

## Editorial

# *Great Pride Went Before A Fall*

*EIR* readers are more familiar than many with Enron Corp., the global energy pirate which has gone from one of the nation's most admired—and feared—corporations to a case-study in corporate failure, in an impressively short period. Enron, by its own admission, overstated its earnings and buried its losses, and huge amounts of debt, through off-balance-sheet transactions. Enron went from the world's leading energy trader to the market's pariah in six short weeks; its reputation, its business, its capital, and its very existence vaporizing faster than almost everyone thought possible.

The rise and fall of Enron is a good metaphor for the global financial and economic system itself which, like Enron, has vastly inflated its profits and buried its losses through a combination of bookkeeping tricks and savage looting, relying on raw political power, psychological warfare and a head-in-the-sand population to keep the swindle going.

While it has suddenly become popular for Wall Street's analysts, bankers, and derivatives players to claim they didn't know what Enron was doing, they protest too much. In an interview with *CFO Magazine* in the Fall of 1999, then-Enron President and Chief Executive Jeffrey Skilling openly bragged about Enron's New Economy financing methods, and heaped praise on his protégé, Chief Financial Officer Andrew Fastow. "We needed someone to rethink the entire financing structure at Enron from soup to nuts," Skilling said. "We didn't want someone stuck in the past, since the industry of yesterday is no longer." Fastow, Skilling said, "deserves every accolade tossed his way." Wall Street approved. "He [Fastow] has invented a groundbreaking strategy," Lehman Brothers Senior Vice President Ted Izatt told *CFO*. Skilling and his CFO, Fastow, are now gone, but the deadly effects of their speculative frenzy have only begun to surface.

As it turned out, Enron broke more than the ground. Its predatory energy speculation operation laid waste to its victims, in California and elsewhere, and, finally, to itself. Forced to reveal some of its hidden losses, Enron

suddenly found itself in the grip of a self-feeding deflationary death spiral, in which each new development would trigger a wave of selling of the company's stock, which in turn would trigger another wave, with the company often losing 10-20% of its market value a day.

The real story here, however, is not Enron, but rather what its dramatic disappearance reveals about the nature of the global financial system. The death spiral which took down Enron is but an example in the small, of the process which is playing out in a larger way on the global financial stage. As the bubble pops, so do the artificial values attached to all sorts of assets, setting off a deflationary chain reaction-spiral of plunging asset valuations. Assets vaporize, while the debt backing them remains, more unpayable than ever.

In a vain attempt to head off a deflationary blowout, Fed Chairman Alan Greenspan and his counterparts have engaged in unprecedented expansion of monetary aggregates, in a foolish attempt to use monetary hyperinflation to offset the asset deflation.

This process, as Lyndon LaRouche has warned more than once, is similar to attempting to put out a fire by dousing it with cold gasoline. Pouring money into a collapsing economy does not increase production and consumption. It merely sends more dollars chasing falling output, playing out the process defined by LaRouche in his famous Triple Curve typical collapse function. Greenspan is doing just what LaRouche said he would do, with the predicted, devastating effects. In such a process, the Enron collapse is not an anomaly, but rather a preview of the near future.

As Harley Schlanger details in this week's *National* section, this crisis was forecast, and could have been avoided, had Americans taken the warnings of Lyndon LaRouche to heart, and more importantly, to mind. The deterioration of the nation becomes more visible by the day, as does the failure of national and local political leaders to do anything to halt the slide. The realization is dawning, in more and more minds, that Lyndon LaRouche been correct both in his analysis of the problem, and in his presentation of the solution.