Setting Up Pigeons

The anti–free-market crowd is cackling over Enron. But who’s really entitled to say, “I told you so”? Is this the result of unbridled robber barons? Or the predictable outcome of the regulatory regime?

There is only one sure consequence of pervasive regulation: a blunted wariness born of a false sense that government watchdogs are on the job. Regulators require corporations to make myriad disclosures and to be audited every year. Severe penalties are threatened for failure to comply. Under those circumstances, no potential investor could be as cautious about corporate wrongdoing as he would be if no such requirements existed.

But any regulation can be gotten around. Those without scruples or honor will always manage to spin their schemes. So we’re left with something far worse than the socialist’s nightmare: unbridled and unscrupulous businessmen and unwary investors, employees, and consumers.

Put bluntly, the regulatory environment indirectly sets up pigeons.

It can do so directly also, as IOL managing editor Beth Hoffman points out. Consider the “Chinese wall.” The New York Times explained, “Wall Street firms are supposed to maintain a so-called Chinese wall to ensure that customers of their brokerage operations are not made privy to inside information gleaned by their investment bankers.”

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The Times provides an example: Merrill Lynch, the underwriter for one of Enron’s partnership offerings (called LJM2), “was aware of the off-balance-sheet figures for Enron. . . . But because the numbers were confidential, that information could not be shared with Merrill brokerage clients who were investing in Enron stock.”
The *Times* story continued: “In this case, securities experts said, *the intent of those laws was undermined*. The transactions ‘followed the legal norms to produce a perverse result,’ said John C. Coffee Jr., a securities law expert at Columbia University. ‘It’s a case where the Chinese wall is working to injure public investors, rather than benefit them.’” (Emphasis added.)

Free-market advocates call such perverse results “unintended consequences.” Protector became accomplice. Would Enron’s investors (including its employees) have been worse off without such “protection”?

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After September 11, pundits and politicians have been heralding the return of Big Government. When did it ever leave? Joseph Stromberg wants to know.

And speaking of Big Government, it got that way because it has devices to keep the people who foot the bill from detecting what’s going on. In an excerpt from her important new book, *Dependent on D.C.*, Charlotte Twight describes the process.

The environmental movement and the regulations it has inspired are premised on the notion that human activity can harm the environment. Therein lies a monumental fallacy, Roy Cordato writes.

When the government of the District of Columbia bought private individuals' handguns and turned the guns into a sculpture, it did more than create bad art. William E. Pike has a review.

Enron would have hurt far fewer people had its charter warned that it might issue tainted audits and inaccurate balance sheets. Rather than new regulations, Fred Foldvary says, we need a clear codification of the market’s rules.

People bemoan credentialism, but to Keith Wade, it’s just the market’s way of compensating for government’s failure.

In the free market new technologies begin expensive but quickly fall in price and spread throughout society. The exception is medical technology—because the market isn’t free, Gary Pecquet writes.

If it’s illegal to bribe a court witness, why does the government get away with it? As Joseph Fulda points out, for a moment, it almost didn’t.

As the seedless green grape demonstrates, capitalism makes weak men strong. Daniel Hager connects the dots.

The farmer is an exalted figure whom virtually everyone would exempt from the market’s gales, including some self-styled defenders of capitalism. Scott McPherson explores the curious exception.

Politicians have many ways to subvert social cooperation and destroy prosperity. But, writes Christopher Lingle, it’s hard to top populism.

Personal computers and the Internet seem to pervade American society and are becoming more common all the time. Yet some lament the “digital divide.” Larry Schweikart examines the matter.

Confusion over the term “liberal” continues. So Jim Peron consulted two old books that should have cleared things up.

Why the perennial worry over a general falling of prices (“deflation”)? Christopher Mayer seeks an answer.

Our columnists have another set of treats this month: Mark Skousen explores the right to be left alone. Lawrence Reed reports on a reason for optimism in Kenya. Doug Bandow warns against broadening the war against terrorism. Thomas Szasz sees resemblances between maternity and mental hospitals. Dwight Lee ponders the public interest. Donald Boudreaux recycles. Charles Baird finds the secret of success for public-sector unions. And Thomas DiLorenzo, encountering the claim that Enron and Argentina constitute market failures, replies, “It Just Ain’t So!”

The lineup of book reviews is equally provocative, with these themes: software without copyright, the history of business, the Clinton-Reno Justice Department, the role of economics in politics, and the moral effect of wealth.

—SHeldon Richman

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