Enron's Bust And The Future Of The Bubble

by John Hoefle

The rapid collapse of Enron Corp., culminating in its Dec. 2 bankruptcy filing, has sent shock waves throughout the energy-trading sector, accounting circles, and the government regulatory apparatus. As we go to press, both the House Financial Services Committee and the Senate Commerce Committee have already held hearings on the Enron affair, and further hearings are scheduled for January; the Securities and Exchange Commission is continuing its investigation; and the U.S. Department of Justice is examining the matter for possible criminal prosecution. In addition, dozens of lawsuits have been filed by Enron shareholders and former employees, many of whom have seen their retirement funds evaporate.

At the same time, the shock (to most) that one of the world's seemingly most profitable companies turned out to be largely a smoke-and-mirrors accounting trick, has caused Wall Street analysts and investors to take a closer look at the financial condition of Enron's fellow energy pirates. That, as *EIR* readers would expect, is bad news for the pirates, and has resulted in significant plunges in share values for some of them. Dynegy, Calpine, Mirant (now a newly junk-rated company), and a few others are garnering lots of attention, much to their dismay.

There is, however, a deeper game afoot, as the big global derivatives banks seek to capitalize on the problems of the energy traders by taking their business at pennies on the dollar. Enron has already announced plans to sell off its energy-trading operations, most likely to a major bank, and much ink in the business press has been used to tout the idea that the banks, with their supposedly deep pockets, should "rescue" the energy-trading sector.

The top commercial and investment banks have seen significant segments of their own income evaporate, due to sharp drop-offs in the mergers-and-acquisition and Initial Public Offering (IPO) business, combined with a general retrenchment by businesses overall. The loss of those income streams have left the big derivatives banks in a precarious position, more bankrupt than Enron, and desperate for cash.

LaRouche vs. The Bubbleheads

The failure of Enron, the largest corporate bankruptcy in U.S. history, has sent shock waves throughout the world, surprising nearly everyone with the speed of its collapse. In six short weeks it went from being the dominant force in its sector, to being a pariah. The event exploded delusions right and left, and blew the circuits of those who believed that such a surprise could not occur in this modern era of instant information, where hundreds of newspapers, magazines, newsletters, cable television stations, and Internet sites are devoted to feeding the public a steady diet of stock tips. People who thought they knew what was going on, didn't have a clue.

The Enron affair has served as a wake-up call to many thinking citizens, who see it as further proof, after California, that electricity deregulation has not improved the economy as promised, but rather, is destroying it, precisely as Lyndon LaRouche had forecast. The realization is growing, that deregulation has failed, and that a return to regulation along the lines indicated by LaRouche is necessary.

Re-Regulation The Issue

On the other side are the bubbleheads and their cheerleaders, led by the *Wall Street Journal,* who are attempting to blame the Enron affair on what little regulation remains, claiming that the failure to turn the pirates completely loose is responsible for the detonations in California and at Enron. These bubbleheads claim, in an astonishing display of blindness and duplicity, that total deregulation is the only solution, as if taking more of the poison which is already killing us, will return us to health.

At the Senate Commerce Committee hearing on Dec. 18, a number of former and retired Enron employees testified how their pension funds had been wiped out by the company's collapse.

"I trusted the management of Enron with my life savings," testified retired Enron employee Janice Farmer, who worked for an Enron pipeline in Florida. "Senators, I won't mince words here. They betrayed that trust. I am left now, a year away from Social Security, . . . living off a $63 per month pension check from another company."

Another Enron employee, a machinist foreman at the company's Portland General Electric utility, told of one 33-year employee there, whose retirement plan lost $995,000 almost overnight, and of others who lost in the hundreds of thousands of dollars. Similar tragic stories were presented by others, who lost a lifetime of savings in the blink of an eye, and are now wondering how they will survive.

These people are victims of deregulation, but they are also previews of the future for many millions of Americans, who have their savings invested in the stock and bond markets, either directly or through mutual and other funds, or through corporate retirement plans.

The Enron employees thought they were safe, then woke up one morning to find that they had been wiped out by forces seemingly beyond their control. The same thing happened to the dot-com investors, and is happening all across the economy, and this is only the beginning; the system itself is coming down, vaporizing hundreds of trillions of dollars of assets. The choice is clear: LaRouche and his recovery policy, or a bust that makes Enron look like a walk in the park.