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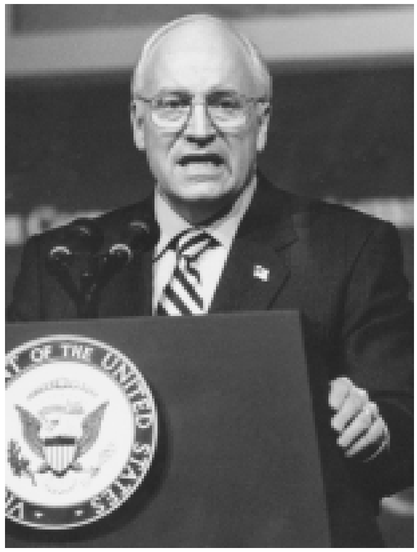
# Enron's Lay Indicted: Who's Still At Large?

by Harley Schlanger



*Vice President Cheney's and George Shultz's gang of free-trade thieves robbed California, with Ken Lay's Enron their "spear-point" for deregulation policy. This is the gang that then made Arnold Schwarzenegger "governator" to loot the state further; and now has its operative in John Kerry's Presidential campaign as well.*

The indictment this week of ex-Enron CEO Ken Lay, while long overdue, does not even begin to cure the actual disease ravaging the U.S. economy, of which his bankrupt company became the most visible symptom. Lay was indicted in Houston on July 8 on eleven counts, including conspiracy and multiple counts of fraud. His indictment came on top of that of his protégé Jeffrey Skilling, and of Enron former Chief Accounting Officer Richard Causey, and was hailed by many analysts and commentators as evidence that the nation has finally dealt with the wave of white collar crime and corruption of the 1990s.

In reality, the actual story has yet to be told, except in the pages of the *EIR* and in weekly and campaign publications associated with Lyndon LaRouche. Though Lay, an intimate friend of President Bush—who dubbed him "Kenny Boy" while campaigning in Enron's private jet and taking his advice on energy policy—was a key figure in the corporate corruption scandals of that decade, he was merely one player in a bigger picture.

Lay was the snake-oil salesman for deregulated markets and energy derivative speculation, a front man for the nexus of free-trade ideologues and Anglo-American banking and financial interests out to destroy forever the American System of economics, as founded by Ben Franklin and Alexander Hamilton, and revived by Franklin D. Roosevelt to pull America out of the Great Depression.

The upcoming trial of Lay offers Federal prosecutors an opportunity to get beyond the sensational reporting on the outrageous corporate culture of Enron "Traders Gone Wild," and instead, to get at the flawed axioms of the post-industrial, Baby Boomer society which are plunging our nation—and the world—into a New Dark Age.

## The Myth and Reality

Enron was a product of the feverish junk bond-financed merger-and-acquisition mania launched by convicted swindler Michael Milken of the now-defunct Drexel Burnham Lambert investment bank in the 1980s. Milken provided the financing for Lay to engineer the takeover of Houston Natural Gas by Omaha-based InterNorth in 1985. By the time Lay brought in Jeffrey Skilling and Andrew Fastow in the early 1990s, his intent was clear: Enron was to become more than a regional player in the natural gas business; it would become the "World's Greatest Company," as signs posted in its Houston headquarters proclaimed. It would be at the forefront of the new deregulated world, making its profits from trading energy derivatives, rather than delivering oil and gas or producing electricity.

As John Hoefle detailed with devastating precision in an article entitled "LaRouche Campaign Defeated Enron, to Win Re-Regulation" (see *EIR,* Dec. 14, 2001), Enron was transformed by Lay from a gas pipeline company to a new kind of investment bank—what the London *Economist* described as "a hedge fund with a gas pipeline on the side." This change was made possible because Ken Lay "had a friend" at Chase, as well as at Lazard Frères, First Boston, Citibank, Salomon Brothers and other leading firms, which were happy to use Enron as a battering ram to knock down the old paradigm, in order to deliver more financial clout into the hands of speculators, who were more than happy to place increasingly risky side bets in the unregulated over-the-counter derivatives markets.

In the process, Lay and his leading collaborators became the high priests of the cult of deregulation, proclaiming themselves to be the leading force in the "New Economy." In an interview with *Business Week* in February 2001, the arrogant Skilling spoke in messianic terms: "If you walk around the halls here, people have a mission. The mission is, we're on the side of the angels. We're taking on the entrenched monopolies. In every business we've been in, we're the good guys." This mission, according to Skilling, was to be the dominant force in what he called the "financialization of energy."

But Lay et al. were not only the major cheerleaders in this transformation to an unregulated market economy—they helped create it. Enron played a major role in every change in regulatory policy, from lobbying the Commodity Future Trading Commission (CFTC) to decree regulatory exemptions for over-the-counter derivatives, just as Enron moved heavily into this area in the early 1990s (CFTC chairman Wendy Gramm was rewarded for this with a lucrative position on Enron's Board), to lobbying the President's Working

Group on Financial Markets to prevent moves toward regulation of derivatives, following the collapse of Long Term Capital Management (LTCM) in the Summer of 1998. In that case, despite the danger of a systemic meltdown inherent in the collapse of speculative entities such as LTCM, Enron lobbyists were successful again, as the Group issued a recommendation in November 1999 that electronic exchanges which trade derivatives be excluded from regulation.

On paper, Enron grew to be the seventh-largest corporation in America, and its praises were sung from every pulpit where free-trade fanatics gathered to worship. For example, take the Nobel Prize in Economics acceptance speech delivered by Myron Scholes on Dec. 9, 1997. Scholes—whose notoriety exploded in his face when the application of his Prize options model precipitated LTCM's collapse—singled out Enron and GE for praise for employing a "new model" in trading over-the-counter energy derivatives. Said Scholes, "Financial products are becoming so specialized that, for the most part, it would be prohibitively expensive to trade them in organized markets"; i.e., diligent regulators would never allow them! Or, as Ken Lay put it in one of his regular pep talks—which could be published as "Economic mantras for idiots"—"An imperfect market is better than a perfect regulation."

### The Looting of California

While greedy, wild-eyed traders foaming at the mouth on the floor of exchanges may believe that the nominal value of the financial paper issued as derivatives has some inherent, mystical worth, the more senior members of the Anglo-American financial oligarchy are aware that ultimately, there must be an income stream to support otherwise unsustainable speculative gambles.

For example, Michael Milken's thievery of the 1980s was possible only because he could draw upon mob-linked sources of funds up front, from "Milken's Monsters" such as Meshulam Riklis, for seed capital to take over corporations; then, he looted the pension funds of the targeted companies to pay back some of the debt.

For Lay and the other energy pirates which followed in Enron's wake, the income streams to sustain the derivative bubble would come from the suckers in those states which fell for their brand of snake oil: Deregulation, they chanted, will make energy markets more efficient through increased competition, which will benefit the consumer. While the suckers lined up for their promised savings—Enron-scripted deregulation bills were passed by the Congress and many state legislatures, including California, often with little opposition—Lay and his allies engaged in orgies of self-congratulation, while dispensing huge amounts of funds to politicians to protect their golden goose.

But there is little doubt that they knew the real consequences of their actions. When reporting on quarterly profits at Enron in 2000, fueled by the looting of California, Skilling commented, "Prices are rising, and I know that's hurting consumers—but it certainly has been beneficial for Enron."

It is in California that the ugly face behind deregulation—and ultimately, the true criminality of Enron—became clear. From the beginning, Enron teed up the people of California for a major-league fleecing. As prices first jumped, in the Summer of 2000, Lay and his allies blamed the state, even as Enron traders were jacking up prices through various kinds of illegal practices with telling names such as "Death Star," "Fat Boy," and "Get Shorty," to game the markets. As recently released tapes of discussions of the traders engaged in such practices prove, they were fully conscious of what they were doing and the harm they were causing.

During the power crisis of 2000-01, when the state was hit with rolling blackouts, soaring rates, and the bankruptcy of major utility company Pacific Gas and Electric, Enron's "angels" bragged about getting "Grandma Millie," and causing California to "Burn, baby, burn." One now-jailed operative, Timothy Belden, the chief of Enron's West Coast trading division, boasted on one of the tapes that one trader "steals money from California to the tune of about a million" dollars

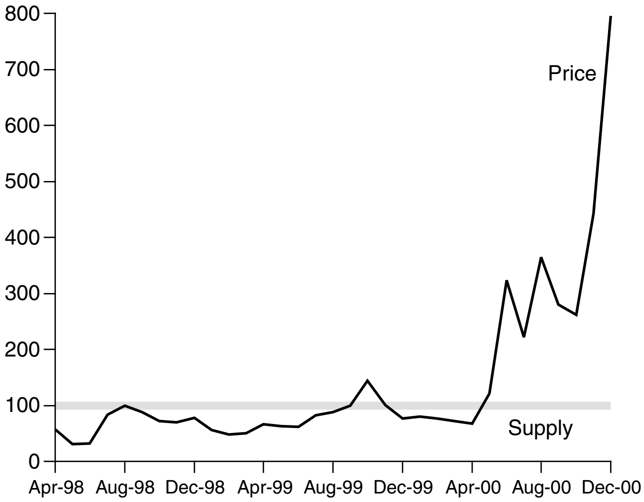
## LaRouche Called for Enron's Demise

LaRouche's December 2000 solution for the California crisis: "The first step . . . is to put the entire, formerly regulated sections of our nation's energy industry under Chapter 11 bankruptcy protection . . . putting some entities under Chapter 11 protection immediately. But it also means putting a protective umbrella, of Federal and state government threat to provide such protection, to any relevant entity within the domain of maintaining national and regional security.

"As a leading feature of that use of Chapter 11 methods, bankruptcy reorganization must be conducted to further the aims of immediate reinstitution of former types of Federal and state regulation of the generation and distribution of the nation's energy supplies; that, at prices sustainable by businesses and typical households, and consistent with pre-2000 trends in such prices.

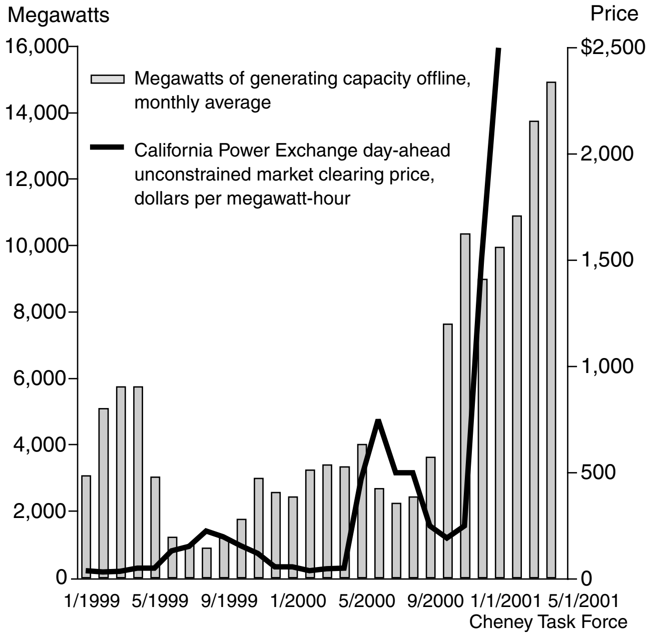
"The difficulty in taking those urgently needed reforms of corrective action, is not only that deregulation has become, like cocaine, a habit; but that the financial interests associated most closely with the campaign for the election of the present administration, represent chiefly a Southern Strategy-based complex of financial interests which are deeply committed to defending the revenues from activities which are choking California's economy to death."

FIGURE 1
**California Electricity Price Disconnects From Supply, Under Deregulation**
(Indexed to August 1998 =100)




Sources: California Power Exchange, U.S. Dept. of Energy, *EIR.*

FIGURE 2
**Energy Pirates Withheld Electricity, Jacked Up Prices in California During Cheney's Energy Task Force — January to May 2001**




Sources: California Energy Commission; California Power Exchange; University of California Energy Institute.

a day. In language that would make Dick Cheney feel better, traders pumped each other up with stories of how they were "f***ing California."

## LaRouche Steps In

Long before a single dollar was stolen from Californians, Lyndon LaRouche had taken the point against deregulation. In a series of mass-circulated reports—from the late 1970s against trucking deregulation, through attacks on airline, banking and energy deregulation in the '80s and '90s—LaRouche pinpointed the problem. It was not simply a matter of the corruption of thieves, such as Milken and Lay. Nor could the blame be placed solely on the financial elites, such as George Shultz, a long-time apostle of the policies unleashed on California, for whom the economic model of free trade, privatization, and deregulation is more than a license to steal. LaRouche warned repeatedly that Shultz and his allies at Lazard Freres, JP Morgan Chase, et al., were *restructuring the global economy,* to create a new Roman Empire.

This could only succeed if America's citizens fell victim to their own ignorance of economics, and bought into the paradigmatic changes implicit in the axioms of post-industrial society. Thus, LaRouche stresses, the most serious problem is the corruption of the population, under the domination of the current Baby Boomer culture, which causes people to swallow gallons of Lay's snake oil even as it is making them sick, in the hope they get some benefit on the side, e.g., cheaper electricity prices (see box). The only alternative to this drive for Schachtian fascist-style austerity is to return, as LaRouche alone has consistently proposed, to the regulatory approach embedded in the U.S. Constitution, particularly that employed by FDR to lift America out of the 1930s Coolidge-Hoover Depression.

California Gov. Gray Davis eventually responded to the crisis precipitated by the Enron-led deregulation, echoing LaRouche in a series of statements in early 2001. In his State of the State address on that Jan. 8, he attacked the deregulation scheme as "a colossal and dangerous failure. It has not lowered consumer prices. And it has not increased supply. In fact, it has resulted in skyrocketting prices, price gouging, and an unreliable supply of electricity—in short, an energy nightmare." Davis correctly blasted those "out of state profiteers" who have one major objective: "maximizing unheard-of profits" while holding the state of California hostage.

Davis appealed to the Bush Administration to impose price caps and take other measures to aid the state. He ran into what has become an increasingly common feature of current U.S. political life, the Cheney Stonewall. The Vice President, who was appointed by Bush to head up an energy task force, told the *Los Angeles Times* that he was so opposed to any action from the Federal government which would interfere with "market forces," that he would do nothing to aid California, even if the energy crisis there threatened the national economy. "I am a believer in markets," Cheney, who had served as CEO of energy giant Halliburton, told reporters.

TABLE 1

**Profits Soar at Selected Energy Companies, First Quarter 2001**

(First Quarter 2001 Compared to First Quarter 2000)

| Company | Increase | Company | Increase |
|---|---|---|---|
| EOG Resources* | 448% | Chevron | 53% |
| Calpine | 424% | BP plc** | 52% |
| Williams | 172% | Duke Energy | 51% |
| Apache | 158% | El Paso | 46% |
| Unocal | 122% | ExxonMobil | 44% |
| Reliant Energy | 104% | Texaco | 39% |
| Occidental | 93% | Southern | 35% |
| Phillips | 86% | Dominion | 28% |
| Mirant | 84% | Enron | 26% |
| Kerr McGee | 81% | Shell | 23% |
| Dynegy | 73% | AES | 19% |
| Conoco | 58% | | |

Source: Company financial reports.
* EOG Resources, formerly Enron Oil & Gas, was a spin-off of Enron Corp.
** BP had dropped the Amoco from its name, reverting to BP plc.

"I think the notion of deregulation is basically sound. What happened in California—it was poorly executed." Cheney argued that imposing price caps would be an unacceptable interference in the workings of the "market."

Cheney was merely repeating what his fellow Texas energy confidant Ken Lay had written in an op-ed in the *San Francisco Chronicle:* "The situation in California is the result of continued regulation," Lay lied, adding that it was "complicated by a series of natural and man-made factors." In a private memo to buddy Cheney, Lay called on the administration to "reject any attempt to re-regulate wholesale power markets by adopting price caps or returning to archaic methods of determining the cost-base of wholesale power." Price caps, he wrote, "will discourage private investment by significantly raising political risk."

## Dereg Gang Brings in Arnie

While Davis was fighting a rearguard battle against the "energy pirates," Cheney continued to coordinate with Lay, to protect the license to steal. Lay and Enron were intimately involved in the drafting of the Cheney energy commission recommendations—though Cheney continues to insist that he is under no obligation to tell anyone how much so, as his "private" deliberations should be protected under non-existent executive privilege.

The damage done to California by Lay, et al. plunged it into bankruptcy. More than $70 billion was looted from the state, from a surplus of $12 billion to a budget deficit of $38 billion, as a direct result of deregulation. LaRouche insisted on immediate, urgent *re-regulation,* Davis escalated. "If they don't want their plants seized [by the state, under eminent domain procedures]" he warned, "they should make sure their plants are up and running this Summer [of 2001]." Senate President Pro Tem John Burton said, "Sooner or later, we've got to let these buccaneers know that we're not going to tolerate what they're doing to us. The only thing these exploiters would understand is a little counterterrorism."

This turned out to be mainly talk not backed by action. Lay and Cheney continued to act, both through Cheney's energy task force, and on the ground in California. Davis' call for action from the Feds evoked this from Lay: "In the final analysis, it doesn't matter what you crazy people in California do, because I got smart guys who can always figure out how to make money."

But it did matter to Lay: In May 2001, at the height of the crisis, he convened a meeting at the Peninsula Hotel in Beverly Hills, to present Enron's "Comprehensive Solution for California." Among those meeting with Lay were Michael Milken, former L.A. Mayor Richard Riordan—and actor Arnold Schwarzenegger, who was being wooed to replace Governor Davis! Thus, as the state was being plunged toward bankruptcy and ungovernability, the very network responsible for the crisis were preparing the next phase. The bankruptcy of Enron in December 2001 did not slow down these synarchist elites—they ran the recall of Governor Davis, and put in Schwarzenegger, the former steroid-using bodybuilder, as Governor, with orders to halt any effort at re-regulation. Having been vetted for the post in September 2002 by Lord Jacob Rothschild, and flanked by the likes of the free-trade freak Shultz and mega-speculator Warren Buffet, Arnie was morphed into the Governator.

## The Kennedy-Kerry Connection

Central to Arnie's transformation from a comic book-like movie action figure to an allegedly credible political figure, was the role of Bob Shrum, a nominal Democratic Party consultant who had lost twice to Bush, Jr.—in 1994, advising incumbent Governor Anne Richards in Texas, and again as Al Gore's chief strategist in the 2000 Presidential election.

Throughout the battle for re-regulation in California in 2001 and again, during the 2003 recall campaign, LaRouche said that the deregulation forces will prevail only if the delusions and false axioms of the American population, fed by the free traders and their media accomplices, are untouched and even reinforced by internal sabotage of the Democratic Party. While Governor Davis was waging a fight, with critical backing from LaRouche and his youth movement, operations were being run to protect the cheats and swindlers behind Ken Lay.

The indictment of Ken Lay opens the opportunity to get to the bottom of the economic paradigm-shift of the last four decades, and take the measures required to revive our economy, so it may serve the General Welfare. It is indispensable that the dirty role played by Dick Cheney be part of the deliberations when the Democratic Party convenes its Nominating Convention on July 26 in Boston. But Democrats should be forewarned, that the same Bob Shrum who presided over the previous failed campaigns against Bush, and who provided crucial backing for the victory of Schwarzenegger, is now the chief campaign guru to John Kerry!