Miss Enron and Senator Shylock: The Corrupt Saga of Wendy and Phil Gramm

by John Hoefle

If the ability to learn from one's mistakes is the test of wisdom, then few couples fail the test more resoundingly than those "demons of deregulation," Sen. Phil Gramm (R-Tex.) and his wife, Dr. Wendy Lee Gramm. The Gramms have devoted their careers to overthrowing the General Welfare provisions of the American System and subjecting the U.S. population to the imperial looting this nation was founded to stop. Theirs is a remarkable record of self-serving activity, conflicts of interest, failed policies, greed, and incompetence; everything they have touched has been a disaster, of which the collapse of Enron is but the tip of the iceberg.

While Senator Gramm is the more prominent of the pair, Wendy Gramm has also played an important role in the creation of the biggest financial bubble in history. Few Senators have done more damage to the nation than the senior Senator from Texas, who began his Congressional career as a Democratic Representative in 1978, switched parties in 1983, and joined the Senate in 1984. Along the way he became one of the most rabid conservative revolutionaries, pushing his anti-government, pro-speculation agenda with remarkable zeal. (Gramm made a run for President in 1995, but his dubious campaign was derailed by revelations that he had invested in a soft-core sex movie, causing the *New York Post* to dub him "Porno Gramm.")

Wendy Gramm, who like her husband has a PhD in economics—they met while teaching at Texas A&M University—has also made a career out of bubble-building, pushing deregulation as the director of a White House deregulation task force in the 1980s, after which she opened the Pandora's Box of energy derivatives speculation while head of the Commodity Futures Trading Commission; having done so, she cashed in by joining the board of directors of Enron.

Nation-Busting

Senator Gramm made his name with the Gramm-Latta and Gramm-Rudman-Hollings laws in the 1980s, legislation designed to reduce the power of the Federal government and increase the power of the financial markets. In the name of balancing the budget, the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act of 1985 targetted Federal spending on infrastructure and social programs vital to the welfare of the population and physical economy. It also, not coincidentally, curtailed spending on President Reagan's Strategic Defense Initiative, the brainchild of Lyndon LaRouche.

At the time, LaRouche warned that the Gramm-Rudman approach was incompetent as a deficit-reduction act, as it would erode the tax revenue base and actually lead to greater deficits. LaRouche was right. According to the U.S. Treasury, the Federal deficit for fiscal 1985 was $212 billion, a figure which jumped to $221 billion in fiscal 1986. The deficit shrank to just over $150 billion for fiscal years 1987, 1988, and 1989, then took off again, jumping to $221 billion in fiscal 1990, $269 billion in fiscal 1991, and a record $290 billion in fiscal 1992.

Under Gramm-Rudman's spending limits, the Office of Management and Budget (OMB) became one of the most powerful agencies in government, with great influence over which programs survived and which did not. The administrator for Information and Regulatory Affairs at OMB at the time was Wendy Gramm.

Miss Enron Rewarded

While Senator Phil was busy pushing imperialism in the Senate, Wendy was pushing it in the Executive branch, as executive director of the Presidential Task Force on Regulatory Relief, a pet project of then-Vice President George H.W. Bush. The goal of the Bush task force was to sweep away the so-called "regulatory burdens" which prevented the financial speculators from seizing control of the economy. Of particular distaste to the Gramms were two measures implemented under President Franklin Roosevelt, the Glass-Steagall Act of 1933 and the Public Utilities Holding Company Act (PUHCA) of 1935. Both acts were intended to break the power of the financiers, led by the House of Morgan, over the U.S. economy, and the goal of deregulation was to restore the financiers to what they considered their rightful place. The Gramms were happy to participate, and were rewarded accordingly.

In 1988, Dr. Wendy Gramm was appointed by President

Miss Enron, the often-appointed commissioner and board member Wendy Gramm, did more than most to make the Enron looting and collapse debacle possible.

Senator Shylock, Phil Gramm, retiring from the Senate just in time.

Ronald Reagan to the chairmanship of the Commodity Futures Trading Commission (CFTC), which regulates trading in agriculture and commodity futures and helps regulate the nation's commodity exchanges. From this perch, Dr. Gramm was able to continue her work on deregulation by helping to nurture the growth of the derivatives markets. Her seminal act came in January 1993, as the outgoing Bush Administration was winding down.

In November 1992, a relatively unknown Texas energy company named Enron petitioned the CFTC to explicitly remove energy derivatives and interest-rate swaps from CFTC oversight. Shortly thereafter, giants J.P. Morgan, Chase Manhattan, Exxon, Mobil, and BP made similar requests. The request was presented as a minor technical change, but it was not: By allowing over-the-counter (OTC) trading of derivatives which had previously been restricted to regulated exchanges, the CFTC opened the door to a new era of profiteering in the energy markets, in which Enron would have the cutting edge.

The CFTC had been granted the authority to decide the matter by the Futures Trading Practices Act of 1992, signed by President Bush in late October. A week before Bush left office, Gramm granted Enron its exemption, opening the door to a series of high-profile financial disasters, beginning with the December 1993, $1.3 billion energy derivatives loss at Metallgesellschaft in Germany.

The decision also opened another door, at Enron itself. Gramm resigned from the CFTC when Bush left office, but was not out of work for long. Five weeks after leaving the CFTC, Wendy Gramm was rewarded with a lucrative spot on the board of Enron, where she joined the now-infamous audit committee.

Gramm was but one among many former Bush Administration officials who flocked to Enron after their defeat by Bill Clinton. President Bush himself earned lucrative fees from Enron for speaking engagements, while former Secretary of State James A. Baker III and Secretary of Commerce Robert Mosbacher took consulting jobs at the firm. The influence of these political heavyweights helped Enron dramatically expand its business, and energy deregulation, worldwide.

Defending Derivatives

Boosted by Gramm's exemption and the Bush League influence, Enron went on a rampage, pushing deregulation globally through a liberal application of campaign contributions and other more discreet funding mechanisms. One of the top recipients of Enron's largesse was Sen. Phil Gramm. With Wendy on the board and Phil receiving contributions hand over fist, the Gramms profitted nicely. Wendy also joined the boards of several other corporations, including State Farm Insurance and Invesco Funds. She took a position as director of the Regulatory Studies Program of the Mercatus Center at George Mason University in Virginia, a hotbed of deregulatory fervor. A profile of Gramm on the Mercatus website proudly cites a *Wall Street Journal* editorial from 1999, which described her as "the Margaret Thatcher of financial regulation." Gramm apparently considers that a compliment.

In May 1998, under the chairmanship of Clinton appointee Brooksley Born, the CFTC issued a "concept release" raising the possibility of new derivatives regulation, including closing the derivatives exemption issued by Gramm. During her nomination hearings in 1996, Born had stated that some of the activities in the derivatives markets appeared to be illegal, and in Congressional testimony in April 1997, she prophetically warned that the Gramm exemption "could lead to widespread deregulation," which "would greatly restrict Federal power to protect against manipulation, fraud, financial instability and other dangers." This, she added, would "pose grave dangers to the public interest."

"It is the large institutions which have the greatest power to hurt us all by their attempts at manipulation," Born warned.

'Make It Legal'

Born committed two of the cardinal sins of modern financial regulation: She criticized derivatives, and she was correct. The response of the financial community was swift and vicious, with the Plunge Protection Team and major banking groups demanding that the CFTC back off.

Among the protesters was the International Swaps and Derivatives Association, on whose board sat Enron official Mark Haedicke. Haedicke, in testimony at the same hearing as Born, behaved in Enron's typically arrogant style, admitting that Born was right about the illegality of some derivatives, while demanding that the laws—not the illegal practices—be changed.

Congress held hearings designed to beat the CFTC into submission. including a House Banking Committee hearing in July 1998, at which Enron director Gramm testified that no further regulation of the OTC derivatives market was necessary.

"In my view, there are no systemic problems in the OTC derivatives market," Dr. Gramm asserted, adding that "instead of looking for regulatory gaps to fill with more regulation, markets, consumers, and the economy might fare better if efforts were spent looking for unnecessary regulatory burdens to eliminate."

The attack on the CFTC ultimately produced the Commodity Futures Modernization Act of 1999, rammed through Congress by—surprise!—Phil Gramm. The act legalized the exemption granted by Wendy Gramm, and opened the doors for even wilder speculation by her employer and Phil's largest campaign contributor, Enron.

Retirement

Senator Gramm, then chairman of the Senate Banking Committee, managed to get another speculator-friendly piece of legislation passed in 1999, the Gramm-Leach-Bliley Act, which put the final nails in the coffin of FDR's Glass-Steagall Act.

The month before the Enron scandal broke, Phil announced that he would retire from the Senate at the end of his term, and is rumored to be in the running for the presidency of Texas A&M University, where Wendy is on the Board of Regents. Wendy has resigned from the board of Enron, and faces numerous suits because of her role there, in particular her role as a member of the audit committee.

Still, the Gramms remain remarkably oblivious to the errors of their ways. When Treasury Secretary Paul O'Neill made unkind comments about speculators in a recent hearing, good old Phil sharply disagreed. "Speculators are public benefactors who make money by making markets work better, and God bless 'em," he said.

Mass Opposition Grows To Peru's Privatizations

by Sara Madueño

The survivability of the Alejandro Toledo government in Peru is very much at issue. Nine months after Toledo assumed the Presidency—with the help of $1 million from mega-speculator George Soros, and a coup d'état organized by Wall Street and the U.S. State Department against the government of Alberto Fujimori—71% of the population disapproves of Toledo's rule, says a survey taken in late April by the company Analistas y Consultores. At the start of May, a poll taken by the University of Lima registered a 66% disapproval rating against 25% approval; when Toledo took office last July, he enjoyed a 60% approval rating, with only 11% against. His administration's dramatic decline has surpassed the most pessimistic projections, and no one would be surprised if he ended up like Fernando de la Rúa in Argentina, forced to resign the Presidency before his term is up.

The polls also reveal that 66% of the population reject the core of Toledo's economic policy—privatizations of the state companies—while 75% believe he has failed to fulfill his campaign promises and that his economic policies lack a "human face."

The great irony, is that the University of Lima poll shows that the administration of former President Fujimori has an approval rating higher than that of Toledo! This unmasks the over-used imperial term "democracy," which was employed to force the elected Fujimori to resign and to put Toledo in power. According to the same poll, 45% of Peruvians do not believe that democracy exists under Toledo's reign.

What is actually revealed is that Peruvian "public opinion" has been so naive, so volatile, and so easily manipulated by international forces, that it has been used to impose and depose governments at the whim of these same foreign forces. But apart from often-manipulated polls, the political reality in the country speaks for itself. In early May, Peruvians disgusted with Toledo's failure to provide the jobs and to live up to other campaign promises which had won their votes, booed the Peruvian President as his own bodyguards yanked him out of Gamarra, the largest industrial-commercial complex in Peru, when angry crowds jeered and threw empty plastic bottles and other garbage.

Privatization of the Energy Sector

These scenes are occurring while the entire country faces an unprecedented panorama of social convulsion: strikes, protest marches, rallies against the same neo-liberal economic