

Like

Be the first of your friends to like this.

Economic Analysis of EnronContributor: [Michael D. Scott](#) **SUMMARY: ENRON WAS NOT ALL BAD**

Enron is commonly trotted out as the poster child of corporate greed and arrogance. This is a misreading of the record and a misreading of history.

Back in 2003, Christopher L. Culp, then adjunct professor of finance at the Graduate School of Business at the University of Chicago and senior fellow in financial regulation at the Competitive Enterprise Institute, and Steve H. Hanke, then professor of applied economics at the Johns Hopkins University and a senior fellow at the Cato Institute wrote this analysis of Enron and its businesses. (At the time, both authors were also principals in Chicago Partners, LLC.)

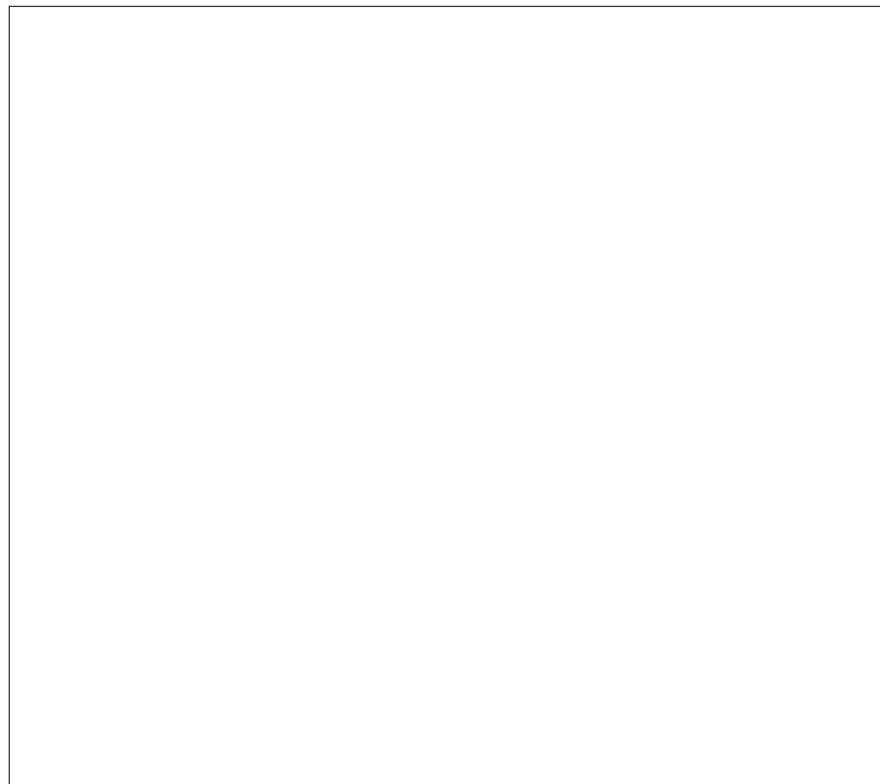
They conclude that Enron's basic, "asset-lite" business strategy in the otherwise capital-intensive energy business, which the company knew well, was both legitimate and beneficial to the economy.

Ultimately, however, Enron diversified into other businesses it did not know well. These businesses, such as telecommunications, either were not as capital intensive as the energy business (and, therefore, did not offer economic advantage to the "asset-lite" strategy) or were highly regulated utilities, such as public water systems, not fully susceptible to market forces.

In diversifying, Enron incurred substantial costs to acquire information on its new markets, and was forced to deviate from its basic strategy. It adopted improper and illegal accounting policies to hide the resulting losses.

Culp and Hanke argue that Enron should be recognized and commended for its success in the energy business, but prosecuted for the illegal activities arising from its failed diversification efforts.

I post this piece in support of my argument that dividends should be deductible at the enterprise level as a legitimate cost of capital. Inability to distribute earnings tax-efficiently causes misallocation of capital through ill-conceived diversification.

Download: [Word \(.doc\) \[382KB\]](#) | [PDF \[121KB\]](#)[Share](#) |**DOCUMENT INFO**

Doc Type:
Legal Article/Newsletter

Subject Matter:
Energy & Utilities
Finance & Banking

Contributor Info**Michael D. Scott**

Advising entrepreneurs, angel investors and VCs on enterprise formation, organization...

[\[Profile\]](#) | [\[Documents\]](#)

LAWYERS: JOIN JD SUPRA

Your expertise, delivered across the Web

Join using your [LinkedIn](#) infoOr, [start an account from scratch](#).**READ THIS ON LINKEDIN****Legal alerts directly on LinkedIn:**

get legal updates on your LinkedIn homepage
customize with subjects that matter to you
connect to lawyers whose work you value

[Add Legal Updates on LinkedIn](#) 

BROWSE THE STACKS: RELATED SUBJECTS

[Environment & Energy Law](#)
[Finance & Banking](#)
[Securities Law](#)
[Bankruptcy](#)
[Business Organizations](#)

[more...](#)**STAY INFORMED VIA EMAIL**

Receive monthly links to top articles, alerts, newsletters on JD Supra - sent to your inbox.
Free digests. *Subscribe now.*

Email Address:

I am a:

Please Select One [➔ Subscribe](#)[Privacy Policy](#)

Published: 2/20/2003

Legal Article/Newsletter Name:
Economic Analysis of Enron

Legal System: United States

Securities Law
Bankruptcy
Business Organizations

RELATED DOCUMENTS BY MICHAEL D. SCOTT
There are no Related Documents at this time.
