

Casino Capitalism

Enron was the seventh largest American transnational corporation--hailed seven years in a row by Fortune Magazine as the U.S.'s most innovative firm. The neo-liberal deregulatory wave of the 1990s allowed Enron to transform itself from a sleepy Southwest gas pipeline into a trader of anything and producer of nothing. Its collapse derives as much from the follies of government deregulation as it does from the corrupt practices of Enron's maligned executives. For Enron is a manifestation of the "casino capitalism" of the late 20th century in which short-term profit and financial speculation displaced real material production as the main goal of many transnational enterprises.

The Enron scandal is framed by the mainstream media first as a business scandal and then as a story of political insider trading, of Bush's Texas buddies using political connections to garner (de)-regulatory breaks and manipulate energy prices. Political corruption is a part of the story; the scandal is certainly responsible for the passage of the McCain-Feingold Bill.

But beneath the ideological cover of "corruption and influence-buying" lies the starker reality of Enron's demise as a product of the triumph of the deregulators. The media has trumpeted deregulation and social welfare cutbacks as the prelude to "mean and lean" 21st century capitalism that will benefit us all. The dirty little secret, however, is that deregulation leads to speculative bubbles and bursts which undermine the economic security of poor and middle income people.

While the mainstream media calls for common-sense reforms such as banning financial auditors from selling "management services" to the very firms whose accounting practices they vet, the media has yet to criticize deregulation. Nor will CNBC analysts tell you that privatization and public sector cuts are part of a deregulatory strategy that aims to eliminate government

regulation of labor markets. According to free market ideologues, a democratic government should not enforce health and safety rules or defend the right of labor to organize, as a race to the bottom benefits all by making industry globally competitive.

Enron employees learned a painful lesson from the decimation of their private pensions, largely invested in Enron stock. Absent strong social insurance - such as high-value, defined-benefit public pensions and universal health care - the risks of the "entrepreneurial economy" are not placed upon the backs of the "risk-taking entrepreneurs," but upon those of their employees

Free market ideology claims that risk-takers should receive great rewards if their risks pay off. What gets lost in this justification of short-term greed is the other side of the coin: risk-takers should also pay the costs if their risks fail. But as those brave managers at Long Term Capital Investment (LTC) learned in spring 1998, when a major finance firm fails, the federal government will come to the rescue. In LTC's case, the Federal Reserve arranged for \$8 billion of emergency bank financing.

Enron's unregulated "private derivatives markets" emerged from the deregulatory madness of the 1990s. In 1993 Enron persuaded the SEC to grant it an exemption from the Public Utility Holding Company Act, a Depression-era law that forbid utilities from investing in unrelated risky businesses.

In 1997 the SEC granted Enron a further exemption from the Investment Company Act of 1940, which prevented United States-based firms from leaving debt from foreign power plants off their books.

This second deregulatory move approved by the Clinton administration's SEC allowed Enron to create its own Achilles heel - the offshore Star Wars companies—named Chewco, Jedi, Raptor, Braveheart, etc. These extremely leveraged off-shore companies financed risky

foreign energy purchases, like the Indian power plant lobbied for by now Vice-President Dick Cheney, with huge investor loans, collateralized by Enron stock! Once these foreign investments went bad, Enron's stock became increasingly diluted and its price plunged the company toward bankruptcy.

In the "private derivative" markets administered by Enron, speculators could bet, frequently on future price trends in telecommunications, "band-width," and energy. Absent SEC regulation, investors could increase their risk by buying on margin. On Enron's "internet" markets one could even hedge against the weather. In an irony of ironies, Enron set up a private fund for hedging against possible bankruptcy. We may yet discover that some Enron executives made a killing by betting that their own company would go under!

When Enron's bubble burst, large pension funds, including those of state employees in California and New York, lost billions of dollars. Such a massive loss occurred in part because of the abolition an important piece of regulatory legislation, the Glass-Steagall Act, in 1999. Glass-Steagall had previously prevented finance banks (which raise capital for corporations) from owning brokerage firms and commercial banks (which lend money to corporate firms).

The new rules meant that J.P. Morgan, Citicorp and Bank of America not only underwrote bonds for Enron, but also traded derivatives contracts with the company and bought stock in the firm. These massive conglomerate banks also used their financial analysts and brokerage firms to peddle Enron's stock to the public and private pension funds these finance banks advise. Their "objective" advice cost their clients and themselves dearly; lured by massive investment banking fees, J.P. Morgan, for example, was left holding the bag on \$2.6 billion in Enron debt. This result is exactly what Glass-Steagall's banning of the "one stop shopping" of joint commercial-finance banks aimed to prevent.

Enron is the epitome of the speculative, "free market" mania that advocates deregulation and gutting of the public sector in favor of a never-ending quest for short-term profits. The other side of speculative profit is speculative bust, the costs of which casino capitalism places on small investors and workers rather than on

corporate executives rescued by government bailouts and "golden parachutes."

The American public has been fooled once by Reaganomics. Can it be fooled again by a Bush administration that trumpets the Enron collapse as the healthy creative destruction of capitalist competition?

While Bush fiddles in regards to regulatory reform, the administration's budget replays Reagaonomics' perverse military Keynesianism - deficit-financing of a massive military build-up and upwardly redistributive tax-giveaways. This summer will witness another round in the fight against the gutting of the democratic public sector and basic income support.

A corporate-dominated mass media that worships at the altar of laissez-faire ideology will not protest. Progressive social movements will have to labor long and hard to make sure the American public does not get fooled again.

The Enron collapse is not a footnote amidst a healthy global capitalism; rather, it is a direct product of the global neo-liberal madness that promotes the destructive power of markets with out any regulatory mechanisms to protect ordinary people from the consequences of policies that count them as valueless.

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