

## PRESS STATEMENT

### **The Fall of Enron: How Could This Have Happened? Committee on Governmental Affairs**

Senator Joe Lieberman  
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(as prepared for delivery)

#### **Statement by Chairman Lieberman - As Delivered**

Good morning. With this hearing the Senate Governmental Affairs Committee begins its investigation of the Enron scandal. The spectacular rise and fall of an American corporation and the devastating effects its collapse has had on its employees and retirees, on its shareholders and customers, and on the confidence many Americans have in the markets and in their government.

The basic facts of this story are now well known. Less than a year-and-a-half ago, Enron was ranked as the seventh largest corporation in America. The energy trading company was a bright star on Wall Street, a juggernaut trading at \$90 a share at its height with revenue over \$100 billion. Stock analysts couldn't recommend it fast enough, and the company made millionaires of many loyal employees who invested their life savings in its stock. Then last month, Enron's bright star collapsed into a black hole when it abruptly declared bankruptcy and was exposed as a house of cards built on greed and deceit. To add insult to injury, average workers and investors were cheated out of their life savings while a small group of executives and insiders made off with hundreds of millions of dollars from well-timed stock sell offs. Today the company stock is worth pennies and is no longer traded on the New York Stock Exchange. Five thousand of its employees are out of a job, and thousands more are reeling in the ruin of their retirement dreams.

One of the nation's top accounting firms, Arthur Andersen, is accused of helping to conceal Enron's liabilities instead of reporting them. Public and private employee pension funds from Florida to California have lost billions of dollars. And at a time when over 60 percent of Americans own stock in one or another, the confidence of the investing public in the stock market has been shaken.

So this is not just a tempest in a teapot, it is an unprecedented corporate storm that has already hurt thousands of people and now leaves dark clouds over America's economy and Americans' confidence in their future personal economic security. This scandal cries out for thorough congressional investigation to make sure that nothing like this ever happens again. Yet, because Enron has made substantial political contributions to members of Congress and the executive branch, some have questioned the capacity of any congressional committee to conduct an independent, thorough investigation of Enron. Now, I think there are two things we, in Congress, can do to overcome that skepticism and rebuild public trust. One is simply to do a completely independent and demanding investigation and that is the intention of this committee. The second is to pass campaign finance reform.

As for this committee, we have a clear duty under the rules of the Senate to investigate and we will carry out that duty by conducting an investigation that is independent, comprehensive, aggressive, fair and non-partisan. We should neither jump to conclusions before the facts justify them nor hesitate to ask

tough questions of those in the public and private sectors who can produce the facts that we need in order to get answers. And we will follow the facts wherever they lead us. This is a big and complicated investigation. So our committee has divided it between the full committee and our lead investigative committees. The permanent subcommittee on investigations, chaired by Senator Levin with Senator Collins, as Ranking Republican, will investigate the internal malfeasance of Enron and its auditors, the role of the board of directors, conflicts of interest, offshore tax havens, and insider trading.

Here at the full committee level, we're going to focus on the external controls and protectors, the federal agencies and laws, and ask why in this case they couldn't better protect the thousands of employees and investors who have suffered from Enron's untimely and unnatural demise. As the Senate's chief oversight committee, it is our responsibility, again under the Senate rules, to make sure the federal government is as effective as it can be in protecting the public interest, because in this case so many have lost so much. This committee must ask if the relevant federal agencies- the Securities and Exchange Commission, the Labor Department, the Commodities Futures Trading Commission and the Federal Energy Regulatory Commission - did everything they could have done to protect the public, and if not, why not.

At least one of those agencies was formed way back in the most serious crisis American capitalism has ever faced, the Great Depression. It and other watchdog agencies that have followed were established, I think, to require the fullest disclosure and fairest play that are necessary to make our market economy work for the benefit of the many, the broad middle class, and not just the privileged insider few. Now in the context of the Enron's scandal, people are asking, and we will ask, whether these agencies need to be strengthened to perform this critically important function.

Here are some of the questions we're going to ask. How was Enron allowed to hide its debts and losses and shady accounting from SEC oversight? Could the Labor Department have intervened when Enron barred its employees from selling company stock in the 401(k) plan and blocked them from salvaging what was left of their retirement nest eggs? Could FERC and the CFTC have exercised more oversight to rein in abuses that might have contributed to Enron's collapse? We've got to ask also if the regulatory agencies need additional powers to prevent this kind of massive investor rip-off from occurring again.

And we've got to ask, and we will, and Senator Levin's committee will, why the private sector checks and balances that we rely on to keep the markets honest and open, the auditors and analysts and independent corporate directors didn't do their part to make sure that the Enron investors and employees were getting the true story.

Are the auditors with their enormous consulting fees too beholden to management to protect the shareholders' interests? Are stock analysts too concerned about protecting the lucrative business relationships of their firms to be objective in their assessment of companies? Are independent directors with their stock options and consulting contracts and corporate perks truly independent? Is the system, in sum, so rife with conflicts of interest that the average American trusting his or her future to the stock market is inadequately informed and therefore poorly protected?

We are going to begin our oversight and investigation with a series of hearings during the next several weeks on the most important public policy questions that have emerged from the Enron scandal. At the same time, we will also issue written interrogatories to the agencies of the Federal Government that have had

jurisdiction over Enron and to the White House to determine what they knew and did regarding Enron's regulation by the four agencies I mentioned earlier over the last several years. We also plan to request, by subpoena, that Enron and Arthur Andersen turn over documents related to their contacts with the same federal agencies and offices. After we collected that information and conducted additional interviews, we will report our findings to the public in hearings to be conducted later this year. In the end, I hope that this committee will have specific recommendations to make to change the law and regulation, recommendations that will strengthen the watchdogs both in and out of the federal government so nothing like the Enron scandal ever happens again.

In today's hearing, we're going to set the stage for what will follow and try to put the Enron story into context by defining a set of the most important policy issues that have come into question as a result of Enron's collapse. The sudden, wholly unanticipated failure of the nation's seventh largest corporation under infuriatingly suspicious circumstances, with grave consequences for thousands of people, is a clarion call for all of us in government to make sure we are doing all we can to protect the integrity of our markets that, in their way, have allowed the growth of the great American middle class and the savings and investments of the American people.

I would like to say just a few words briefly to my fellow members of the committee. We are beginning a journey today, one that will be long and complicated and often controversial. But it is a very important journey. It's not a journey that was on our committee agenda for this year. But then Enron happened and now this committee, which is uniquely charged with oversight and investigation by the Senate rules, has a duty to act. Along the way, there will be people outside the committee who will try to distract us and divide us. For my part, I pledge to you that I will do everything possible to make sure they do not succeed. I want to end this journey together as we begin it together today, having found the truth as best we could and proposing reforms that are the best we can.

I am very privileged to have Senator Fred Thompson as the Ranking Republican on this committee. We have worked closely together over the years. I have great respect for Senator Thompson. I might even say I like him. I even occasionally enjoy his company. I would say, in specific regard to this matter, I've consulted with him as we have shaped our investigative plan and I look forward to working closely with him as the investigation proceeds. I am also pleased that Senator Levin and Senator Collins and their staffs are working closely together on the work of the Permanent Subcommittee on Investigations.

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