Book review

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Re-Skilling: Enron and the white-collarization and financialization of the energy industry

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Gavin Benke, *Risk and Ruin: Enron and the Culture of American Capitalism*, Philadelphia, PA, University of Pennsylvania Press, 2018, 272 pp., £26.99 (cloth), ISBN 978-0-812-25020-6

This reviewer has a confession to make. Before agreeing to write this review and reading Gavin Benke's compelling account of the rise and fall of Enron, the last time I had thought about Enron was when I heard in 2020 that Jeff Skilling, disgraced former CEO of Enron, had recently been released from prison the preceding year. Then, while writing this draft, in 2021, I read that he had recently created a firm, Veld LLC, a digital marketplace to trade energy futures, and that he was attempting to hire current employees from the politically connected economic consulting firm McKinsey, which had, itself, been connected with several scandals (Reuters, 2021; Alderman, 2021). Yet, despite my lack of specifics on the former leaders of Enron, Kenneth Lay (now deceased) and Skilling, they and Enron maintained an ominous aura that I had absorbed in the early months of the Enron scandal nearly two decades ago at the time of writing. In brief, Lay and Skilling created political connections on the basis of their leadership of Enron, a natural gas company, to influence US climate policy during the Clinton administration. Using their political influence, they simultaneously helped design early US government attempts to minimize greenhouse gas emissions, while tailoring policy to best serve their corporate needs. Lay and Skilling used local municipal connections to help transform Houston, Texas, the location of their headquarters, into a more cosmopolitan location to compete with New York City and London for workers from around the globe. When Enron's business model began to fail, their financial team's willingness to create complicated financial vehicles in the service of accounting fraud hid evidence of their declining fundamentals. Enron's accounting fraud features in many business schools' curricula about accounting standards, business ethics, and regulatory arbitrage (Lagace, 2004).

Benke, a lecturer at Boston University, argues that my experience of only thinking about Enron in passing is all too common and also misguided. He writes persuasively that we – academics, critics of capitalism, policymakers – ignore Enron's history and failures to our peril. His narrative, a quite compulsively readable account that includes lots of rich history,

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institutional detail, and salacious anecdotes, makes a convincing case for Enron as a harbinger of financial, environmental, and production crises yet to come in the first decades of the twenty-first century. He charts a largely chronological narrative arc, beginning with the New Deal and 'golden age' of Fordist production, where large firms employed many (white) men and paid them good wages for it, through the deregulation of energy markets in the 1970s, the rise of corporate raiding in the 1980s and increasingly elaborate securitization schemes in the 1980s and 90s, through the deregulation of local utility markets in Texas and California in the late 1990s, and the eventual implosion of Enron's model in 2000 and 2001 as public perception caught up with the difference between what Enron claimed to have accomplished and what it could actually produce in real terms. Enron had skillfully projected an image of a company that could achieve whatever production and profit goals it set for itself; business journalists praised the economy for its successes, business schools used Enron as a case study for success stories, and financial analysts recommended purchasing its stock. After its fraud and failures came to light, its stock price plummeted, and Enron turned into a business school case study of what not to do, rather than an example to emulate.

Throughout the book, Benke emphasizes how Enron employed two strategies widely adopted by non-financial firms in the 1980s and onward: the professionalization and financialization of traditionally non-financial production to their monetary advantage. According to Benke, Kenneth Lay and Skilling devoted substantial resources to changing the public perception and practice of Enron's business from material extraction and transport into work that could be largely performed in clean and air conditioned office spaces. Benke devotes substantial space in his narrative to how established energy professionals dismissed Skilling's vision of recreating a Wall Street trading room in Enron's headquarters; this presaged Skilling and Lay's development of Gas Bank and digital trading markets for energy futures, which would come to dominate many new Enron employees' work tasks.

Professionalization also included Lay and Skilling's outreach to community leaders of the city of Houston to develop a cosmopolitan metropolis that could attract professionals from around the world, and the wheeling and dealing they engaged to engender City Council support for creating amenities, refurbishing the city, and otherwise transforming a global energy hub into an attractive workplace and home for professionals with refined tastes. Professionalization in Benke's narrative also refers to expanding Enron's business away from the real production of goods and the service of energy provision to myriad new opportunities in the 90s – financial, digital, and green energy – and cultivating Enron's aura of expertise in guiding the US government away from clunky command-and-control policies toward allegedly efficient market arrangements that would turn out to be anything but.

Benke likewise rests much of the narrative of Enron's fraud on what happened as it tilted ever more into financial operations. This began early with the formation of Enron out of multiple energy firms in the era of utility market deregulation, and a moment of flux as firms found themselves subject to takeovers via corporate raiders' junk bond activities, continued through Lay and Skilling's orchestration of Gasbank, a financial division of Enron designed to trade gas futures, the eventual creation of Enron's special purpose entities (SPEs) for trading more securities, and the gradual decline of Enron's balance sheets regarding their production and distribution of the stuff at the root of their existence: natural gas. Through clever accounting, Enron's SPEs generated specious returns that captivated financial investors and contributed to rosy assessments of Enron's model, which belied the reality of Enron's faltering gas business. This was all well and good, until journalists started revealing Enron's spotty track record and Wall Street perceptions of the value of Enron changed, followed by the collapse in its stock price, eventual bankruptcy, and criminal trials for its corporate leadership.

Benke's narrative is propulsive. Yet, while there is a lot of lurid detail about Enron employees' exploits, it would have been good to see more technical detail about the nature of Enron's declining production. What corners did Enron management and workers cut in domestic and international energy market operations? Why did Enron start losing money on the substance underpinning its financial business model? While there are descriptions of Enron's Chief Financial Officer's willingness to use accounting tricks to evade scrutiny, a clearer narrative about what it all meant for Enron's returns would have been helpful for this reader, who has more than a passing familiarity with how fancy accounting can be used to hide less than savory balance sheets.

Throughout the text, Benke emphasizes how Enron's management used "Razzle Dazzle" – tricks to make its business appear better performing than it was in practice, more innovative than it was in reality, and more attractive to would-be-employees and city hosts than Enron ever had any intention of being. Benke seems to lump Enron's environmental advocacy in with this deceptive corporate culture, questioning whether Enron's management advised the US government on environmental regulation in good faith. This is certainly a plausible story; American corporate culture does not endear itself to the left by proactively hampering its profitability in order to better serve the environment, especially once pesky regulations are removed.

However, a simpler explanation might be that Enron's leadership believed they were acting from good intentions, and that Enron's failures stemmed more from the removal of guardrails that had initially hampered its growth, only for Enron's operations to fail spectacularly once the consequences of its financial meddling became apparent. Enron's history – in Benke's telling – feels reminiscent of corporate-government dynamics in the late nineteenth century. Lay and Skilling's willingness to court government favor and provide expert guidance on polices that would ultimately benefit their bottom line – until it stopped doing so – recalls Karl Polanyi's (2001) account of laissez-faire capitalism as a remarkably government managed system, only managed to the advantage of firms, at the expense of stability and social welfare as a whole. Governments use legal codes to prioritize interests; regulations that ensured consumers' access to utilities at the expense of corporate profit opportunities seemed to work, in Benke's telling. Elimination of those regulations and lax enforcement of existing standards created the space for Enron to cut costs and led to scandals and environmental degradation. Recurring blackouts in privatized energy markets as temperatures have fallen below and above expected ranges have had mortal tolls in Texas in the year 2021 alone.

Despite these critiques, Benke's book is an eminently worthy text for those interested in the histories of capitalism and financialization, energy market deregulation and environmental degradation, and the persistent linkages between corporate and public interests that facilitate these developments. It is particularly relevant for those analyzing the corporate, environmental, and social impact of ESG funds – investment products designed to prioritize environmental improvement, the social good, and better governance standards – and in the positive or negative potential of private financial involvement in central banks' movement on climate sustainability. It also presents an intriguing case in the clash between fundamental value and financial value, which is particularly resonant in the era of Wall Street Bets. Looking forward at more environmental stability and energy market turbulence in the years to come, Benke's argument that Enron deserves more attention is more than sound.

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