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LaRouche Campaign Defeated Enron, To Win Re-Regulation

by John Hoefle

With the deflationary collapse of energy-gambling giant Enron Corp., battle lines are clearly drawn between continued energy and industry deregulation, and economic recovery of the United States.

On the sane side are the forces led by Lyndon LaRouche, who has been proven right in his policy statements against the disaster of deregulation, while on the insane side are the deregulation addicts, still including leading Democrats, who blindly insist that we must jump off the deregulation cliff, rather than merely careen down its slippery slope.

LaRouche's mobilization for a national solution to the "California crisis"—organized around his Presidential campaign pamphlet issued in February 2001—set off the national policy-impulse toward *re-regulation* which led to the current collapse of Enron (see "The LaRouche Factor In Enron's Demise," *EIR,* Dec. 7, 2001).

So the sinking of the pirate-ship Enron punctuates an obvious point, if the economy is not to drown completely. LaRouche's recovery policies, and his leadership as a whole, should now be backed, by those other leading figures who've been clearly deluded or misled about the causes of the economic collapse, including deregulation.

Yet, Senate Majority Leader Tom Daschle (D-S.D.) and Senate Energy and Natural Resources Committee Chairman Jeff Bingaman (D-N.M.) are at this moment pushing Federal legislation for *further energy deregulation*. Senator Daschle in particular will be of worse than no use to a U.S. economic recovery, until he publicly acknowledges his mistakes—as Rep. Maxine Waters (D-Calif.) has done—in opposing LaRouche's fight for the general welfare in both public health and industrial policy.

Enron was a creature of the global casino, which applied the techniques of the derivatives markets to the electricity and natural gas markets. Enron's rapid rise was made possible by the "Wall of Money" that the Federal Reserve and its partners in crime have pumped into the global system since the cardiac arrest which seized that system in Autumn 1998, in the wake of the Russian GKO default and the collapse of the Long-Term Capital Management (LTCM) hedge fund. Similarly, Enron's fall can be attributed to the failure of that "Wall of Money" policy, which hyperinflated monetary aggregates while sharp deflation hit the financial assets supposed to be rescued by that wall of money.

'New Economy' Model Went Down With The Bubble

During its meteoric rise, Enron was touted as the model of the new-economy energy business, a money machine which would eliminate the inefficiencies of the old-fashioned utilities and bring the benefits of low energy costs to all Americans. As it turned out, LaRouche was right that none of those promises were true. Not only was deregulation the fast track to disaster, with the California debacle vividly exposing the dangers of allowing unbridled greed to set energy prices; but even Enron's glowing success was a fraud. Enron was not a solid company which failed because it played too many accounting games; it was a house of cards whose accounting tricks gave it the appearance of success. As such, it is not an anomaly, but a classic bubble baby. Enron's deflationary death spiral is not an exception; it is merely an example in the small, of the process which is under way in the global financial system as a whole.

As LaRouche wryly noted on Dec. 6, after Enron's bankruptcy, "Respecting the last phase, during which the Erinnyes descended, as if to rend Enron into shrivelled shreds, that is typical of the way in which the other buzzards react to signs

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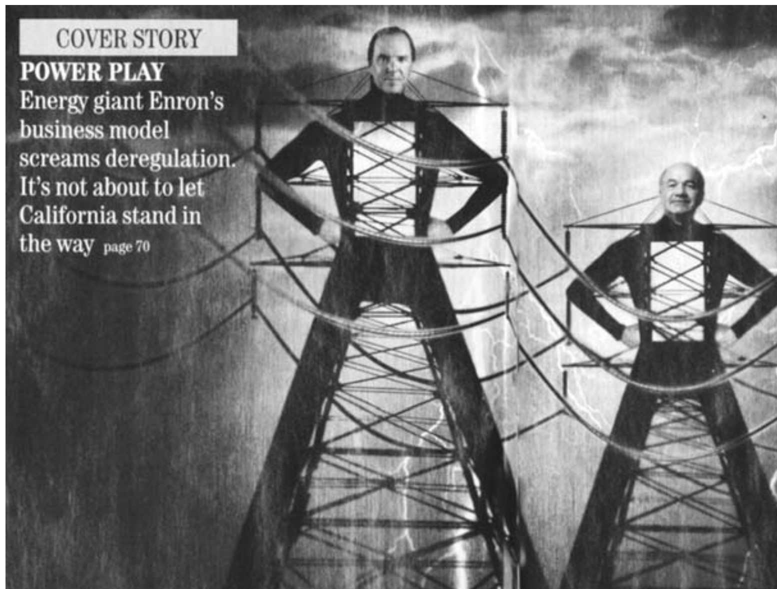
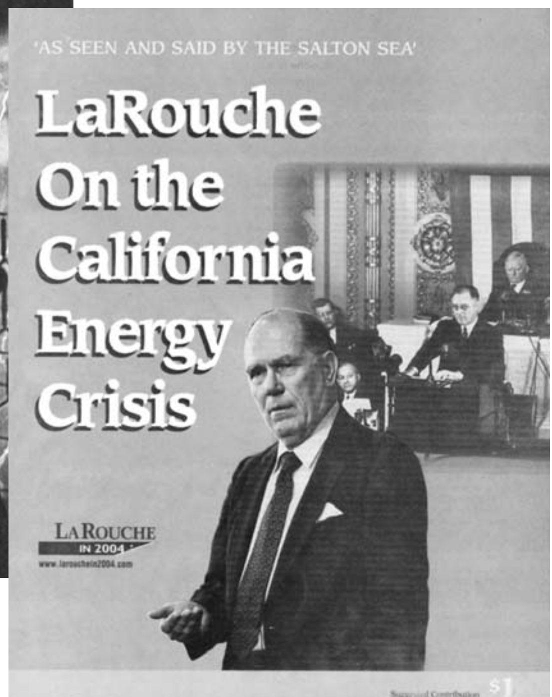




BusinessWeek*'s Feb. 12, 2001 cover story made Enron's purpose clear; Lyndon LaRouche had just launched a national campaign to defeat that purpose, and set in motion the chain-reaction that led to Enron's current collapse. This campaign pamphlet was central to LaRouche's mobilization.*

of morbidity in one of their own."

LaRouche and *EIR* have been virtually alone in warning that electricity deregulation is a scam, designed to allow the financial oligarchy to inflate an asset bubble on the income stream from consumer electrical bills. To do this, they had to find a way to insert financial middlemen between the producers of electricity and the consumers of that electricity. Since regulated electric utilities both generate and distribute their own electricity, and bill their customers directly, the oligarchs had to break up the utilities and impose the casino model. They sought to replace the stability of long-term fuel contracts and pricing based on cost-of-production-plus-profit pricing, with a highly manipulable spot-market model, in which electricity could be bought where it was cheapest, and sold where it was the most expensive, at whatever price the market would bear.

The spin-doctors wrapped a sugary coating around their poison pill, one tailored to appeal to America's fixation on personal financial matters and woeful lack of understanding of physical-economic principles. That poison pill, wrapped in its sugar coating and stamped "Save *you* money," was eagerly swallowed by millions of Americans, washed down with many millions of dollars of slick advertising campaigns, glowing promises, high-pressure lobbying, and political contributions.

Pumping More Poison

The collapse of Enron, a suspiciously public event where even LCTM's huge 1998 blowout was kept behind closed doors, has spurred panicky new proposals designed to "correct structural flaws" in the energy-trading market and get deregulation "back on track." These proposals have come from Wall Street, and from the Democratic leadership in the Senate.

In the wake of their defeats by LaRouche's campaign on California and Enron, the financial oligarchs still push their poison, now claiming that it is the failure to completely deregulate that is the source of the problem. The current system, they insist, is a hybrid of the old and the new systems. Since we obviously cannot "put the toothpaste back in the tube," they claim (without ever stating why—as LaRouche pointed out, competent people put toothpaste in tubes all the time), our only choice is to go forward. The poison pill is stuck in our throat, and we must swallow it instead of coughing it up.

The refusal to face the truth about the nature of deregulation, and an unseemly willingness to accept the "largesse" of the deregulation pushers, led many states to adopt deregulation, though many of those states have backed off since the LaRouche campaign's mobilization began. The White House showed signs *before* Sept. 11, of realizing the collapsing economy needed more state intervention, but Federal policy remains up for grabs. The Federal Energy Regulatory Commission (FERC), while imposing some price controls to curb the more egregious excesses, continues to push for moving the electricity transmission grids out of the hands of the regulated utilities, and into the hands of regional transmission organizations.

Two reasons are cited for such foolishness. The first is

that the utilities' transmission grids were built mainly to move power from the generating plants to the customers within the utilities' service areas, as opposed to designing grids for the purpose of moving electricity from one grid to another; there were interconnections between grids, but the focus was on delivering power to the customer, with the interconnections part of the backup safety net. The second reason is that the regulated utilities are reluctant to open their transmission grids so the new-wave energy pirates can steal their customers.

The fools' "solution" to these problems is to rip the transmission grids out of the clutches of the utilities, and put them into the hands of independent regional operators, who can beef up the interconnections and make it possible for electricity to flow where it will bring the highest price—the "California" poison. The expansion of the grids will be paid for by charges which show up on the bills of the electricity consumers, but what the heck, it's a small price to pay for increasing the ability of the pirates to rip you off.

The new Democratic majority in the Senate is not now showing the combination of wisdom and courage to roll back deregulation. Senate Majority Leader Daschle has thrown his support behind a bill by Senate Energy and Natural Resources Committee Chairman Jeff Bingaman (D-N.M.) backing the FERC's push for regional transmission organizations. Bingaman has endorsed the repeal of Franklin Delano Roosevelt's successful Public Utility Holding Company Act of 1935, and its replacement with a new bill, described in his own words as containing the "text of the Public Utility Holding Company Act of 2001, as reported by the Senate Committee on Banking."

The Banks Move In

In a February 2001 interview with *BusinessWeek,* then-Enron President Jeffrey Skilling suggested that the most logical owners of the power plants and transmission grids were the big financial institutions, because of their access to cheap capital. The banks would own the power, and sell it to the highest bidder through intermediaries like Enron, using a complex mix of forwards, futures, swaps, and other derivatives to jack up the prices and spread the money around.

Skilling's comment was a public confirmation of *EIR*'s assertion that the secret goal of deregulation was to direct a larger portion of the electricity industry's income stream into the hands of major banks and financial institutions.

In the short term, that income stream would be used to prop up the big commercial banks, investment banks and brokerages, and insurance companies, some of whose financial conditions and accounting practices might make even Enron blush. Suffering from the demise of the technology/Internet segment of the bubble, the decline of the stock markets and the mergers and acquisition business, and the near-death of the once-lucrative Initial Public Offerings market, the big financial institutions find themselves in dire need of new income flows to keep their pyramid scheme going just a bit longer.

LaRouche organizers drove home the significance of the demise of Enron at a Dec. 4 rally at the bankrupt firm's Houston headquarters.

In the longer term, deregulation is part of the financial oligarchy's post-crash strategy: Once the $400 trillion global financial bubble has come to the end of its deflationary death spiral, that oligarchy is counting on its control over raw materials, precious metals, energy supplies, and the like to maintain its power over the world. Those who can afford the necessities of life will have them, if they can pay, and if those necessities are available; if not, then, too bad, you don't make the cut.

Some of the big Wall Street firms, such as Goldman Sachs, Morgan Stanley, and Merrill Lynch, are already active in the energy trading business, and they intend to use the fall of Enron as an excuse to increase their hold over the business. That intention was signalled, as such things often are, in the pages of the *New York Times* and *Wall Street Journal*.

In a Nov. 29 article, *Times* columnist Floyd Norris stated that the market that Enron helped create, would continue in a new form, either in a regulated form through new clearing systems, or in an unregulated form with a different set of players. "If the markets continue to be unregulated," he wrote, "Enron's collapse makes it more likely that the big players in those markets will be companies that are already regulated enough to assure customers that they are secure—companies like major banks and brokerage houses."

The *Wall Street Journal* reported on Dec. 3, that "although financial-services firms are on the hook for billions owed to them by Enron Corp., there also are some winners among Wall Street firms that stand to pick up market share in the energy trading markets that Enron dominated." After Enron filed for bankruptcy on Dec. 2, it reached a deal with its two major creditors, J.P. Morgan Chase & Co. and Citigroup, for $1.5 billion in debtor-in-possession loans, loans which sit at

the top of the bankruptcy pay-back heap.

Additionally, according to the Dec. 4 *Journal,* "Enron has been negotiating with three money-center banks—J.P. Morgan, Citigroup's Salomon Smith Barney unit, and UBS AG—for a separate deal to pump capital into its trading operations through a joint venture that would likely result in one of the banks controlling a new trading company, according to people involved in the matter."

One thing is clear: Enron will no longer be the 600-pound gorilla of energy trading. If it survives at all, it will be at best a chimpanzee, or, perhaps, an organ-grinder's monkey.

Death Of A Speculator

Arrogance was a way of life at Enron. In the lobby of its Houston headquarters, Enron hung a sign which stated its intent to be the "The World's Greatest Company," and by all indications it believed its own hype.

In the same February 2001 interview with *BusinessWeek,* Enron's Skilling described Enron in megalomaniacal terms.

"If you walk around the halls here, people have a mission," he said. "The mission is, we're on the side of angels. We're taking on the entrenched monopolies. In every business we've been in, we're the good guys. That's why they don't like us. Customers love us, but the incumbents don't like us. We're bringing the benefits of choice and free markets to the world."

While it started life as a gas pipeline company, under Chairman Ken Lay and Skilling it transformed itself into what was basically an investment bank. In its filings with the Securities and Exchange Commission (SEC), Enron identified itself as a securities broker and dealer, the same classification used by Goldman Sachs and other Wall Street firms. London's *Economist* aptly described the company as "a hedge fund with a gas pipeline on the side."

With the help of a regulatory blind-eye from former Commodity Futures Trading Commission Chairman Wendy Gramm, the wife of Sen. Phil Gramm (R-Tex.), Enron helped create an over-the-counter derivatives market in energy contracts (Gramm then joined the Enron board when her term as CFTC Chairman ended). Enron's Mark Haedicke holds a spot on the board of the International Swaps and Derivatives Association, a major derivatives trade group, and testified before Congress on derivatives matters on behalf of Enron and the ISDA.

Along the way, Enron became a major derivatives dealer and player; at the end of 2000, according to *Swaps Monitor,* the firm had $201 billion in derivatives bets outstanding. While that pales in comparison to J.P. Morgan Chase's $25 trillion for the same period, it would have been sufficient, were Enron a commercial bank, to rank it among that sector's top ten derivatives holders.

The beginning of the end for Enron came on Oct. 16, the day it announced that it had lost $618 million in the third quarter, due to write-offs of just over $1 billion, and what it described as the "early termination during the third quarter of certain structured finance arrangements with a previously disclosed entity." In a conference call that day announcing the results, Enron's Ken Lay made a passing reference to a $1.2 billion write-down in the company's equity capital.

FIGURE 1

Enron's Stock Value Vaporizes: Daily Close, 1999 To Date

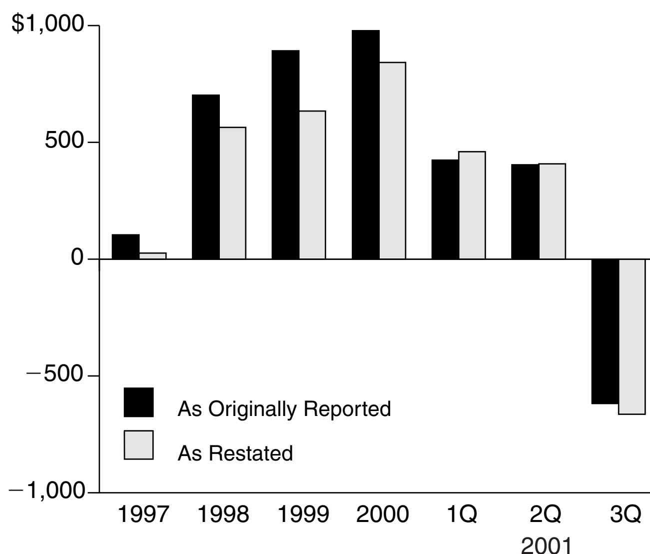
($ Per Share)

Enron was already in trouble. Its stock value had peaked at $90 a share in August 2000, and had been falling sharply ever since (**Figure 1**). In August 2001, Skilling, who had taken over the chief executive's job from chairman Lay in February 2001, abruptly resigned, citing the proverbial "personal reasons." Skilling said he could not "stress enough that this has nothing to do with Enron." By Oct. 15, the day before the fateful earnings announcement and conference call, Enron's stock had dropped to $33.17 a share, a drop of 63% from its peak.

Beginning Oct. 17, the press, led by the *Wall Street Journal,* began hammering at Enron every day, with articles questioning the company's bookkeeping and charging that the company's actions raised "vexing conflict-of-interest questions" in its relationship to some of the partnerships it created. With the spotlight turned on, the SEC began an informal inquiry into the matter, later upgraded into a formal investigation. With all the bad publicity, Enron's stock went into a free fall, hitting $0.26 a share on Nov. 30, down 99.7% from its peak, and cutting its once $66.5 billion market capitalization to just $193 million. For all practical purposes, Enron had vaporized. On Dec. 2, it filed for bankruptcy.

The investigations of its books provided further embarrassment for the company. Enron was forced to move some

FIGURE 2
Enron's Disappearing Income
(Millions $)



Source: Enron Corp.

of its off-balance-sheet activities back onto its balance sheet, causing the company to restate its earnings back to 1997 (**Figure 2**). The company restated its third-quarter earnings twice, first upping the $618 million loss to $635 million, and then to $664 million.

Hidden Iceberg Of Debts

In its bankruptcy filing, Enron listed $49.8 billion in assets, enough to make it the largest-ever U.S. bankruptcy (for the year through November, a record 224 publicly traded companies, with more than $180 billion in assets, have filed for bankruptcy in the United States). Enron listed its debts at $31.2 billion, but analysts say the company has another $27 billion in off-balance-sheet debts, pushing its debt figure to nearly $60 billion (with some claiming it is actually closer to $80 billion).

Enron's list of unsecured creditors is 54 pages long, and reads like a who's who of the financial and energy worlds. Financial institutions on the list include: J.P. Morgan Chase; Citigroup; the Bank of New York; Bank of America; Merrill Lynch; Goldman Sachs; Morgan Stanley; Lehman Brothers; UBS; Crédit Suisse First Boston; Barclays Bank; NatWest; Société Générale; Royal Bank of Canada; Bank of Montreal; Canadian Imperial Bank of Commerce; Bank of Montreal; Toronto-Dominion; Westdeutsche Landesbank; Christiana Bank; General Re; and Swiss Re, among others. Energy companies on the list include most of the major oil companies (e.g., ExxonMobil, BP, Shell, ChevronTexaco); most of the other energy pirates (e.g., Dynegy, Duke, Williams, El Paso, Mirant, Reliant); a number of electric utilities (e.g., Southern, American Electric Power, Consolidated Edison, San Diego Gas & Electric); a number of law firms (e.g., Vinson & Elkins, Sullivan & Cromwell, Bracewell & Patterson, LeBoeuf Lamb); some accountants (including Enron's accountant Arthur Andersen); a number of states (e.g., California, Colorado, Georgia, Florida, Nevada and Massachusetts); and some cities (e.g., Dallas, San Antonio, and Austin, Texas; Glendale and Pasadena, California; and De Funiak Springs and Lakeland, Florida). Enron also owes the U.S. government money, including the IRS and the Department of the Interior.

According to the filings and various company statements and press reports, the institutions most exposed to Enron are Citigroup, with $3 billion in loans to the company, followed by the Bank of New York with $2.4 billion in exposure, and J.P. Morgan Chase with $2.1 billion. These figures are misleading, however, because typically banks which originate big loans, sell pieces of those loans to other banks, spreading the exposure.

Given the nature of today's financial markets, just figuring out the various exposures to Enron is a difficult and tricky process. For example, Enron's market value has all but disappeared, and one can presume that the major institutional holders of its stock, such as Alliance Capital, Janus, Putnam, Barclays, Fidelity, and Citigroup, have booked significant losses.

An example of the domino effect of Enron's collapse can be seen in Japan, where wires reported that four money-management funds, holding some $850 million in Enron bonds, were hit with what amounted to "runs on the bank"; Enron's news triggered customer redemptions an order of magnitude larger than the funds' holdings of Enron bonds, dropping the value of the funds below face value. Three Japanese banks revealed an exposure to Enron in excess of $485 million. To stem liquidity problems connected to the Enron collapse, the Bank of Japan pumped $200 billion into its banking system, an amount equal to between two and four times Enron's estimated debt.

The question of exposure gets even murkier when it gets to the off-balance-sheet debt and over-the-counter derivatives games. Enron, for example, is a major player in the credit derivatives market, where derivatives are sold to protect holders of financial assets against default. Enron buys and sells these derivatives as part of its own business. Standard & Poor's reports that Enron was a counterparty on $3.3 billion of credit derivatives rated by the agency so far this year, representing 12% of the $23 billion in such ratings, but rated derivatives are just a small part of the market. In addition to the credit derivatives featuring Enron as a counterparty, other companies which hold Enron's obligations also bought credit derivatives to protect themselves against an Enron default. Credit derivatives, or at least credit insurance, offers some protection when dealing with isolated defaults in an otherwise healthy system, but when the system

itself collapses, so does the protection. One cannot buy securities which offer protection against the collapse of the securities market itself.

Preliminary estimates put the cost to the insurance sector at between $2 billion and $3 billion, mainly through directors and officers liability insurance provided to Enron, and perhaps Dynegy; professional liability coverage to Enron's auditor, Arthur Andersen; and any financial guarantees on Enron's projects. In addition, the insurers which hold Enron stock or debt will have to write down the values of those assets.

The whole mess is reminiscent of the blowout of Lloyd's of London a few years ago. Lloyd's, facing huge asbestos losses, recruited thousands of "colonials" to join its prestigious ranks, sticking them in those syndicates which were facing the losses. Each syndicate would buy reinsurance from another syndicate, to protect itself from losses. However, when the losses hit, it turned out that, in effect, Syndicate A had reinsured itself with Syndicate B, which reinsured itself with Syndicate C, which reinsured itself with Syndicate A. When they went to collect, the syndicates fell like dominoes, each protected on paper but not in reality.

It Gets Worse

While it is virtually impossible to calculate the size of the hole blown in the financial system by Enron's collapse, such a calculation is not necessary. It is not Enron's collapse which jeopardizes the markets, but rather the collapse of the markets which destroyed Enron. The process of global collapse, the deflation of assets and the decline of productive economic activity, created the condition in which Enron's speculative pillaging became unsustainable, and the company simply disintegrated. If, as it appears, Enron was set up for the kill by Wall Street, that is just another layer peeled from the same onion: Wall Street killing Enron in a desperate attempt to save itself. Faced with the vaporization of the bubble, the more powerful parasites are turning on the weaker ones, fighting to live another day. Yesterday's feared predator, Enron, became today's lunch. Tomorrow, it's someone else's turn. Shed no tears for Enron, but its demise solves nothing.

All sorts of investigations of the Enron debacle are either under way or planned, including the SEC investigations, Congressional hearings, and likely even criminal prosecutions. More than a dozen suits have been filed against Enron and its officers and directors. While not without merit, none of these investigations or suits will mean a thing unless leading institutions drop their attempts to save the bubble, and turn to the policies and leadership of Lyndon LaRouche.

Instead of passing more laws to speed deregulation, Congress must admit that deregulation was a boneheaded idea, a poison pill destroying a vital segment of our infrastructure and opening the nation up to new and dangerous forms of looting. They must stand up, at long last, and admit what *EIR* readers have long known: Deregulation was wrong, and LaRouche was right. Senator Daschle, are you listening?

Argentina

'A People Cannot Die To Pay The Debt'

by Cynthia R. Rush

On Dec. 5, the International Monetary Fund informed Argentina that it was ineligible to receive the $1.26 billion payment scheduled to be disbursed this month as part of the IMF's most recent $8 billion bailout package, and demanded the devastated country impose more budget cuts. Denying rumors that the Fund favored a currency devaluation, spokesman Thomas Dawson drily reported that because Argentina had failed to meet agreed-upon fiscal targets for the fourth quarter, the Fund would have to withdraw the team which had been auditing government books since late November, without whose completion no funds could be released.

The desperate Buenos Aires government was depending on the disbursement to cover interest payments on the debt due this month. It must pay about $2 billion monthly between now and April 2002, with $1 billion in Treasury bills, or Letes, due on Dec. 14. But Dawson said the auditing team would only return to Buenos Aires when the government of President Fernando de la Rúa could offer "more elaboration" of its fiscal plans, and show how it intends to comply with Finance Minister Domingo Cavallo's murderous "zero deficit" plan in 2002. The IMF official also made clear that, even without eliminating its 2001 budget deficit, Argentina could still make more budget cuts *right now,* as a sign of its commitment to the Fund's "fiscal responsibility."

The IMF's decision is tantamount to the murder, which Argentina's Catholic bishops warned against in a pastoral letter released on Nov. 17, following a week of deliberation in the city of San Miguél. "A people cannot die to pay the debt," Archbishop of Rosario Msgr. Eduardo Mirás warned. Argentina's government and economy are disintegrating, and its people are suffering from unprecedented levels of poverty and unemployment. The savage austerity imposed through Cavallo's "zero deficit" program, whose only priority is to guarantee foreign debt payment, threatens to unleash nationwide social upheaval. Every austerity measure imposed since Cavallo took office last March, has deepened Argentina's depression by shutting down productive economic activity and shrinking the tax base. Unemployment now stands at 18.2% or 2.5 million people, not counting another 2.4 million who are underemployed.

A country that could once boast of advanced technological and scientific infrastructure, and the ability to feed itself