility holding companies that were seen as a major contributor to the 1929 stock market crash.

Over recent years there has been a considerable drive by the private sector to deregulate the energy industry in the name of "competition policy".

"As Enron took the lead in the deregulation movement, the company showered millions of dollars on state and federal politicians in both parties whose support was critical in forcing open the energy markets". (New York Times, 20-1-02)

Former Presidents Bush Snr and Clinton and the then governor of Texas and the now President George W Bush, have all contributed to the deregulation process.

### ***Speculation***

As Government oversight and controls were lifted, the big corporations such as Enron were left to do as they pleased and the public and other customers were at their mercy. And they showed no mercy.

Enron found it more profitable to specialise in energy trading rather than to generate and sell its own electricity. The company turned electricity into a speculative commodity, exploiting the essential nature of the service and its own monopoly position as a distributor. In the new unregulated environment, Enron was not obliged to disclose prices or the volumes bought and sold. The company and its subsidiaries bought and sold bulk energy, often with each other. They were not accountable.

In the year prior to December 21, 2000 - the date when Enron was permitted to operate its own unregulated auctions - California experienced only one "rolling blackout", creating a Stage 3 emergency.



In the first six months of deregulation up to June 2001, 38 Stage 3 emergencies were declared. Stage 2 emergencies increased 81 per cent and Stage 1 by 21 per cent in the same period.

During the same six months Enron's revenues increased by nearly US\$70 billion over the previous year.

Although Enron did not own power stations it was able to withhold electricity supplies through its energy auctions. It created artificial shortages to force up prices and hence, profits.

"The correlation is clear", wrote Tyson Slocum, "Phil Gramm's commodities deregulation law allowed Enron to control electricity in California, pocket billions in extra revenues and force millions of California residents to go hundreds of hours without electricity and pay outrageous prices." (Blind Faith)

Senator Phil Gramm was on Enron's donor list and his wife was on its board. He blamed the crisis on "environmental extremism and interstate protectionism". His solution lay in "common sense and market freedom"!

Bush's response to the crisis was to call for more deregulation.

## **Re-regulation**

Public and corporate pressure became so great, however, that the federal Energy Regulatory Commission was forced to re-regulate and introduce strict controls on wholesale prices.

Spot prices fell by more than 80 per cent and the "rolling blackouts" came to an end. Enron came crashing down as it held contracts which depended on high prices.

Enron's role was entirely parasitic. It added not one cent of value. Electricity was bought and sold up to five times before reaching the consumer. Each sale was expected to produce a profit.

Consumers were promised that deregulation would bring a 20 percent reduction in electricity prices. It was claimed that "competition" would result in improved services, greater reliability and consumer choice. These myths of deregulation were used to justify Enron's practices.

## ***Realities of deregulation***

So what are the real consequences of deregulation and competition?

**High, volatile prices** - Enron handled one fifth of the electricity and gas sales in the US. Enron and the other energy traders forced up prices by more than 1000 per cent in California. The breakup and contracting out of the different functions into generation, transmission, marketing, connections, installations, repairs, meter reading, infrastructure maintenance, etc, is unnecessary. It creates many layers of profit making, and confusion and frustration for consumers.

**Unreliable services** - The rolling blackouts and artificial shortages experienced by California were a direct consequence of deregulation. This was the “genius” of market forces at work - at work making private profits for Enron and chaos for consumers.

**Job losses** - Deregulation, competition and privatisation involve continuous job cutting and attacks on wages and working conditions. In an honest moment, Enron’s former President Jeffrey Skilling summed it up: “You must cut costs ruthlessly by 50 to 60 percent. Depopulate. Get rid of people. They gum up the works.”

**No obligation to provide universal service** - In Massachusetts, no utility was prepared to serve residential customers. The companies set about “cherry picking” the most profitable markets, refusing to cross subsidise less profitable customers.

This of course, did not stop the utilities in 11 US states that had deregulated from receiving or demanding more than US\$112 billion to bail out failed investments. The corporate sector demands that profits be private but that governments bail them out with public welfare.

- **Health & safety take a back seat:** Self-regulation by corporations results in short cuts and cost savings, usually to the detriment of workers.
- **Environment neglected** - The environment is neglected in cost cutting. It pays (with more sales) to encourage the usage of more

electricity. There is little incentive to conserve energy or develop alternative, renewable sources.

- **Loss of tax revenue** - With little or no accountability, the creation of hundreds of subsidiaries in tax havens and generous government tax rebates, the public purse misses out completely, or as Enron claims, the tax department owes it money.
- **Profits, profits and more profits** - Enron wasn't the only energy corporation to exploit deregulation. Duke Energy doubled its revenues as deregulation set in. Dynegy tripled its net income. All of this while Californians were literally and figuratively left in the dark while paying higher prices.

Electricity, natural gas, telecommunications and water are essential services. They cannot be left to the whims of market forces, to profit gouging companies which have no interest in meeting the needs of the whole community.

The break-up and contracting out of the different functions into generation, transmission, marketing, connections, installations, repairs, meter reading, infrastructure maintenance, etc, is unnecessary. It creates many layers of profit making, and confusion and frustration for consumers.

Electricity or gas travels down a line or a pipe, as the case may be. It is the same product reaching the home or business establishment. There is absolutely no need or logic in having more than one supplier using the same pipes and lines with products that are indistinguishable. One public utility for each service is required. In that way the many layers of profiteering can be removed, service provision can be integrated and prices regulated with cross-subsidisation ensuring universal, quality and reliable service.

### ***Australia going down Enron path***

In the name of "competition policy", Australia is moving in the same disastrous direction as the US.

This is being done with electricity, natural gas, water, postal services, telecommunications, and many other important public services.

Deregulation and privatisation are being phased in by such means as corporatisation, breaking up of utilities into component functions, contracting out, phasing out price caps, ending cross-subsidisation and universality of services and lifting restrictions on foreign ownership.

The NSW Treasury recently declared privatisation of electricity off the agenda. But this deceptive declaration covers up proposals for private electricity traders to have the right to buy and market the electricity generated by the three state-owned generation companies. At present, electricity is distributed by four state-owned distributors. The private traders will be allowed to practice "risk management" and trade in derivatives\*\* as Enron did!

In the case of electricity, the state and federal governments agreed on the establishment of a National Electricity Market with states hooked up to a national electricity grid.

At present electricity in the national market is traded in half hour blocks with a cap of \$5000 a megawatt hour. The ceiling price will be doubled to \$10,000 in April and after January 2003 there will be no cap whatsoever.

In South Australia, where considerable deregulation and privatisation have already occurred, electricity generation was taken over by transnationals including the giant Texas Utilities and Origin Power. The transmission lines were handed over to another private company. Other companies handle the retail side, selling to consumers and delivering the bill. Last winter South Australia experienced 1000 blackouts! Prices rose on extremely volatile markets. The cost to schools, hospitals, charities and providers of aged care rose by 30-100 per cent.

On one occasion local generators abandoned their South Australian customers, blacking out whole suburbs as they chased Victorian clients. In Victoria \$5000 was the going price when a sudden industrial dispute created a shortage.

And while South Australians sat around with candles, Northern Power's weekly income rose from \$278, 564 to \$10, 618, 619. Other generators made similar killings.

When the Victorian Government knocked back a push for an average price rise of 18 per cent for household power and capped price rises

to an average of 4.7 per cent last December, there was an angry reaction from the three city-based private retailers.

AGL, CitiPower and Pulse Energy - the three city retailers - said the price cap would undermine competition. Yet we are supposed to believe that prices would fall with deregulation and competition. The lower price claim is a myth. The aim of removing the cap is to be able to charge higher prices and make larger profits.

There is still time for us to learn from the Californian experience but governments are not listening.

### **Auditors: Watchdogs or partners in crime?**

How can a company's shares be worth over US\$60 billion (almost A\$120 billion) and a year later have lost 99 per cent of their value and - according to some analysts - be still overvalued? Where were the auditors? Where were the regulators?

Enron Corp once touted as on the way to being the biggest corporation in the world, is now the largest bankruptcy case in US history. "Why did all these people look the other way for so long?", asks Allan Sloan writing in Newsweek.

"Money talks or, with Enron, shouts. The company put lots of money in the pockets of the people and institutions that were supposed to police it", says Allan Sloan, answering his own question.

The thousands of Enron employees and other shareholders, including pension funds, had no inkling of what was going on.

Wall Street loved Enron, Fortune magazine heaped accolades on the company and, perhaps most importantly of all, one of the most reputable and experienced accounting firms in the world was said to be keeping a watchful eye on Enron's books.

Enron paid its auditor, Arthur Andersen, US\$52 million a year for auditing and other services.

Surely the shareholders had every right to believe Arthur Andersen's report that "the financial statements referred to ... present fairly, in all material respects, the financial position of Enron Corp. and subsidiaries

... in conformity with accounting principles generally accepted in the United States”? This statement was a flagrant lie.

According to Allan Sloan’s calculations, Enron’s debt was soaring by the late 1990s. “Enron lost about \$2 billion on telecom capacity, \$2 billion in water investments, \$2 billion in a Brazilian utility and \$1 billion on a controversial electricity plant in India”, said Mr Sloan.

“Worse, what a few people knew was that Enron had engaged in billions of dollars of off-balance-sheet deals that would come back to haunt the company if its stock price fell.”

Enron used partnerships and subsidiaries that were “off the books” and unknown to shareholders.

Sloan estimates that the JEDI and Chewco partnerships inflated Enron’s 1997 profits by 75 per cent, and over the next three years, by a total of US\$396 million.

When Deloitte & Touche were called in late last year to examine the books they quickly drew the conclusion that Enron’s profits had been grossly overstated and its debts understated for five years. (See previous three issues of The Guardian.)

### ***Accounting is big business***

In recent years the big accounting firms have undergone a considerable transformation, with mergers and rapid growth. They now provide a much wider range of services to the big corporations.

Apart from standard accounting, auditing and taxation advice, these global businesses advise on mergers, risk management, outsourcing of financial management, corporate restructuring (subsidiaries, offshore activities, partnerships, etc), and new business models.

Arthur Andersen is the smallest of the Big Five accounting firms, with operations in 84 countries. It reported net revenues of US\$9.3 billion in the year to August 2001.

It was the auditor for the failed Australian insurance company HIH and is presently before the courts over its association with the Bond Corporation.

## ***“Independent”***

Arthur Andersen signed off Enron’s books as “Independent Public Accountants”, but Enron paid Arthur Andersen US\$25 million for its “independent auditing” and US\$27 million for other consulting services!

When Arthur Andersen signed off the books, saying Enron’s practices were “in conformity with accounting principles generally accepted in the United States”, they really were in conformity with practices generally accepted in the US.

On average, corporations pay the same auditor similar amounts for non-auditing work as they do for their auditing.

A survey of 67 firms by the Australian Securities and Investments Commission (ASIC) found a similar pattern in Australia.

David S Hilzenrath, staff writer for the Washington Post, said: “fees for non-audit services often eclipse those for audits”.

He cited KPMG which billed electronics manufacturer Motorola US\$3.9 million for auditing and US\$62.3 million for other services. Ernst & Young charged phone company Sprint Corp US\$2.5 million for auditing and US\$63.8 million for other services, and the list continues. Regardless of the individual integrity of those involved, this situation raises a serious conflict of interest.

Where an auditor is providing other services to a company it is auditing, it can hardly be said to be independent and it is less likely to be critical or do anything that might embarrass management.

Companies may hire or fire an auditor. Consequently, with future career prospects and income hanging in the balance, there is little incentive for an auditor to publicly expose improper behaviour or “creative” bookkeeping being used by the company they are auditing. The accounting firms even speak in terms of auditing as an “entre” to companies to acquire more profitable business with them. Enron, HIH and a number of the other collapsed companies have brought into prominence the practice of corporations employing people who had previously audited their books.

This is similar to government officials and ministers taking jobs in the corporations affected by the policies they administered. Former

Defence Minister, Peter Reith's employment as a consultant to firms supplying equipment to the navy is an immediate example. To paraphrase a well known proverb: Whose books I audit, their numbers I sing.

### ***Leaving it to ethics***

The question of whether auditors should provide other advisory or consultancy services for the companies they are auditing is pretty straight forward to most people, especially shareholders and workers. But apparently not in the accounting industry.

The Financial Review (17-1-02) quotes the chief executive of the Institute of Chartered Accountants (Australia), Stephen Harrison, as saying there was no reason to ban auditors selling consulting services to their audit clients.

"Clients are addressed through professional ethical requirements and by ... company audit committees", said Harrison.

The leading US group representing accountants, the American Institute of Certified Public Accountants (AICPA) suggests that the auditor should think of himself as a "business adviser" and promote his accounting firm's consulting services because "intense competition has reduced the audit to a mere commodity that is distinguishable to the consumer only according to price."

At present the Australian Government is considering a report (the Ramsey Report) on these very questions. Enron has added a little bite to the debate which the collapse of HIH had already fuelled.

### ***Cozy relationship***

Arthur Andersen presents itself as "creating value" for its customers. "Our mission is to build relationships and develop innovative solutions which help dynamic people and organizations create and realize value."

In response to a question about developing her relationship with the CEO of a client, Arthur Andersen's Peggy Smyth said, "A good client relationship is like a marriage - in order to thrive you must have trust



and mutual respect for one another.” Trust the statements and practices of the company you are auditing? The Washington Post staff writer David Hilzenrath tells the story of a Samuel Greenspan who was retained by carpet cleaning ZZZ Best Corp to audit its financial statements.

Greenspan relied on a report by a prior auditor named Richard Evans which ZZZ Best’s management gave him.

“Had Greenspan checked, he would have discovered that Evans didn’t exist, the Securities Exchange Commission (SEC) said. Had he bothered to inspect the eight-story building described in the company’s second-largest contract, he would have learned that it didn’t exist either.

“Greenspan never visited any of ZZZ Best’s 15 purported job sites, the agency alleged when it permanently barred him from auditing public companies in 1991.”

“I wasn’t hired to detect fraud”, Greenspan said in an interview. “I was hired to do an audit.” Greenspan added that he was investigated by AICPA and was “exonerated completely”. The chairman of the US Securities Exchange Commission (SEC) Arthur Levitt Jr appointed by the Clinton administration, raised the alarm over outside auditors joining corporate executives “in a game of winks and nods”, and made accounting manipulations a prime target of SEC enforcement.

Levitt tried to prohibit accounting firms being consultants to the companies they audit. Three of the Big Five and AICPA strongly opposed his moves. In the end he settled for a requirement that corporations disclose how much they pay accounting firms for auditing and other services.

On the ABC’s Background Briefing in May 2000, Mr Levitt said that the whole process of auditing financial information in modern companies has been corrupted by getting too big and diverse. “Can the audit engagement partner truly be perceived as discharging his public duties while trying to sell his audit clients legal advice or consulting services”, exclaimed Mr Levitt.

But President Bush came to the rescue of the corporations and the accounting industry by replacing Levitt with Harvey Pitt, a securities lawyer who has represented each of the Big Five and AICPA, including in battles against the Securities Exchange Commission.

Pitt promised the industry “a new era of respect and cooperation”.

## **Internal auditors**

It is common practice in big corporations for the board to appoint an internal audit committee.

Again there are questions of independence. The Investment and Financial Services Association, representing the largest institutional investors in Australia, has a Blue Book of guidelines which are generally accepted as industry standards.

It recommends that company audit committees should be composed of a majority of independent directors (i.e. not paid executives of the company) - a recommendation that is often ignored.

In the case of the collapsed Harris Scarfe, the three-man committee was made up of the Executive chairman of the company, its Secretary and Chief Financial Officer and a former partner of Price Waterhouse Coopers.

“An audit committee has a responsibility to ensure the independence of the auditors, and to have ex-partners sitting on the audit committee and being in a position of a cosy relationship with their old friends seems to me to be a very unusual and not a recommended practice at all”, said Henry Bosch, head of corporate regulation in the 1980s, when interviewed by Four Corners (13-5-2001).

There are no laws against such practices - only voluntary industry standards and guidelines. Nor is it illegal to donate bags full of money to the regulators, politicians and, even to judicial candidates in the US.

Excuses are trotted out: “Everybody does it”, “It wasn’t illegal”, “We used standard accounting practices” and so on. These statements are mere cover-ups for the incestuous, immoral and corrupt behaviour, the fraud and other criminal activities that have to some extent been brought out into the open by the Enron and other bankruptcies.

Worrying about the system, Levitt recently said that the greatest threat to capitalism isn’t the anti-globalisation protestors but the loss of faith in the system created by the Big Five audit firms and the way they do the books for American companies.

## **Restoring confidence**

Such fears have prompted calls for measures to restore confidence in the auditing industry.

For a system already in serious economic crisis, the last thing they want is a stockmarket collapse, which could well be on the cards if too many investors, particularly pension and superannuation funds, turn elsewhere.

Since the Enron bankruptcy filing, Deloitte & Touche, Ernst & Young, KPMG, Price Waterhouse Coopers, and Arthur Andersen (the Big Five) have been frantically trying to restore public confidence in their firms.

But their calls are for a mere cosmetic tinkering to give investors the illusion that there are changes. They steadfastly refuse to accept re-regulation or public accountability of their activities.

None of the changes proposed so far will end the corruption, the fraud, the loss of jobs, workers' entitlements and savings and the catastrophe that has overtaken many small shareholders. Nor will they change the characteristics of the capitalist system.

Enron was touted as the showcase of capitalism and there are many more like it on the brink of exposure and collapse.

How far they are forced to make changes will depend on the success of campaigns mounted by shareholder organisations, superannuation and other retirement funds, trade unions and the smaller businesses that are also put at risk.

Globalisation and the growth of monopolies such as the Big Five accounting firms that share global domination, mean that when the crashes do occur the losses are far more serious and far-reaching in their impact. Many will get burnt.

## **Ripped off at work and in retirement**

“It's unconscionable that hard-working, dedicated workers were forced to sacrifice their life savings to prop up a failing company”, said Edwin Hill, President of the International Brotherhood of Electrical Workers

(IBEW), testifying before the Senate Commerce, Science and Transportation Committee in December 2001. “Those who ran the company into the ground certainly aren’t wiped out financially - just the workers who made their success possible.”

“Little did those of us working hard every day to make the company successful know what was going on at the top of Enron”, Bob Vigil, an electrical machinist working foreman, told the Senate Committee. “We trusted management’s glowing reports of strong financial growth and opportunity. Then in October 2001, Enron’s house of mirrors came crashing down.”

Bob is one of almost 1000 members of IBEW Local 125 who worked at Portland General Electric (PGE) in Oregon, which was taken over by Enron in 1997. He worked there for 23 years. The shares in his retirement savings account automatically converted to Enron stock at the time of the takeover. Now they are almost worthless.

### ***Tragic losses***

Bob Vigil gave examples of some of the devastating losses suffered by other PGE workers:

Tim Ramsey, age 55, 33 years with PGE, lost US\$995,000;

Roy Rinard, age 53, 22 years with PGE, lost US\$472,000;

Al Kaseweter, age 43, 21 years with PGE, lost US\$300,000 plus ...

“There was a time not so long ago when we all thought [Enron CEO] Ken Lay was just the most wonderful person in the world”, said Shane Yelverton “but now we’re hearing all this stuff: that he was selling off stock, even while he was telling us not to sell our stock. It’s disgusting.”

Charles Prestwood, who retired in October 2000 with US\$1.3million worth of shares in his Section 401(k) retirement fund is more than disgusted.

“All those dreams are gone now”, Mr Prestwood said. “I’ve lost everything I had. I’m just barely surviving.” When Enron shares were in free fall, all employee shares in Enron’s retirement schemes were frozen while Lay and the other executives sold their shares as fast as

they could. Lay even encouraged workers to buy more shares while selling his.

The executives cleared out on their golden parachutes raking in US\$1.1 billion in a matter of weeks. When the freeze on workers' shares was lifted, the biscuit barrel was bare and Enron and Arthur Andersen's shredders were working overtime.

The 11,000 employees lost more than a billion dollars and are suing the corporation to try to freeze the US\$1.1 billion - if it has not already been stowed away in secret bank accounts in the Hayman Islands.

Shareholders have joined in a class action, accusing Enron of perpetrating "one of the most serious securities frauds in history".

While the regulators, politicians, state officials, banks, accountants and courts were looking after the executives of Enron, nobody in officialdom was looking after Enron workers.

### ***Enron workers not alone***

Many US corporations are implementing Enron's practices, forcing employees to put their retirement funds into their employer's stocks and shares. For example, over 75 per cent of the retirement fund for workers at Texas Instruments is in company shares.

At Proctor & Gamble as much as 95 per cent are in company stock.

At Pfizer it is 74 per cent, at McDonald's more than 74 per cent. "On average, 43 percent of the savings in retirement plans run by the nation's largest employers are comprised of their own stock..." (The New York Times, 17-1-02)

### ***"People's capitalism"***

The spread of share ownership serves a number of economic and ideological purposes.

Firstly, it means that workers give back to the company much of their hard earned wages with no guarantee that the bits of paper they receive in return will be worth a cent when they retire or wish to withdraw savings.

It provides the capitalist class with an additional pool of capital to invest, thief and gamble with - someone else's savings at no risk for the managers in control.

It has the aim of tying workers to their employer and denying the existence of two contending classes - labour and capital. "Work hard, don't go on strike; don't demand wage rises or shorter hours; we have common interests in seeing the company does well."

It is presented as a "win - win" situation. The reality, as Enron and others show, it is a "win - lose" system, with the winner being the big shareholders, auditors and others in control of the corporation's affairs.

### ***Lessons of privatization***

Tim Wheeler, writing in People's Weekly World reports that 31 state and local pension funds lost a combined US\$1.5 billion in the collapse of Enron.

The Florida state pension fund lost US\$335 million when its 7.6 million Enron shares plunged from US\$80 to 28 cents per share. The Florida system, covering public sector workers, is managed by 60 private "money managers".

An Enron director was on the executive of one of these "managers". He allegedly convinced the Florida pension fund managers to pour millions into Enron, including US\$7 million when Enron was losing millions and the Securities Commission was carrying out an investigation into Enron.

The shares were only sold when the share price had plummeted to 28 cents - two days before Enron filed for a Section 11 bankruptcy. Tony Hill, a former Jacksonville longshoreman who served two terms on the Florida legislature spoke to People's Weekly World about governor Jeb Bush's (brother to the President) plans to completely privatise the Florida's state pension system.

"If you think this Enron collapse is a scandal, consider what will happen if Jeb Bush succeeds in turning over the \$110 billion in our state pension fund to the greedy folks on Wall Street", warned Tony Hill.

“Already we are moving from a defined benefit pension system to a defined contribution system. That means the benefits will go down when the stock market goes down.”

“We are allowing people to opt out of the defined benefit plan and take their money somewhere else, trusting companies like Enron to guard our retirement money.”

### ***In Australia***

In Australia, there has been a rapid growth of workers' retirement savings in the form of industry funds (workers' superannuation) and a shift in the type of scheme from defined benefit (where a predetermined pension is paid) to a lump sum which depends on the performance of the fund.

In the 1980s, the Hawke/Keating Labor Government legislated for compulsory occupational superannuation. Up to that point workers had paid taxes during their working life and on retirement could expect to receive a government aged pension of a specific amount.

Compulsory superannuation was extended to most workers. Previously, superannuation was mainly confined to public sector and professional employees.

The commitment to a universal aged pension was dropped, stricter means and asset testing were introduced and workers with superannuation cover were encouraged to switch from the defined benefit schemes to ones where a lump sum is paid on retirement from superannuation funds. The proportion of the workforce belonging to a superannuation fund rose from 51 per cent in 1988 to 81 per cent by November 1995.

The plug is gradually being pulled on the public pension scheme. Bit by bit more retirees are disqualified. At best, it will become a minimal “safety net” for those who were on extremely low wages, were only in the workforce for short periods or whose superannuation scheme went bust or the employer failed to make the compulsory contributions.

## ***Shifting the risk***

Superannuation funds have provided financial institutions with a new, ever increasing, source of funds to manage and, at the same time, to increase their control over the economy as they decide what will be invested and where.

At present there are restrictions on workers' superannuation being invested in company shares but Australian employers would like to move closer to the US system, where companies can hoe into their employees' retirement savings.

The shift in focus to self-provision by individuals undermines the collective philosophy underlying a universal pension provided by the state. The state withdraws from its responsibilities to protect the well being of the people. It is a process that is also under way in health, education and social security.

The Financial System Inquiry (FSI) produced a discussion document (November 1996) on the results of financial deregulation in Australia.

***It stated that one of the implications “of the trend away from***

[bank] deposits towards managed funds is that customers are increasingly taking on risk in financial transactions.

With a state pension the risks are shared by society - the government is in effect guarantor and can draw on its huge resources as well as regular payments [taxation] by workers.

With an old fashioned bank account, a deposit was made, a set interest rate paid and the full deposit was repayable. The bank took responsibility, regardless of how well it invested the deposit.

Private superannuation and the many other investment schemes now being promoted shift the risk onto the investor. There are no guarantees. The big banks and financial institutions take no responsibility. It is the investor's capital which is at the mercy of “market forces”. The investor risks all and could lose all as did Enron shareholders.



The final FSI report (Wallis Report, March 1997) points out that “Since the value of market linked investments can rise and fall, households are directly bearing a greater proportion of market risk”.

At the same time, the privatisation of the Commonwealth and State banks and insurance offices has resulted in the loss of any government guarantee of funds.

The investor is supposed to weigh up the pros and cons of investment schemes and the potential to make (or lose) big bucks or smaller bucks. It is one big gamble were investments are controlled by the big financial institutions, accountants, law firms and corporations.

Some Australian workers have already had a taste of the same capitalist depravity as has overtaken Enron workers. The bankruptcies of Ansett, HIH and FAI have all been associated with the non-payment of workers’ entitlements. Inevitably, more will occur as capitalist economic crisis intensifies.

### **Time to wrest control from the corporate sector**

Enron, not so long ago a shining star of the “New Economy”, a market force in its own right, is now the subject of 15 or more Congressional and other inquiries. This model capitalist corporation, audited by one of the most reputable global accounting firms, turned out to be trading in virtual electricity, making virtual profits and hiding its debts through the use of secret off-the-books deals. The shockwaves continue to reverberate as the perpetrators and their accomplices duck for cover, and the victims attempt to come to terms with their shattered lives.

A study of Enron is a study of capitalism at the beginning of the 21<sup>st</sup> century. When Enron went down, some shrugged their shoulders:

“Companies come and go”, said US Treasury Secretary Paul O’Neill, “That is part of the genius of capitalism.”

Companies do come and go. Last year HIH, Harris Scarfe, One.Tel, Bradmill, Pasmenco, Agro Holdings, Diamond Press, Traveland, Karl Suleman Enterprises went, to name just a few Australian examples. And there was Ansett, which suffered a slow and agonising (for its employees and passengers) death.

Most of these bankruptcies involved such practices as “accounting function irregularities”, “over-estimated assets and under-estimated liabilities”, “aggressive accounting methods” and “channelling of funds offshore”. Most people would call it theft and fraud. “The genius of capitalism” behind these collapses were rewarded with huge payouts. The workers, on the other hand, were left high and dry and in the case of Enron, denied an opportunity to sell their shares.

### ***Corporate takeover***

Enron bought hundreds of politicians and decision makers, was involved in the drafting of the very deregulatory policies that enabled it to gain monopoly control of electricity markets and self-regulate its own activities. Enron bought accountants and lawyers, while state “watchdogs” turned a blind eye.

It was rewarded with control of one of the most important essential services - electricity.

Internationally US Government officials did Enron’s bidding, pressuring other governments to give Enron contracts.

Some say that Enron put Bush in office. Enron, along with the dominant corporations in other key sectors of the economy, are the effective government of the US.

### ***Much of it legal***

“...for all of the potential criminal violations, much of the misbehavior connected to the biggest bankruptcy in the history of the world was perfectly legal”, says Jonathan Alter, writing in Newsweek(18/1/02). “As for the politicians, accountants and regulators, most of what they did will likely turn out to be disturbing, even disgusting - but all-too-legal.”

The greed, fraud, bribery, corruption, deceit, parasitism, speculation, theft of workers’ entitlements, insider trading, tax avoidance, job losses, cosy relationships with accountants and governments, and the many other “disgusting” features of the Enron collapse are just business as usual for capitalism.

## ***Worried about their image***

The main question facing big corporations and governments is how to smooth it all over without too much fallout (e.g. re-regulation, government intervention) or destabilisation of the capitalist system.

Neither big capital nor the accounting industry is interested in fundamental change to address the causes of the problem. They are the problem. They seek a way out involving minimal change - just enough to restore public (particularly shareholder) confidence.

If the “the mums and dads” and superannuation funds lose confidence and turn to other more secure (e.g. real estate and bank deposits) forms of investment, it could bring stockmarkets crashing down. The accounting industry, in particular, is in crisis. “Through the incompetent and probably corrupt audit of Enron, the appalling Joe Berardino, head of Andersen, has destroyed not just billions of his partners’ wealth but also the standing of accountants everywhere”, writes columnist Alan Kohler in the Australian Financial Review (23-24/3/02).

Kohler quotes Michel Lafferty, former journalist for the Financial Times, who is organising a major world accounting round-table in London to consider the crisis.

“This crisis affects the personal balance sheet of every accountant and accounting firm in the world today.... it is a wake-up call - because there are more Enrons out there, some possibly of national dimensions.”

Kohler goes on to point out that it is not just a crisis for accountants. He links it to the foundations of capitalism.

Enron is not some isolated incident. As one attorney from Enron’s law firm Vinson & Elkin rhetorically asked, “Do you think it’s any different from anything going on in L A or in Reagan’s crowd.

## ***Or in Clinton’s crowd?”***

Various shareholders, trade unions, politicians and community groups are calling for reforms to protect investors from more Enrons.

The reforms being debated focus on accounting practices and auditing standards; regulation of essential services; the electoral system and campaign donations; protection of workers' entitlements; retirement schemes; job security; tax havens; off-shore investments and banking; public accountability of executives and corporations; relations between government, corporations, law firms and accountants; protection of whistleblowers; and the high risk, speculative activities of corporations. Many of these issues are being debated in Australia as well as the US, particularly in the light of the HIH crash, which saw one of Australia's largest general insurers suddenly go to the wall.

### ***Regulation and public ownership***

Capitalism faced a similar crisis during the years of the Great Depression of the 1930s. Millions were unemployed. Poverty stalked the capitalist world, including in Australia. The idea of socialism spread rapidly. Communist Parties grew in membership.

The answer of the capitalists at that time was found in Keynesian economic theories which called for a tightening of the reins on the free marketeers. Industries and financial institutions were regulated and some were nationalised. Government intervention was seen as necessary if capitalism was to be saved and future crises prevented.

Keynesian economic theories did save capitalism. The depression slowly passed. Capitalism was also given a new lease of life with the Second World War and the huge military expenditure injected into the system at that time.

Monopolies grew in size and power. Monopolies became transnational corporations and with the breakup of the Soviet Union they were emboldened to launch a great offensive not only against the working people of all countries but also against every vestige of public ownership and the welfare services which had been won in the 40 years following WW2.

### ***What is to be done now?***

If the attempts to "reform" some of the most disgusting aspects of fraud and manipulation and some re-regulation takes place without

challenging the power of the corporations, that is the private enterprise system, nothing much will have changed. History will merely repeat itself at some future date.

We have to think in terms of a new type of government that will start to wrest control from the corporate sector and to democratise the provision of essential public services and key industries, and make them publicly accountable.

This can only be done by extending public ownership to at least the key industries and enterprises in the economy. The whole rationale for the existence of enterprises has to be turned around from one of making profits to meeting the needs of society.

Such a change would enable universal access at uniform prices to be restored to all essential consumer needs.

The motive for continually attacking workers' wages and working conditions would also cease and advances could be made in reducing working hours and creating job security.

Health care, the housing needs of the people, environment protection, the public education system could all be given the necessary priority. The private enterprise system only gives these needs attention to the extent that they serve the interests of the big corporations.

#### Protecting workers' entitlements

Central funds such as ManuSafe for the investment of workers' entitlements and industry superannuation funds offer more protection than hoping for something to be left in the till when a company goes bust and the boss has siphoned the lot off.

A government funded pension scheme is a much more secure system than the present superannuation scheme. As workers in the US have found, funds invested in capitalist enterprises will always be insecure. It's a gamble.

Super funds invested in various companies depend on the survival of those companies and the present spate of bankruptcies is a warning of danger ahead. Those receiving the government-funded pension do not have such worries.

Likewise employee share ownership schemes are extremely risky, and if a company goes under the worker is hit by a double whammy - no job and savings down the gurgler.

### ***Who controls?***

The central issue is who controls the economy and for what purposes. The aim of a capitalist corporation is to make bigger and bigger profits, to accumulate more and more wealth, provide larger and larger capital gains and dividends for shareholders.

Public ownership on the other hand provides the opportunity to run such enterprises with a view to the service that they provide for the community. That does not mean that they be run inefficiently with no responsibility to balance the books. The fact is that public enterprises in Australia have, in the main, been efficiently run and their profits have assisted to swell government revenues.

Furthermore, public ownership is more democratic in that ownership is vested in the community not in a few large shareholders or even one individual, or by a board of directors in another country. Publicly owned enterprises in Australia and government departments were pacesetters in the provision of the best wages and conditions and employment security for workers.

There are many other reforms that the Enron collapse (as well as the bankruptcies in Australia) make essential.

The new type of government suggested calls for a new type of political representative. The Howards, Costellos, Beazleys and Creans have proved to be failures in recent years because they are wedded to the big corporations rather than the interests of the people.

It is left and progressives representatives who have proven their commitment to different policies and have fought hard as members of trade unions, community organisations and as members of left and progressive political parties for the real interests of the majority of the people.

A start has to be made in this direction and the establishment of a new type of government would be a big step towards changing the direction

of economic, political, social and environmental policies in the interests of the majority of the people of Australia.



## In Enron's bag

Enron not only funded politicians but recruited heavily to its ranks former government officials, accountants and legal people building a strong network of contacts and influence and no doubt gaining useful insider information. The following are a few examples of business and political figures who were employed by Enron, owned Enron shares or received Enron funds.

**George W Bush**, President of the USA.

**Dick Cheney**, Vice President of the USA.

**Lawrence B Lindsey**, economic adviser to US President.

**Donald H Rumsfeld**, US Defence Secretary, former ambassador to NATO.

**James A Baker**, former Secretary of State. Enron reportedly paid him more than US\$2 million in “consulting expenses” last year.

**Frank Wisner Jr**, a former Pentagon official. An Enron deal maker, played an important role in Enron gaining contracts in India and the Philippines.

**Attorney General John Ashcroft**. The Department of Justice is carrying out a criminal investigation into Enron. Ashcroft and his chief of staff have had to remove themselves from any involvement in the official investigation because of their links with Enron.

**Michael T Shelby**, US attorney for southern Texas. The entire US Attorney's Office in Houston has also been removed from the case because of personal ties to current or former employees of Enron.

**Thomas E White**, now Secretary of the Army, was an executive with Enron for 11 years. Held US\$50 million in Enron shares, sold most of them before the collapse. White was hired to bring business and

other expertise to the military. He is a retired brigadier general and decorated Vietnam veteran (23 years of military service) and Cold War warrior.

**Karl Rove**, Chief of Staff and Bush's top adviser. Rove owned a block of Enron stock once worth US\$250,000.

**Robert Zoellick**, Bush's Trade Representative, also on Enron's payroll in an "advisory capacity".

**Marc Racicot**, Republic National Committee chairman, former Montana Governor and Enron lobbyist.

**Lee Rosenthal**, Federal judge, has removed herself from all Enron lawsuits, apparently just three days after denying a motion to freeze assets held by Enron executives and board members.

**Senator Phil Gramm**, one of the biggest recipients of Enron campaign donations. Wasn't sure whether he should drop out of congressional investigations into Enron.

**Dr Wendy Gramm**, Senator Gramm's wife, chair of the federal Commodity Futures Trading Commission from 1988-1993. Played a major role in exempting the trading of energy products from government oversight greatly benefiting Enron. Then left the Commission and joined the board of Enron and its audit committee.

**Jeffrey K Skilling**, Enron director, former director of the Houston Branch of the Federal Reserve Bank of Dallas.

**Lord John Wakeham**, Enron director since 1994, former UK Secretary of State for Energy and Leader of the Houses of Commons and Lords.

**Herbert S Winokur**, Enron director since 1985, chairman and chief executive officer of Capricorn Holdings Inc. Former board member of the Harvard Endowment Fund, chairman from 1988 to 1997 of DynCorp. DynCorp is one of the lead contractors for the new phony war on Drugs in South America called "Plan Colombia" — a plan which swells the coffers of the companies involved at the same time as fighting political wars and capturing resources for US corporations like Enron.

**Billy Tauzin**, Republican Representative, chair of House Energy and Commerce Committee inquiry focusing on Enron and Arthur Andersen. Received campaign money from Enron and Arthur Andersen.

**Richard A Causey**, Enron Board member former senior manager with Arthur Andersen in Houston, where he had primary responsibility for the Enron engagement.

**And so the list continues ... on and on.**