The crisis of enron corporation

Economics

On July 1985, Houston Natural Gas merged with InterNorth; a natural gas company established in Omaha, Nebraska, and together formed the modern-day Enron. The Enron Corporation began bartering natural gas commodities, and by the early 1990’s, the company became the largest natural gas merchant in North America and the United Kingdom. Soon after in 1994, Enron North America began selling electricity and eventually becomes the largest marketer of electricity in the United States. Before the crisis Enron went through, the company had been doing glowingly and their status amongst the nation and Americans was very high and well-respected.

In the early 1990s Enron decided to “ branch off” into trading energy futures and energy derivatives such as coal, pulp, paper, plastics, and metals. With the new right and capability to trade these derivatives, Enron decided it was easier to cheat the system than play by the rules. Rather than letting the free market determine the energy future prices, Enron began setting up “ nearly 3000 offshore companies, many of which they treated as partnerships”. These offshore companies provided Enron with the means to control energy prices, and by doing so, at the same time, hide its own debts. When states, such as California, came to Enron to determine their energy contracts, Enron would show them contracts it had signed with its “ partnerships” offshore which were exceedingly expensive, and therefore, the contracts it would make with California would be at increasingly astronomical prices. By showing these contracts, Enron’s customers had to give in to Enron’s overly-expensive pricing because the offshore companies were paying just as much. Remarkably, all of these partnerships were “ approved by Enron's board of directors, and reviewed by the companies outside auditors and lawyers – Arthur Andersen and Vinson & Elkins".

George W. Bush, and the CEO of Enron, Kenneth Lay, had always been good friends. So, when Bush won the presidential election, Lay saw the possibility of extending Enron's scheme well into the future by means of his personal connection with the president. However, In December of 2001, an " uncontrollable meltdown" struck Enron's scheme and soon the world learned that " Enron's apparent success had been little more than a complex illusion".

On October 30th 2001, Justice Department Investigators wanted to check on Enron's dealings with the partnerships, namely the offshore companies. This eventually led to the investigators finding out about Enron's illegal plot. On December 2nd 2001, Enron filed for Chapter 11 bankruptcy, the biggest in American history. However, before Enron collapsed, insiders like Kenneth Lay, got rid of over 16 million shares of Enron stock making over a billion dollars. When Enron went down, they fired more than 4, 000 US employees and more than 1, 000 European employees. All of Enron's 15, 000 employees soon learned that they had lost $1 billion in pension funds, as well as all their money invested in the company, in which Ken Lay convinced employees to invest.

Many people were affected by the Enron breakdown, some to some extent mentally and some to some extent financially. However, for certain individuals, the crisis was dramatically life-changing for the worse. The 15, 000 Enron employees and their families all suffered terribly due to the meltdown. They lost their jobs, and all the money that they had invested in the company. Because of the greed of other people, their lives have been significantly damaged financially, both them and their families.

Enron’s customers buying their products were also greatly affected. As mentioned, consumers would be lied to and would have to pay much more money than should be paid for Enron’s products. This upset the balance of the American economy and could have amounted to inflation eventually. Investors other than the employees of Enron were also greatly devastated when the company broke down. Millions of dollars were lost and many people lost a significant amount of money. Thus, not only was Enron damaging the lives of their employees, but as well as the good of the American people. A lot of Americans also lost their faith in the economy of their country. They saw how one corporation could sneak by the law and lie about millions of dollars right under the government’s nose. So for some time they could not trust their own country and found it to be a very fragile system that could easily be disrupted.

Many people in this world, if not everyone, would do anything for exceeding amounts of money; therefore, it is possible to understand why the participants of this illegitimate plot did what they did. However, if receiving this amount of money means that one would have to lie, cheat, break the law, ruin the lives of so many hard-working people, disrupt the economy of your country, and damage the lives of so many honest citizens, then ethically this would be one of the greatest business crimes anyone could carry out. The leaders of Enron indeed crossed the line by executing this scheme and would have to be punished accordingly.