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FREE MARKETS AND THE FALL OF ENRON

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Readers who have only read the business news headlines know of the imminent meltdown of the Houston-based energy behemoth Enron Corp. Unfortunately, the story is playing out as a familiar drama of corporate greed in the form of overreaching Texas energy moguls. If indeed it turns out that Enron's managers were engaged in shabby financial practices then shame on them and let the law meet out its punishments. But what Enron really should be remembered for is the benefits that we have all gotten from its leadership of a virtual revolution in this nation's electricity and natural gas industries.

The revolution in the energy markets is ongoing, and is generally referred to as deregulation. But it's not deregulation as much as it is the introduction of competition into two government-regulated monopoly industries. These efforts aim to supplant local gas and electric monopolies with customer choice and competition and replace cumbersome government regulation with effective free markets. While Enron's goal was to make money, the consequence of its actions has reduced the need for government regulation, which is lowering the cost of energy for consumers and businesses all over the country.

The system began to be turned upside down in the mid-1980s, with the introduction of competition in the natural gas industry. Within the first two years after introducing competition real prices in that industry declined nearly 40 percent. After 10 years, inflation-adjusted prices had declined nearly 60 percent from where they were prior to deregulation. It has been estimated that if gas prices had remained at the levels they were when deregulation went into effect in 1984 consumers today would be paying $50 billion to $60 billion more for natural gas.

Advocates for competition, like Enron and others, have more recently been fighting to bring the kind of savings natural gas consumers have enjoyed to electric consumers. Today we're in the early stages of electric "deregulation," with full competition but a mere threat in most places, yet we're already seeing the long-term price of electricity declining. That's because the marketplace knows that as government intervention recedes in favor of effectively operating free markets prices will decline.

By loosening the stranglehold of the local utility innovative energy suppliers are also becoming free to offer something other than the one-size-fits-all service. Energy buyer and energy seller are free to tailor an arrangement that fits their needs, not as the monopoly utility and government have agreed to define them. Some competitive energy suppliers even accept credit-card payment for their bills, giving the consumer a convenient payment method as well as the opportunity to get frequent flier miles for paying her utility bill. Yet another "reduction" in the price of utility service. Innovations like this, however simple, are rare under the old entrenched utility model. Because of companies like Enron they are becoming more commonplace.

Our standard of living is the envy of the world and we owe it in large part to an economy guided by the operation of free markets instead of government regulation. Why is it then that free markets and those who advocate for them seem, like Rodney Dangerfield, don't get any respect?

To some degree the decline and fall of a company like Enron fits neatly into today's news reporting style, pro-con, good guys-bad guys, and it would be naive to expect reporters to ignore that kind of Citizen Kane set-up. But this formula misses the real significance of Enron's success and failure.

It has been said that in our interest group dominated politics, where every organized economic cause gets a hearing, free markets have no constituency. Although we all benefit from their operation, there's no one to call a press conference and scream bloody murder when someone does something that's sure to gum up the works. This weakness gives every irresponsible politician and confused armchair economist the opportunity to call for the government "to do something," every time the law of supply and demand sends the signal, through higher prices, that demand is outpacing supply.

But contrast the consequences of California's electric restructuring failure with Enron's and you get in a nutshell the ultimate proof of the social superiority of free markets to government regulation.

Regulation advocates always seek to justify government interference in the marketplace in order to "protect consumers" from the effects of volatile price movements.

But experience shows that it's when government interferes with the operation of the laws of supply and demand that we see price spikes and rationed supplies.

That's what happened in California when it restructured its local electricity market. There the state's bureaucrats feared the rollback in government control that opening the electricity markets to true competition represented. So instead of creating a true open market and just getting out of the way, they jerry-rigged a government-run system that left every Californian holding the bag for price spikes and energy shortages and a broken state budget.

On the other hand, operating in the free market, when Enron failed only its management and shareholders were left to pay the bill. In effect, Enron's revolution privatized the risk of its failure.