
Enron and the SAT

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This is an excerpt from David Lebedoff's upcoming book, The Red and the Blue, in which he continues his examination of the effects on our society of what he calls the New Elite. This is the new class, an I.Q. "meritocracy" of high academic achievers. It is a large and growing class whose self-identity is based on being the best and the brightest, a status supposedly "proven" by scientific tests and high scholastic grades.

Everyone not in the New Elite is a Left Behind. No matter how brilliant a person is, if he or she bases self-identity not with a new class of the "brightest" but with anything else—faith, tradition, the marketplace, social position based on wealth or virtue, anything other than measured academic achievement—then that person is a Left Behind.

Lebedoff's main point is that the New Elite unfortunately has succeeded in part in moving our society away from majority rule, and changing the nature of our politics. His upcoming book examines this at length, arguing, for example, that the last presidential election was tipped to George Bush because he was seen as a Left Behind and Al Gore the embodiment of the New Elite.

This excerpt deals with the impact of the New Elite on traditional concepts of morality.

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As America entered the twenty-first century it not only was the freest and most powerful nation on earth, it was also very much the richest.

The 1990s had been a period of domestic prosperity unprecedented in human history. There was considerable dispute as to how equitably that wealth was distributed within the nation, but as to the size of the golden egg itself there was no question. How could there be? Whether aircraft or fast foods or software or films with explosions, America was turning out in astonishing abundance the products that the rest of the world was very anxious to buy.

And a majority of Americans saw their lives improved, perhaps not always in quality but certainly in terms of material possessions and recreational choices that had not been dreamed of by their parents. The rising tide may have lifted yachts higher than dinghies, but secretaries now were no more likely to drink the free office coffee than they were to down a glass of tap water—not when better alternatives were only an elevator ride and five bucks away.

The heroes of this new abundance were the CEOs. Business executives, recalling perhaps the social unrest of the Vietnam years, imagined themselves still reviled when in fact in most quarters they had become adored. Worshipped. Acknowledged as the architects of the floodgates so abundantly open. Why else would the public yawn at the fact that a CEO now was paid four hundred times the salary of a worker on the assembly line? Why not? These were the gods who caused a rain

of gold. They were the calm, clear, decisive, hard-working entrepreneurs and executives whose rational deliberations had led to such great prosperity. Thanks for the latte, guys, and hope you enjoy your Gulfstream.

Suddenly this all changed. CEOs were in disgrace. The sight of an executive arriving for his arraignment in Armani and handcuffs was enough to transform the average TV viewer into Madame Defarge. Bring on the tumbrels! More, more!

What had happened began with Enron. Once heralded as one of the very largest corporations in the land (even this fact turned out to be a lie), Enron became the symbol of corporate evildoers, executives whose deceit had caused the oversold plane to crash while they themselves escaped in golden parachutes.

The books indeed had been cooked and the executives wildly overcompensated. And then these flaws were revealed in other companies—Tyco, for example. More tumbrels were needed. Enron remained the symbol, though, for executive perfidy: greed, fraud, self-dealing, vast webs spun of pure deceit, lack of concern or regard for the trusting shareholders.

And so it came about that CEOs lost favor in the public eye. Only a handful of companies were even accused of fraud. Most were honestly managed. But the scandals had heightened the level of suspicion, from which, however unfairly, no corporation seemed exempt.

There also was the question of compensation. So long as the stock market

was going up, people had ignored the soaring executive salaries. When the market began a huge decline—fueled in part by the perception that even a company as large as Enron could be run by con artists—all the bloated compensation became less tolerable. Even Jack Welch, who had honestly multiplied the shareholders' value in General Electric many times over, became a focal point of public outrage over the perks he received on retirement. If Welch could be vilified—Welch, who had ranked highest in the pantheon of CEOs so widely worshipped—then no CEO was safe. Admiration of business leaders had been transformed into a harsher approach somewhere between hatred and contempt.

All of the above is well known to the reader. So what does it have to do with the New Elite?

Plenty. Enron's problems, and those of the other misfeasors, would never have occurred had the new class been doing its job.

In every field there are a few crooks and charlatans. So this is true as well of business—most executives are honest and hard working, but there will always be some who are not. Not many, but enough. Enough to require supervision.

And who are the supervisors? To a significant extent they are members of the New Elite. Each company is surrounded by an army of new class monitors.

Their tasks are clearly defined. Few familiar with large publicly traded companies would claim that they are insufficiently regulated. Such companies must by law provide a vast amount of

information to innumerable sharp-eyed professionals, both publicly and privately employed. The Securities and Exchange Commission alone is a vacuum cleaner continuously on, sucking up incredible quantities of data with which to measure the corporation's compliance with federal regulations.

Then there are lawyers, in-house and outside the company, and not all representing the company, some in the service of shareholders or raiders or other companies. These have varying degrees of access to the company's financial secrets, but to none of them can information be entirely denied.

And of course there are the accountants. Nothing in theory is hidden from them. Their job is to sign off on whether everything is in order. In Enron's case Arthur Andersen did opine that all was well, and in consequence soon went out of business. The Big Five accounting firms became the slightly larger Big Four.

Accountants, lawyers, and government regulators were not the only ones to fail to see the massive Enron problems. There were others, too, whose eyeshades were blindfolds: securities analysts, investment bankers, money managers, and all those highly trained specialists who have been certified as able to examine complex financial data and then understand what the numbers really mean.

And beyond (perhaps above) even all of these is another class of super-consultant, the management-consulting firms. And of these, the largest and most prestigious, the top of the mountain, higher even than the clouds, is

the almost reverentially regarded hot-house of ultimate testable ability, the legendary McKinsey & Company.

McKinsey is in the business of hiring the best of the brightest, those intrepid climbers who dwell atop Everest and have nowhere left to look but down. The largest corporations in the land from their base camps send for help and from on high the most gifted descend to advise, to solve, to awe, to heal, and then to ascend again to the lofty peak that lesser mortals will never attain.

Writing in *The New Yorker* (July 22, 2002), Malcolm Gladwell, in an article correctly titled “The Talent Myth: Are Smart People Overrated?” notes that “of all [McKinsey’s] clients, one firm took the talent mind-set closest to heart. It was a company where McKinsey conducted twenty separate projects, where McKinsey’s billings topped \$10 million a year, where a McKinsey director regularly attended board meetings, and where the CEO himself was a former McKinsey partner. The company, of course, was Enron.

“The one Enron partner that has escaped largely unscathed is McKinsey, which is odd, given that it essentially created the blueprint for the Enron culture. Enron was the ultimate ‘talent’ company...During the ‘90s, Enron was bringing in two hundred and fifty newly minted M.B.A.’s a year. ‘We had these things called Super Saturdays,’ one former Enron manager recalls. I’d interview some of these guys who were fresh out of Harvard, and these kids could blow me out of the water. They knew things I’d never heard of’....

“The management of Enron, in other words, did exactly what the consultants at McKinsey said that companies had to do in order to succeed in the modern economy. It hired and rewarded the very best and the very brightest—and it is now in bankruptcy.”

One of the highpoints of Gladwell’s excellent article is his description of an experiment conducted by Carol Dweck, a psychologist at Columbia University. “Dweck gave a class of preadolescent students a test filled with challenging problems. After they were finished, one group was praised for its effort and another group was praised for its intelligence. Those praised for their intelligence were reluctant to tackle difficult tasks, and their performance on subsequent tests soon began to suffer. Then Dweck asked the children to write a letter to students at another school, describing their experience in the study. She discovered something remarkable: 40 percent of those students who were praised for their intelligence lied about how they had scored on the test, adjusting their grade upward. ***They weren’t naturally deceptive people, and they weren’t any less intelligent or self-confident that anyone else. They simply did what people do when they are immersed in an environment that celebrates them solely for their innate ‘talent.’ They began to define themselves by that description, and when times get tough and that self-image is threatened they have difficulty with the consequences. They will not take the remedial course. They will not stand up to investors and the public and admit that they were wrong. They’d***

sooner lie.” (Emphasis added.)

With very few exceptions, brilliant people, particularly the consultants and watchdogs, failed to do their jobs. They failed not because they lacked the technical skills for supervision. Their failure was moral. The problem was not lack of regulation but rather the moral vacuity of the regulators.

Put as simply as possible, they cared only about what technically was legal or illegal, and never thought about what was right or wrong. Because unless they were lucky in their parentage, no one had ever *taught* them right from wrong. After all, it isn't something you can *quantify*. It isn't something you can *memorize*.

Because the thing about right and wrong is that the distinction between them is (in their view) subjective. And an entire generation has been taught to give a pass to subjectivity. They've been trained to suspend judgment. Often they've been told that there is no such thing as right or wrong—it's all subjective. Different people have different views, and all must be respected. Respect for other people's views is one thing. Saying that all views are morally equal is another. There *is* such a thing as objective morality, but that's out of fashion now. Instead, students are taught the really frightening doctrine of moral relativism, which has caused them to believe that concepts of right and wrong have little or no meaning.

And there's another characteristic of the New Elite that left all its whistles unblown. As we have earlier observed, and as the Dweck study confirms, high on the new class list of com-

mandments is the habitual avoidance of risk. Risk is for the marketplace, and the New Elite hates the marketplace. It rewards people, often richly, who ranked lower academically than you-know-who. Risk brings gains, but it can also bring losses, and the new class members already have achieved their greatest gain—the jobs and status won by test scores. They will progress somewhat higher in their chosen worlds through seniority and expertise, if only they remember not to rock the boat. It is risky to be a whistle-blower, and so given that you don't believe in right or wrong, what's the point?

For those with objective values it is right always to try to be fair. Therefore it must be said that not all accountants, lawyers, analysts, and so on are members of the New Elite. If their self-identity is not based on inclusion within a so-called measurably superior class, then they are Left Behinds, however well educated. And some of these could have blown their whistles, too, and did not, for reasons no worthier than those of their insular peers—greed, complicity, and a personal financial stake in the outcome. Left Behinds are perfectly capable of putting career above principle, too.

It is not unreasonable, however, to assume that most of those who chose to look away from the pigs at the trough were unabashed members of the New Elite. They almost had to be.

Virtually all of them owed their jobs to test scores. The SAT, the LSAT, the Series Seven, and every other test that ranks the scores of those who take it. Summa or magna, these people had

been certified as the best and the brightest. And because of their scores they had been rewarded, put in charge of watching a huge and fabled company, Enron. And they did watch it. In fact, watching was all they did.

And they didn't even do that well. Not only did they speak no evil, they didn't really see or hear it either. They watched but they didn't see. They didn't see because they weren't trained to see. They were taught to deal with numbers, not motives. If it can't be quantified, fuggedaboutit.

Put another way, they thought that they were rational, and that that was enough. But cogitation without morality is not rational. What thousands of professionals, all of whom had been classroom stars, were doing was divorced from an entire dimension, walled off from experience, oblivious to human nature, insulated totally from everything that cannot be numerically tested. And they had been taught that nothing non-quantifiable, such as morality, really matters.

At this point, various educators and college admissions officers are indignant. *Of course* they think morality is important. They demand it of students. But what they really demand is evidence of morality. Quantitative evidence: how many hours per week did you spend helping those less fortunate than yourself? Everybody who answers this question turns out to be very, very moral. Their high schools, with an eye to college admissions officers, *require* a certain number of hours of worthy work among the needy, and the students, with the same but far more zeal-

ous competitive motive, serve coffee in the old-folks home (though many wouldn't think of phoning their own grandparents—you don't get admissions points for that, and anyway there's always a big exam to be studied for). Presumably some of those who overlooked Enron's failings had also accumulated a zillion hours of well-documented community service. And had written essays in which they declared their role model to be Mother Theresa. They were just doing what they've always done: competing.

But even so, one might say, there were written rules being broken. There were laws, in black and white. The S.E.C. rules against fraud are manifold and clear. So how could the watchdogs have missed a violation of law? The answer, alas, is that when you think that there is no such thing as right or wrong, only what is legal or illegal, then any bending or pressing or convolution of language to simulate outrageously but technically that what is being done is legal, or, as the watchdogs obviously prefer, not absolutely, positively illegal, will do.

Do you think *that* convoluted sentence is an exaggeration? Well, then, one of a thousand examples: when a married member of the New Elite is accused of having had sex with a very young woman in his employment, and publicly denies the charge, saying "I never had sex with that woman," he very probably thinks he isn't really lying because he defines sex as intercourse and they were doing something else. (Not something else that one would casually mention to one's spouse,

because human survival instinct is almost always superior to highly tortured ratiocination, but for public consumption the technically arguable but absolutely absurd is good enough.)

Though reluctant to once again pick on the same unnamed president (but unable to resist such a treasure trove of example), it must be stated that if you're in and of the New Elite and questioned about sexual misconduct, you think that there's nothing wrong with saying "That depends on what the meaning of *is* is." How can these people say these things? No one, not even they, would say such things to their spouses. Who, then, are they speaking to? Do they think that those outside their circle are idiots? Or do they believe that such fraudulently nuanced interpretation is the same thing as, or even close to, truth? Who knows? But we do know what people publicly say.

This is not a failing only of presidents. It is a failing of a class—to which at least one president arguably belonged.

So, once again, what happened with Enron? What happened is that you can't test virtue.

But you can teach it. At least you can try. If not in the classroom, at least in the home, and surely by public example. Reasonable people sometimes will differ over what is right and what is wrong, but surely they should be informed that there are such concepts as right or wrong, and that just because something might be arguably legal doesn't mean it should be done. We can't have a law for every problem, but

we can have one moral code that covers all problems.

The above applies as well to wildly excessive executive compensation, but here the New Elite is not directly to blame. The compensation in virtually every case was undeniably legal. And those who voted for it were corporate board members, few of whom are members of the new class. And virtually none of the executives who received (indeed, engineered) the gross largesse were members of it, either. These people put more faith in the efficacy of the marketplace than in the ratiocinations of experts, and so they're squarely in the camp of the Left Behinds.

But their actions have to some extent been influenced by the new class they despise. The loss of belief in non-quantifiable standards has seeped into the national culture. Even businessmen who in every other way are antithetical to the New Elite are not immune from the recent pollution of standards, the subtle retreat from the concept of right versus wrong. So if they can get massive bonuses while the company's stock is sinking, why not? Greed becomes habitual when there is no one around to object. But what about the stockholders? Why have they been so silent? One reason is that much of the stock is owned by huge institutions and funds. They follow each corporation carefully, but really don't seem to care about executive compensation. It's legal. It's such a small percentage of the corporation's total wealth, isn't it? So the supposedly rational thing is to turn away from such a subjective question as whether such

compensation is *unfair*. Fairness can't be quantified—you have to have been brought up to think about it—and so therefore is not part of the decision-making of the experts.

Wildly excessive executive compensation is relatively new. In the not-so-olden days executives were paid ten or perhaps twenty times as much as their lowest paid employees. (We are speaking of salaried compensation, including stock options, not wealth from ownership.) They didn't get more because they never dared to ask for more, and had they asked for more the board would have been cautious even in compliance. So would the shareholders, who in many cases were members of the family that started the business. Most executives, board members, and stockholders (the shareholder class was formerly such smaller than now) believed in a moral code, however imperfectly some practiced it. Those who ran companies were often highly intelligent, but they put their greatest emphasis not on academic achievement but rather on character. It was a world in which a handshake was worth much more than a hundred signed documents. These values are still reflected in many businesses, large and small.

Yes, it's better now that corporate hiring is no longer restricted by social,

gender, and racial considerations. It's good as well that people who have done well in school should be rewarded. What is not good is the increasing absence of moral standards.

Moral relativism permitted very smart people to overlook very bad things. We must be careful not to impose our moral views on others, but we should stop assuming, and sometimes promoting, that whatever works for you is great. There is a higher standard.

There is no SAT test for predicting good citizenship—and never can or should be. You can't quantitatively test character and decency. The most effective way to serve your community is consistently to do the right thing for the right reason. Whatever we're testing our brightest students for now, we're not producing enough good citizens—or even those who care to be. We don't need to change the tests. We surely need to raise our values. ■