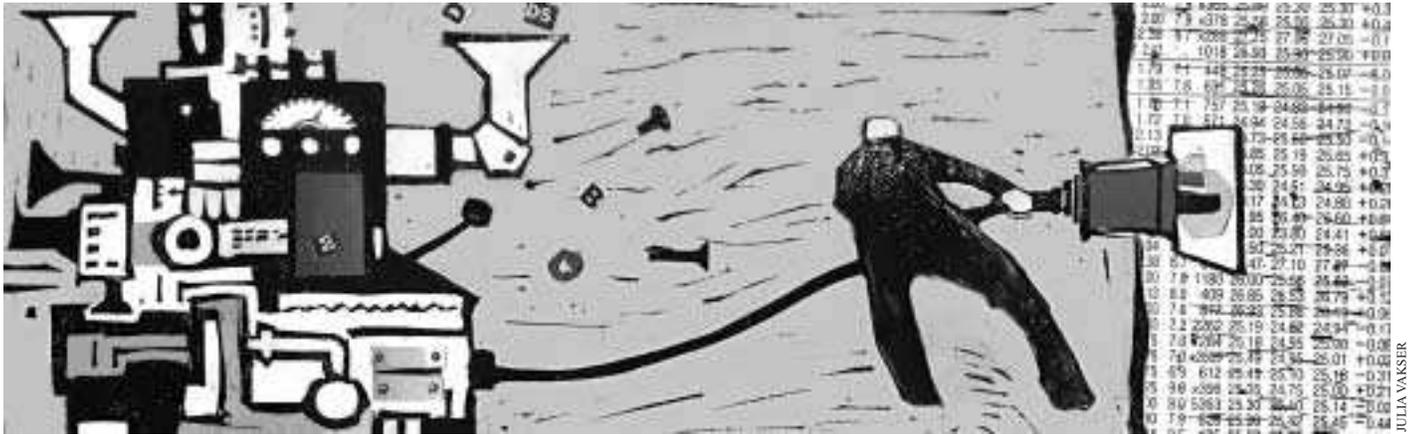


ENRON, ONCE THE NEW ECONOMY'S SHINING STAR, IS NOW ITS GREATEST SHAME. THOSE WHO PLACE THE BLAME ON EXECUTIVE GREED MAY BE MISSING THE LARGER POINT.



JULIA VAKSNER

Shocked, Shocked! Enronian Myths Exposed

THOMAS FRANK

In happier times the Enron corporation used to run a TV commercial in which a clever young executive punctured the pretensions of a panel of windbag politicians with a single sharp word: “Why?” It was supposed to be a thirty-second demonstration of the populist wisdom of electricity deregulation: Anyone could see that our legislators were arrogant fogies who kept us from having economic “choices” simply because they thought they knew better than the people.

These days, the clever young executives of Enron are taking the Fifth, not cracking wise at the Man. And the notion of Enron acting in the public interest—of Enron acting in anyone’s interest other than that of those same clever young executives—can only register as a sort of sick joke. Consider just the stories that have made the front pages over the past few months. Thanks to the failure of a series of shady accounting tricks, Enron had to amend its profits for the past few years by hundreds of millions of dollars. Naturally, this destroyed investors’ faith in Enron management, causing a catastrophic drop in the company’s share price and a downgrading of its debt rating, leading immediately to bankruptcy. Enron employees, who had been encouraged to buy shares right up to the end, found they were not allowed to sell and watched helplessly as their 401(k)s were wiped out. While encouraging their workers to stand pat, top Enron managers were unloading the soon-to-be-worthless stuff as fast as they could.

Then it was the turn of Arthur Andersen, the accounting firm that had OK’d the fatal transactions, and whose managers

were discovered feverishly shredding Enron-related documents. Before long Andersen found itself indicted and hemorrhaging clients. The chain reaction soon spread over the rest of the corporate landscape, where Enron had long been regarded as a leader in the field of clever accounting tricks. Copycat bankruptcies broke out. Markets drooped sorrowfully.

This would be enough to seal the eternal disgrace of most companies. But the Enron story only got worse. We are accustomed to associating corporate interests with conservatism, but Enron seems to have had its own ideology, a swaggering free-market evangelism that it promoted not so much by argument as by financial might. Enron not only bankrolled pundits and endowed university chairs in economics and political science, but it ingratiated itself with those very politicians it gloried in mocking in its ads. Forever pushing for the deregulation of the various fields in which it operated, the company gave campaign contributions to nearly half the members of Congress. Its influence in state legislatures was sufficiently great that journalists now speak of Enron as the main force behind the movement for electricity deregulation that swept the nation in the late 1990s. National politicians received seats on the Enron board after doing their good deeds for the company, while others were rotated from Enron into the upper echelons of the Administration. And, as everyone now knows, George W. Bush was Enron’s special pet, nurtured on Enron money, Enron jets and Enron connections. He had been in office for only a few weeks before the favors that Enron paid for began to flow: friendly appointments, special consideration in energy policy-making.

Right up to the end, Enron was described in the exalted realms of management theory and business journalism with virtually unmodulated adoration. *Fortune* compared Enron to Elvis. Super-guru Gary Hamel, who devoted a section of *Leading the Revo-*

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lution to the company, waxed enthusiastic about Enron's "genius for innovation" and its "capacity for revolution."

The effect of this has been to promote what could have been a simple tale of corporate crime into the staggering revelation that everyone you listened to in the New Economy years was either a liar or an ignoramus. Despite all the recent lamentations about public "cynicism," Americans seem generally to have believed that they lived in a world where the depictions of the business press were fairly accurate, where pundits argued for things because they believed in them, where accountants and stock analysts spoke truthfully, where politicians represented their constituents and not just those with money, where the stock market had been cleansed of crooks and was now safe enough for little old ladies from Beardstown. The Enron story has flattened each of these faiths simultaneously. It's a perfect ideological reversal, a narrative that was supposed to prove the goodness of the New Economic Order and that has instead discredited it in every respect.

Thanks to the vast chasm between the populist promise of the New Economy and what it has actually delivered, a corporation is today the target of a species of outrage usually reserved for enemy dictators or mass murderers. The other day an artist friend—a man who has never talked about big business issues with me before—volunteered without any prompting his ferocious feelings toward Enron CEO Ken Lay. All the way from the South Side of Chicago to O'Hare a Nigerian taxi driver shared with me his anger and disbelief at the reach of Enron's malign influence. According to a poll taken in February by the Pew Center for the People and the Press, more people were following the Enron scandal than the Olympics.

The epicenter of this earthquake is the Enron headquarters in Houston, familiar by now to television viewers around the world with its crooked-E logo out front. I read in a management book about the building's state-of-the-art trading floor where the Enron hotshots conducted the energy business of the nation, and in the *National Enquirer* about the plush upper-story "bachelor pads" where the Enron brass conducted their trysts with secretaries, but what I saw was a bland fifty-story glass tower, built in the smooth and ornament-free corporate style of the 1980s, and connected by many enclosed walkways to similar-looking office buildings in the neighborhood. From one of these climate-controlled tubes I could look down on the Antioch Baptist Church, one of the oldest African-American institutions in the city, its lot now little more than an island between the busy downtown streets, and its gothic tower with its somehow defiant sign, JESUS SAVES, dwarfed by the encircling skyscrapers.

The ATMs here were still displaying jaunty Enron propaganda and a stock ticker was still telling passers-by where Enron stood in the market's all-knowing estimation (at a humble 29 cents on the day I visited), while an incongruous slogan touting Enron's "endless possibilities" zipped by underneath. In the tower next door, where laid-off Enron employees used computers to look for new jobs, the walls were still covered with framed motivational posters illustrating the company's four "values": "Respect," "Integrity," "Communication," "Excellence." Few of the

ironies are lost on the skyscraper's inhabitants, one imagines. In fact, in the lobby someone had actually assembled a collection of embarrassing Enroniana, placed each slogan-bearing coffee cup or boasting paperweight under a museum-quality vitrine, and given the resulting works of "art" some sarcastic title: "A Lot of Bull." "Not a Shred of Evidence."

Bitterness of this sort isn't hard to come by in Houston. Mentioning Enron to the proprietors of a shop in the tony River Oaks neighborhood earned me an earful of righteous disgust toward Mrs. Ken Lay, who had tearfully announced on TV a few nights before that the company's demise might force her to sell off two of her many homes. Rachel Hernandez, who worked in Enron's relocation department until that operation was outsourced some years ago, told me she thought her former bosses deserved jail time for what they had done. And a former systems administrator for Enron Broadband named Barry La Valla recalled how Enron persuaded him to give up a house in Portland and take a significant pay cut to move to Houston, just six months before the company declared bankruptcy. Everywhere I heard angry stories of ruined 401(k)s, of personal losses in the range of \$60,000, \$100,000, a million.

But what surprised me was the number of former Enronites I came across who had more ambivalent feelings about the disgraced corporation, who were willing to accept the damage the company has inflicted on the nation and on their savings, and to defend what Enron did, or at least what Enron set out to do. This is partly because the company chose its employees well: They are, after all, traders and MBAs, true believers in free-market theory even though they themselves have now become international symbols of its resounding failure. For several of the people I talked to, Enron had been their first job out of college or even out of high school, and they knew no other world than the New Economy 1990s, with its saintly CEOs and its many shrines to Our Lady of Perpetual Privatization. How are you supposed to criticize the laissez-faire order when you've never heard a competing theory in your life?

Such weird ambivalence was also clearly a response to the fact that the international press corps has descended on Houston as though a whole flock of toddlers had been caught in wells, and has proceeded to make an instant mini-celebrity of every laid-off Enron employee who wants to play ball. Nearly everyone I met had been on TV, or had their picture in the paper, or told me about some other media moment. And with the entire world screaming for Ken Lay's head, many of the ex-Enronians have decided to cast themselves as voices of moderation. After all, they worked there, too: They contributed money to the infamous PAC, they cheered when electricity deregulation swept the nation, and when I talked to them they still referred almost universally to former CEO Jeffrey Skilling as "Jeff."

"It's a spectacle," says Bilal Bajwa, who came from Pakistan to work for Enron and whom I found searching for a new job from a computer in a downtown office building. "I might feel bitter a year down the road," but for now such emotions are lost in the glare. Instead of the usual disgruntled-former-employee mentality, what

A number of former Enronians have ambivalent feelings about the disgraced corporation, and even defend what Enron set out to do.

he notices among his ex-colleagues is a variation on the Stockholm syndrome, in which “the only one who defends the kidnaper is the kidnapped.”

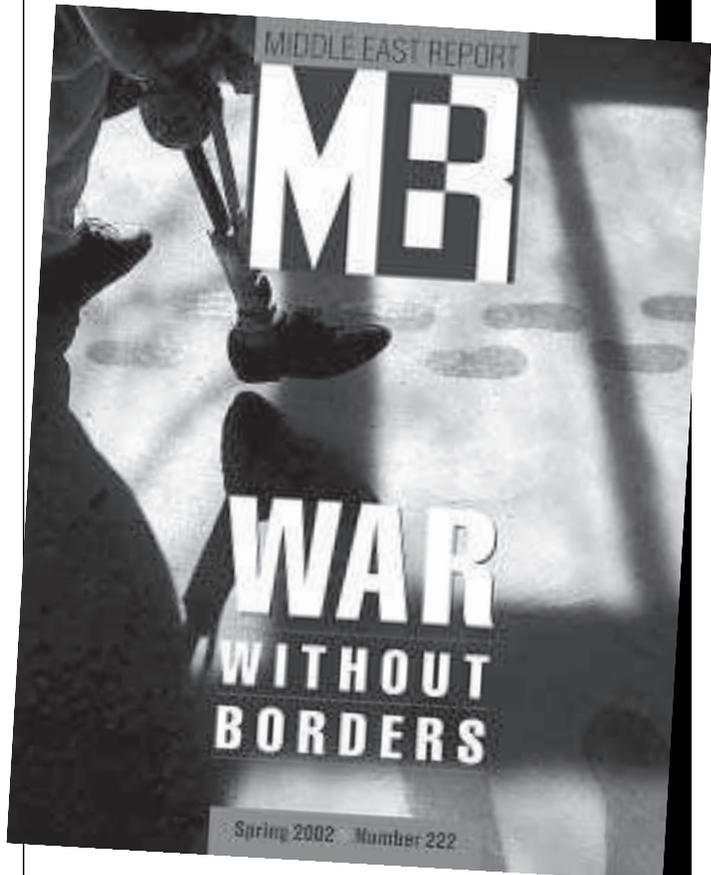
This curious contradiction came up again when I talked to John Allario, a smart and articulate energy business development professional who clearly understands the complex business dealings that brought Enron down. As such, he is in high demand among radio, TV and print reporters from around the world, fielding phone calls, in just the few hours that I spent with him, from ABC News and TV crews from France and Japan. He spends his time these days running an ex-Enron website called Laydoff.com, which burns with the outrage of the wrongfully terminated, magnified by the spectacular self-aggrandizement of Enron upper management. Allario’s Enron career ended when he was simply told to clear out one day on his cell phone. And now, as he puts it on the website, “your 401k is depleted, your after-tax severance packages are reduced to one month’s mortgage payment, and those who sent you packing are buying Hill Country or ski slope vacation properties with their exorbitant retention bonuses.” He reads aloud from a typical e-mail to the Laydoff.com chat room: “I cannot express how incensed I am by the plight of you all.” Allario also sells a line of T-shirts printed with anti-Enron jokes. (I bought one that reads: “Loss of job—\$100,000. Watching 401K disappear—\$225,000. Losses on company stock options—\$505,000. Ten years hard time for guilty executives—Priceless.”) He shows me a lucite computer mouse, a bit of Enroniana issued in 2000 to commemorate the first year of EnronOnline and marked with the staggering sum (“gross notional value”) of \$274,602,202,016. It’s a perfect example of what was wrong with the company. “It is total obfuscation!” Allario says. “These figures are more than the GNP of Poland. Even if you knew what gross notional value meant, the calculations of these numbers were internal secrets, which were not open to verification by employees.”

On the other hand, Allario is moved not to anger but to a sort of empathy at the sight of Jeff Skilling testifying before the House Energy and Commerce subcommittee on CNN. “I still respect some of those guys for their mental acuity,” he says. They have “a creative, special brainpower.” What’s more, Congress will find it difficult to prove actual fraud, he suspects. “Enron knew the laws as well, and sometimes better, than our own accountants,” he tells me. “The job of Enron’s finance and accounting groups was to find a way to structure around unfavorable accounting rules. It was a game to them.”

Allario’s TV goes on the blink and we head over to a local brew pub to watch Skilling’s testimony on their set. Nobody in the place objects when we ask them to turn off the classic rock and crank the volume on CNBC. The details of the deals Skilling is being asked to explain are almost nightmarishly complicated. Allario, though, is riveted to the screen. “This is such compelling TV,” he says. “As good as the World Series.” Back in Washington, the notoriously quick-tempered Skilling is doing his best to impersonate a sensitive, concerned person. He gets out of one question by relating how the power went out during a crucial meeting. In the corner of the screen, both the Dow and the Nasdaq go from green to red.

“One of the legacies of the Enron debacle,” Allario tells me later, “will be how so many smart MBAs drank the Enron Kool-Aid. Listening to Jeff, I’m falling for it again. I want to take

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another sip." He thinks for a while about the better times at Enron, about the Promethean free-market ambitions of all those young executives. "We set ourselves apart," he says. "We were for free thinking. For doing something good." Enron lived to open new markets in previously unimagined areas. "We could commoditize anything," Allario continues. "Water, paper, air freight capacity, weather, computer chips, ad space on TV."

Again and again during my stay in Houston I am told—by TV commentators, by business magazines, by former Enronians in whatever state of outrage—that what did the company in was greed. That Enron's true mission was a glorious one, that deregulation is a noble goal, but that greed in the upper echelons got in the way. Obviously, there is considerable truth to this. After all, Andrew Fastow, Michael Kopper and the rest of the clever Enron financiers received many millions of dollars as compensation for running the partnerships that inflated Enron's numbers and ultimately destroyed the company. And other top Enron executives were promised royal bonuses when the company's shares hit a certain price target—a clear incentive to do whatever was necessary to make Enron look attractive to Wall Street.

In previous years, though, greed was regarded as the fuel that drove Enron's spectacular intervention in so many different markets. Way back in 2000, Gary Hamel identified the opportunity that Enron executives had to indulge in what he quaintly called "personal wealth accumulation" as a critical element of the company's success. And for Hamel—for nearly everyone in the New Economy amen corner—that was perfectly OK, if not downright virtuous. The great myth of the 1990s was the fundamental decency of capitalist motivations. Free markets were democracy at its finest. CEOs were men of the people, lovable friends of rich and poor alike. The disappearance of job security and labor unions was "free agency." Even the endless cycles of obsolescence and destruction and ruin were something creative, something cool. Only when such destruction threatens to derail the stock market and discredit the entire New Economy does the moral turpitude of top management become an issue. Only then do the Aquinases of business journalism discover the fine distinctions between sensitivity to incentives and base greed.

However spectacular its effects, the wreck of Enron is a far more ordinary matter than such moralizing makes it appear. This is not the result of sin; this is the way markets work. It is simply what happens when regulatory oversight is systematically shut down, bought off and defunded; when business journalism becomes salesmanship; when investment banking becomes salesmanship; and when political power is a prize that goes to the highest bidder. There can be little doubt that the kind of microscopic scrutiny that Enron is now undergoing would uncover similar accounting and compensation scandals at many other companies in America. And it is well-known that industry lobbyists routinely craft the legislation that is supposed to regulate their industries. Credit-card lobbyists write the bankruptcy laws; broadcasting lobbyists write the telecommunications laws. It's not because they're greedy, it's because they can.

These are mistakes that the country seems determined to repeat every few decades or so. In the early 1930s the Senate Banking Committee performed a long investigation of Wall Street's practices during the just-ended bull market, and many of the shenan-

gans they unearthed seem straight out of the Enron playbook: lucrative options deals for insiders, dummy corporations set up to disguise liabilities, friendly politicians, financial institutions using their own endlessly rising stock to secure questionable deals and, of course, the rampant transformation of investment bankers into salesmen. (One critical difference: That time, the mighty men of Wall Street, concerned about their industry's reputation, actually testified.)

Years after those revelations, Ferdinand Pecora, the committee's counsel, wrote about the small investor who was surprised to find all of this going on, who had somehow believed that everything on Wall Street was regulated, overseen, safe: "He has reckoned without the ingenuity of the legal technicians and the complaisance of governmental authorities toward powerful financial and business groups during the lamented pre-New Deal era."

Nor was this malign ingenuity—what the Enron brass called "creativity"—finally extirpated by the 1930s reforms. "Under the surface of the governmental regulation of the securities market," Pecora warned, "the same forces that produced the riotous speculative excesses of the 'wild bull market' of 1929 still give evidences of their existence and influence." Such corruption wasn't merely the product of individual greed; it was a force of free-market nature, and it would reassert itself by default if we didn't remain vigilant.

And, of course, we didn't. (And we won't, either, if Dubya has his way.) Amid a frenzy of New Economy exuberance we came to believe that the rules had been somehow suspended. That only if we left markets free to do their special thing would we ever achieve real economic democracy. In life Enron was hailed as the great exemplar of this bankrupt idea; so it should be in death as well. ■

BY IDENTIFYING ETHICS WITH CIVIC VIRTUE, WE CREATE AN ETHICS OF THE LEFT.

The Politics of Ethics

RANDY COHEN

Virtue, it turns out, is the exclusive property of the right. This was brought to my attention just a few months after I began writing "The Ethicist," a weekly column in *The New York Times Magazine*, when it was denounced by four periodicals, each more right-wing than the last—the weekend *Wall Street Journal*, the *American Spectator*, *Reason* (the presumably ironically named magazine of the Libertarians) and the online version of *National Review*, where it was named the *Outrage Du Jour*, under the headline: "'The Ethicist' Better Termed 'The Marxist.'" I may have earned this encomium by suggesting that public education was worthwhile, or perhaps by favoring breathable air. Or air. (Admissions requirements for Marxism have apparently been lowered precipitately, like some kind of ideological grade inflation.)

I should not have been startled by the virulence of these attacks. A column about ethics necessarily embodies the values of its author; if mine were in accord with any of those papers, I'd be due for some serious soul-searching (or some sort of neurological procedure). And yet, there was something particularly vituperative about these screeds, as if they objected not to how I approached any particular ethical question but that by writing about ethics at all I'd poached on a preserve of the right. This is not entirely farfetched. Febrile moralizing—tut-tutting about song lyrics or frowning at the possibility that somebody, somewhere is enjoying a moment of sexual happiness—is more aptly associated with Republicans than Democrats (at least Democrats who aren't Joseph Lieberman). Thus the question for me became: Is ethics simply politics in disguise? And if so, whose politics?

Randy Cohen is the author of *The Good, the Bad & the Difference* (Doubleday), where this essay appears in different form.



JULIA VAKSER

Indeed, the difference between ethics and politics seems to me artificial, if there is a significant difference at all. Sometimes the distinction is a matter of scale. If one guy robs you, it's ethics, but when 435 people rob you, it's politics—or the House of Representatives is in session. But surely the deliberations of that body are subject to ethical analysis. What's more, politics can be a necessary expression of ethics. Often the only way to achieve an individual ethical goal is through group endeavor—i.e., politics.

Some political questions are not essentially ethical but a matter of two competing interests, each with a morally legitimate claim. For instance, that cowboy movie classic: Should the land be used by the cattle herders or the sheep herders? There is a kind of partisan politics that an ethicist should eschew, no matter his personal feelings about cows. However, it is his job to point out that the land belongs to the Navajo, and both the cattle and sheep herders should get permission before any grazing takes place. That is where what some call politics is quite properly a subject for ethical scrutiny. An ethics that eschewed such nominally political questions would not be ethics at all, but mere rule-following. It would be the ethics of the slave dealer, advocating that one always be honest about a slave's health and always pay bills promptly. But surely any ethics worth discussing must condemn the slave trade absolutely, not quibble about its business practices.

It's also true that there is an ideological component in any discussion of ethics. In "Responsibility," the third chapter of *The Book of Virtues*, perhaps the bestselling book of ethics of the past several decades, William Bennett reveals his ideology as he explicates *The Three Little Kittens*:

"Children should learn early the practical lesson that responsibility leads to reward, which leads to further responsibility. We

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