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Summary of Enron: The Smartest Guys in the Room

In the documentary Enron: The Smartest Guys in the Room, director Alex Gibney tells the story of the fall of the energy company through a series of stories on the characters involved, using a lot of archival videos. Enron was basically a Ponzi scheme, and the scandal was similar to the Bernie Madoff saga of 2008, which was another conspiracy, based on exploiting deregulation and preying on investor greed. The timing is also interesting. Madoff's scheme fell apart during the recession of 2008, while the Enron bankruptcy occurred right after the "dot-com" bust of 2000. As long as the economy was bullish, these schemes seem to perpetuate themselves, but the first sign of economic weakness the "house of cards" built up using "smoke and mirrors" falls apart.

Enron was presumably an energy company, based in Houston. However, they really specialized in abusing the deregulated electricity market and extreme creative book cooking with the help of Arthur Anderson, their accounting firm. The story is a little Shakespearean with big characters and quite a bit of hubris. You can see the pride and arrogance of the main players, like Ley, Skilling and Fastow. Like Madoff, who was seen as an oracle above the realities of due diligence, anyone who questioned the astronomical profits that Enron were making got ignored or fired. Ley used his connections to seem reputable - he was close friends with President Bush, who called him "Kenny-Boy".

Enron had a strong written code of ethical behavior, due diligence and corporate responsibility. However, in reality, it had a culture of greed and manipulation. They were particularly good at convincing lower-rank

employees to invest their life savings into 401(K)'s that were eventually worthless. Because of this lack of diversification, many Enron employees were left both unemployed and broke after the Enron bankruptcy. Enron was the nation's seventh largest corporation, valued at almost seventy billion dollars.

The scene that encapsulated everything Enron was about showed CFO Fastow explaining to a room of Merrill-Lynch bankers the logistics of the pyramid scheme. Fastow was ridiculously and blatantly corrupt, starting a shell company called LJM, for Lea, Jeffrey and Matthew, after his children. When a Merrill-Lynch investor asks about potential conflict of interest, Fastow explains that it was not problem, because he would " always be on the side of LJM", even though he was CFO of Enron. A shell hedge fund based in the Cayman Islands, LJM was just to hide massive Enron debt.

Enron: The Smartest Guys in the Room is mostly about the villains involved in the scandal, and only offers superficial analysis of the financial abuses. The fraud, however, seems relatively simple. Enron borrowed money from investors (mostly employees and friends) and then reported the borrowings as revenues or cash flow instead. They had very little debt on the books. Their auditor - Arthur Anderson - was in the business of ignoring the fraud. The filmmakers report that in 2000, Andersen earned \$52 million from Enron, and this came mostly from investments in Enron, which again seems like a huge conflict of interest. Likewise, analysts were in love with Enron, who they saw as representing the " new economy" and were therefore did not need to operate under old financial regulations. Unlike Madoff, who worked under a protective shroud of secrecy, Enron seems to have felt so confident

and protected that they did not need to hide anything, in fact, they seem to have video recorded a lot of incrimination evidence. Everyone involved just ignored irregularities and cashed their checks, except for a few people who sensed the impending collapse but were ignored. The videos of Ley and others putting on plays to convince employees to sink their money in Enron was particularly pathetic. Ultimately, Enron fell when the economy entered a recession and they were unable to fake profits. Arthur Anderson was humiliated and Merrill-Lynch paid a huge fine but denied any wrongdoing. Fastow went to jail, Ley died and most people lost their jobs and life savings, but as we saw with the Madoff collapse and the general vibe from the 2008 recession, not much changed.

Work Cited

Enron: The Smartest Guys in the Room. Dir. Alex Gibney. By Alex Gibney, Peter Elkind, Bethany McLean, and Peter Coyote. Magnolia Pictures, 2005.