

Will Congress address reforms posed by Enron?

Reflections on Enron ...

Modern American free market equity capitalism depends entirely on public confidence in three underlying propositions:

■ The accuracy of statements of company earnings and net worth, as validated by the accounting profession.

■ The integrity of the recommendations to buy or sell stocks, as rendered by analysts in the securities industry.

■ The clarity and even-handedness of the rules of the game — whether the tax code or the regulatory environment — as set out by the government.

All three fundamentals have been seriously compromised by the events of the past several years, culminating in the Enron scandal.

What the Arthur Andersen accounting firm did at Enron is now widely known and easily condemned. The firm certified that Enron's financial statements accurately presented the profits, assets and debts of the company. But it turns out that Arthur Andersen helped invent and then accepted complex accounting tricks that inflated profits and tolerated moving debt off the corporation's balance sheet into legal but deceptive partnerships.

The point is not that Arthur Andersen is a particularly bad or unethical public accounting firm; it's not. Rather, it's that Arthur Andersen, like other accounting firms, has in recent years got into the business of helping companies find ways to aggressively jigger financial statements to inflate profits and disguise debts, usually legally and "in accordance with generally accepted accounting standards."

This kind of activity is very profitable. But when the accounting firms — whose functional purpose in our economic system is to maintain public trust in the accuracy and integrity of financial statements — also engage in what might be called "earnings consulting," they immediately put themselves in a conflict of interest. This risks public confidence in the integrity of their audits.

The integrity of the securities industry also has been eroded as it has become clear that many of the market analysts who recommend that we buy or sell a given stock are also employed by the same Wall Street firms that

profit by underwriting and selling that stock. According to the New York Times and the Wall Street Journal, these supposedly independent analysts often have issued recommendations on stocks underwritten by their own firms without revealing their own affiliations. Reporters found that the vast majority of these were "buy," even when the companies faced deteriorating business conditions.

So as long as the stock analysts are unwilling to fess up to their conflicts of interest, the public can no longer take their recommendations as independent.

Lastly, for our modern business culture to survive, people have to have confidence that the rules of the game are fair, even-handed and understandable.

Fair? Even-handed? What did Enron spend all that money buying access to politicians for? To get the Commodity Futures Trading Corporation (the relevant regulatory federal agency) to turn the company loose to run an unregulated energy derivatives trading business. To pick members of the Federal Energy Commission. To sit in secret meetings with Vice President Dick Cheney in developing energy policy for the Bush Administration.

Understandable? Take a quick look at the U.S. tax code. Our tax laws are now so enormously complex and filled with exceptions, gimmicks and loopholes that no ordinary person has a chance of understanding them. Hence high-priced accounting consultants. Hence a political culture that trades campaign contributions for special interest access to writing the tax laws. Hence the hypocrisy of a Congress once delighted to accept campaign contributions from Enron, now in full cry to pin blame on greedy Enron executives.

Sure, Enron is a scandal. And there are lots of people to blame. Probably, there will be tinkering around the edges of the conflict of interest rules for accountants and stock analysts. I suspect these will in practice waste a lot of extra time and cause a lot of expense but not get at the root of the problem.

The real problem posed by the Enron mess is that it strikes to the heart of our modern economic system. I am very much afraid that the interest groups that have been so profitably involved — business executives, accountants, lawyers, Wall Street firms, Congress itself — will shy away from the kind of radical reform needed to restore confidence in our economic system.

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Mike Malott

Sometimes even agreement doesn't produce action

Politics and policy making can be intensely frustrating.

Some debates seem to defy attempts at compromise. Gun control, abortion, the death penalty are such issues where it is hard to find a middle ground. They're black or white. You're either for 'em or agin 'em.

More frustrating yet, in my opinion, are the issues on which everybody agrees — or at least they say they do — and still nothing gets done.

The best example of this is the issue of school accountability and assistance. That's the idea of having the state identify "failing" schools — or "struggling" schools, or "low performing" schools, or "priority" schools, or whatever the heck you want to call them — and lending them a hand.

All the major players have given at least a basic description of what they would like to see in such a program, and they all sound pretty much alike. The state Senate has already passed its version. State House Republicans have outlined what they'd like to see, and it's pretty much the same.

The State Board of Education has a plan in the works. The governor wants it done. The Michigan Education Association has described a program that sounds a lot like the others. Even President George Bush's education program revolves around the same basic concept.

The latest round came recently when the State Board of Education considered a plan for accreditation of schools put together by state Superintendent Tom Watkins. His idea is to look at six different areas of performance and hand out letter grades to school districts for their overall work. By his estimate, 1,100 schools across the state would get low grades. Ds and Fs.

But the Board of Education has questions about how this will work and put off until early March finalizing much of the plan's detail.

It was not the first delay by the state Board. Earlier Watkins had tossed out an accreditation plan put together by his predecessor so he could come up with his own system.

That left state House Education Committee chairman Rep. Wayne Kuipers (R-Holland) pretty frustrated. He said he'd have to put out his own school accountability plan yet this spring.

Kuipers and the Republicans can be as frustrated as they want, but it should not be overlooked that his committee has had a proposal on the table since last spring and has done nothing with it. The state Senate put together its own

"priority schools" package and passed it back then. It would target the lowest five percent of schools, sending in three-person assessment teams. Those teams would try to figure what's going wrong in a district and report back to a state education improvement board. The purpose of the evaluation would be to specifically figure out what would have to happen to turn things around in a district.

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Gov. John Engler was frustrated with the Board of Education after the recent delay too, and he started talking about abolishing the state board. But then Engler has been involved in a power tussle with the board for years and he's done just about all he can to move programs away from its department and put them in offices he controls.

Nonetheless, on the issue of accreditation, as state board members point out, the effort to revise standards dates back almost 10 years under the governor's choice for superintendent. If it's taken too long, much of the responsibility rests with Engler's own people.

The MEA came up with a plan for devising "State Directed Assistance Plans" for those struggling school districts. And Bush's "No Child Left Behind" act includes the same idea, calling for assistance to school districts that fail to meet state-set standards for two years.

The differences in all those proposals is primarily in the detail.

With everybody agreeing on the basic idea, you would think fast action would be possible.

At the moment, however, no district in Michigan has yet to receive any such assistance from the state and chances look very bad for the process to begin this school year.

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