The cost of deregulation

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I believe in God and I believe in free markets," Kenneth Lay told a religion editor for the *San Diego Union-Tribune* early last year. Not surprisingly, Lay's devotion to deregulated markets became an article of faith for Enron, the Houston-based energy company he heads. Enron's collapse in December, one of the largest bankruptcies in history, manifests the hazards of drawing too close an association between ultimate and penultimate matters. An increasingly unregulated marketplace may have been the god that failed Enron.

A concise description of Enron and its activities eluded even the company's public relations department. "It's difficult to define Enron in a sentence," reads copy on Enron's Web site. One critic described it as "a giant hedge fund sitting on a pipeline," which may not be far from the truth. Enron started out as a natural gas pipeline company. Under Lay's leadership, it morphed into a gigantic commodity trading firm that dealt in electricity, natural gas and a host of other products. Despite its amorphous identity, Enron reached number seven on *Fortune* magazine's list of the 500 largest corporations valued at over $50 billion by the stock market.

Enron peddled deregulation, however, as aggressively as it peddled any of its products. It pushed for energy deregulation, ridiculed government regulators, lobbied to limit oversight of its trading ventures, and made sure its vision of unfettered markets would find supporters within government circles.

George W. Bush used Enron corporate jets during his tenure as governor of Texas and received lavish campaign contributions from Enron and Lay. Wendy Gramm, wife of Senator Phil Gramm (R., Tex.), once helped deregulate energy futures markets as chairwoman of the Commodities Futures Trading Commission. Since 1992 she has received $50,000 a year to sit on Enron's board of directors. Enron also was a key player when Vice President Cheney drafted the Bush administration's energy policy. For Enron, markets solve problems, regulations create them—and a business-friendly government should put this truth into practice.

Ironically, Enron wasn’t shy about implementing a corporate regulation that benefited its own stock position. The corporation’s 401(k) plan offered employees company stock through a contribution matching program but (as is the case with other such programs) prevented them from selling the matched shares until age 50. When the price of Enron fell from $90 to 57 cents, top executives bailed out in golden parachutes while those locked into the 401(k) plan watched their savings crash and burn.

Lack of effective regulatory oversight allowed Enron to overstate its earnings by millions and hide billions in debt. The disclosure of either fact might have warned investors off Enron, and perhaps forced the company to put its house in order.

The state of Ohio, whose employee pension fund lost close to $70 million in Enron’s stock collapse, is alleging fraud, and has already sued Enron in federal court. The Securities and Exchange Commission has begun investigations, while the Federal Trade Commission has been asked to examine Enron’s failure.

Clearly, regulation of the marketplace is a necessary political responsibility within any democratic society. At their best, such regulatory practices further common, not vested, interests, and they aim for the most level playing field possible. Faith in a self-regulating utopian capitalism is no more warranted than faith in utopian socialism.