BOOK REVIEWS

Enron Ascending: The Forgotten Years 1984–1996, Robert Bradley, Jr. (Wiley-Scrivener, 2018) 816 pages, ISBN 978-1118549575.

Enron Ascending is the third volume of a planned four in Bradley's Political Capitalism Tetralogy. Previous books in the series are *Capitalism at Work: Business, Government, and Energy* and *Edison to Enron: Energy Markets and Political Strategies*. The planned *Contra-Capitalism: Enron and the Post-Enron World* rounds out the quartet.

Enron Ascending is a thorough and compelling accounting of the inner workings of one of America's most infamous corporations—Enron—during its rise to prominence as it transformed from Houston Natural Gas into Enron. Bradley enjoys an insider's view, having spent 16 years at Enron, eventually as the corporate director for public policy analysis. In addition to recounting the corporate trajectory, the book captures the diametrically opposed political views and practices of CEO Ken Lay, for whom Bradley wrote speeches. While Lay espoused free market views in private, he was quick to embrace business practices that limited free market pressures on Enron. Both parts of Lay indelibly shaped Enron. Bradley's caricature of Lay is colorful: "Overconfident with a dose of hubris spawned different combinations of imprudence and philosophic fraud." A Harvard Business School case study that Bradley highlights draws a similar conclusion, "an intense competitor who set goals with 'a lot of stretch in them.'" Or perhaps the most honest opinion of Lay and his managerial style comes from Bradley's recollection of Lay's own comment: "[Y]ou cannot cut your costs to prosperity." The end result of this notion was that Enron "chased dollars rather than pinched pennies."

The book is a massive effort that tips the scale at 816 pages, consistent with Bradley's earlier magisterial effort on the oil and gas industry, *Oil, Gas, and Government* (1996). The thoroughness of the treatment of the topic can be succinctly captured in the 12-page chronology of Ken Lay, which starts with the birth of his great-great-great-great-great grandfather.

The book has six parts, with the first covering the transition from Houston Natural Gas to Enron during 1984–1987. The second part addresses the crisis at Enron in 1987 and the ensuing recovery, including corporate restructuring. The third part addresses the rise of natural gas as a commodity in the period 1990–1993. The fourth part is devoted to the role of former CFO Jeffrey Skilling. The fifth part documents the expansion of Enron in traditional businesses during 1994–1996. The sixth part explores how Enron dabbled in renewable energy production, including wind, solar, and fuel cells during the same time period.

The first objective of the book is to thoroughly document the trajectory of Enron, and encapsulates what many readers may already expect to find in a post-mortem accounting. We learn how accounting practices and the relentless hunt of government contracts led to the ultimate failure of Enron. The emphasis on the latter lead to "heady" beginnings of partnerships with Chinese and Russian officials—agreements made in the hopes of becoming a natural gas "major," on par with international oil companies. Yet the end result was unfinished projects and unfulfilled partnerships. In 1993, Lay attracted former Bush cabinet members, including former Secretary of State James Baker, to promote projects with Kuwait, Turkey, Qatar, and Turkmenistan. Bradley notes that none of these international endeavors ever came to fruition.

The insider's view and strict timeline from project to project is a feature of the book that will be of interest to economists, historians, and political philosophers alike as the author allows us to trace the steps from executive to executive over time. Indeed, we even get an insider's look at the strange coupling of Enron and Greenpeace and their effort to develop solar electricity in Crete, as well as other domestic renewable energy projects whose main aim was to receive Federal tax benefits. Bradley recounts the discussions the company was having regarding global carbon dioxide emissions and the impact they have on global climatic change. Unfortunately, these conversations seem to be the same discussions of "transition" fuels (along with a dose of climate denialism) that still stymy action to combat emissions at any meaningful scale, the only difference being that they occurred 24 years ago.

The author's second major thesis of this work concerns the internal contradiction of the company: that Ken Lay did not practice what he preached, and in fact practiced nearly the opposite of what he preached. In one of the more interesting and personal parts of the book, Bradley notes that Ken Lay's own actions were antithetical to Lay's personal views, which tended towards Austrian economics. Bradley summarizes that, "Enron and Ken Lay, as they were and became, would not have existed in a truly capitalist culture." While one can understand how the hunt for government contracts may *seem* contrary to a pure Darwinian free market, it is in fact still consistent with capitalist rent-seeking behavior. We do not need to conjure Ayn Rand's Rearden Steel as a counterexample, though that seems to be the natural counterpoint to an executive like Lay. Instead, we need merely to recognize that the pursuit of government contracts, and any expenditures on lobbying to change the policy process to procure such a contract, are, in my opinion, consistent with a capitalist mindset because they are just another form of one company seeking to gain an edge on others participating in the market. Indeed, it is because of this rent-seeking behavior by firms that economists and political scientists continue to study optimal regulation policy and principal-agent problems.

Bradley highlights a prime example of Lay's contradictory behavior when showing just why Enron made such a strong push into natural gas. Despite his belief in free markets and distaste for government subsidization, Lay and the company were in lock-step with many others in the industry at the time when following the allure of $2.4 billion in Federal grants and tax-incentivized natural gas reservoirs that were available between 1980 and 1990. Further, Bradley recounts Lay's role in championing of Mandatory Open Access (MOA) in electricity transmission which, taken at face-value, was pro-competitive and more the policy of "economist reformers than by industry rent-seekers." However, Bradley connects the dots for us in showing that this MOA ruling would stand to make Enron a "triple winner" as a power marketer, natural gas major, and renewables giant. And Enron would be *even better off* under this paradigm if Enron were able to ration carbon dioxide permits when a cap-and-trade program was instituted, which Lay also supported. The contrast between the words and actions of Lay remains, despite the semantic difference of recognizing this as rent-seeking behavior or capitalist culture, because Bradley is certainly right to highlight the fact that Lay's outspoken belief in markets and market forces are conflicting with Lay's own efforts to erect barriers to entry into these markets and limit market competition.

On balance, this book is a worthwhile read to anyone interested in the rise and fall of Enron, but distinguishes itself especially to those who have an interest in political philosophy. On the first count, the book is a natural fit for economists and those interested in energy finance and market regulation. I personally found the discussion of Lay's involvement with FERC and EPA rulemaking illuminating. Moreover, using this book to retrace company and executive culture may be of interest to those who are interested in the intricacies and idiosyncrasies of different leadership styles.

Travis Roach
University of Central Oklahoma

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Energy Kingdoms: Oil and Political Survival in the Persian Gulf, by Jim Krane (Columbia, 2019) 172 pages, ISBN 978-0231179300.

In the latest contribution to the Columbia Center for Global Energy Policy Series, Jim Krane unpacks the tight interconnections between oil and political power in the Gulf Coordination

Council (GCC) countries. Dominated by Saudi Arabia, but with substantial coverage of the United Arab Emirates, Kuwait, Qatar, Oman, and Bahrain, Krane traces the evolution of energy politics of the six monarchies in a critical region for the global energy system. While there are plenty of books about the history and economics of the Middle East, this volume is unique in its focus on the energy-political complex of the Gulf countries. The latitude and affluence afforded by energy abundance led to a series of political bargains that increased domestic energy consumption without a price mechanism, and have thus embedded those high consumption patterns and created a policy conundrum for the countries in the region.

As a journalist, Krane reported from oil-exporting countries in the Middle East. His 2009 book, "City of Gold: Dubai and the Dream of Capitalism," established his reputation as a leading scholar of the region. In 2013 he joined Rice University's Baker Institute as the Wallace S. Wilson Fellow for Energy Studies, where he continues to work on geopolitical and economic issues.

In important ways, *Energy Kingdoms* builds from Krane's 2015 article in *The Energy Journal* in which he outlined the fundamental tension that energy subsidies create for an exporter—they might be politically expedient in the short run but undermine export capacity in the long run. Expanding the original insight to book length, Krane packs an impressive amount of information and analysis into 172 pages. He traces how the energy political economy of the Gulf evolved. The first two chapters are not especially novel, covering the well-trod ground of the pre-oil economy and how the discovery of oil initially changed the political landscape. It didn't, or at least not very much. However, that background is necessary as the story pivots in chapter 3 to "The Big Payback" in the 1970s when the Arab states established greater economic sovereignty over their fossil resources. That change required a renegotiated political and economic contract. The huge wealth inflow from higher prices and government take enabled a massive redistribution of rents and geopolitical influence.

The fourth chapter outlines the extensive economic development program that the GCC countries were largely able to self-fund with oil and natural gas rents. As an example, between 1970 and 2014, Oman went from 3 to 1,580 schools, from 2 to 217 hospitals, from 9 to 21,473 miles of paved roads, and increased life expectancy by 55 percent. This drastic improvement in living conditions happened alongside the emergence of a rentier state. Rather than taxing productive behavior to provide a bundle of government services, the GCC countries were able to simply allocate oil and gas rents to achieve development goals and soothe political frictions. This subtle change with laudable short-term development goals was the proverbial camel's nose under the tent, as the following chapters show.

The next two chapters (5&6) document just how anomalous energy (and water) consumption patterns of the Gulf states are, and how they are enabled by fossil-fueled energy abundance combined with rentier state politics. According to 2018 IEA data, Kuwait, Saudi Arabia, and UAE had the three highest energy subsidies per capita in the world—Qatar was fifth and Bahrain 13th, while Oman had insufficient data. Relatedly, 2014 World Development Indicator data show that Bahrain and Kuwait have electricity consumption rates per capita among the five highest in the world, even though these countries rely almost exclusively on fossil generation of electricity. Qatar and UAE are not far behind, with a similarly undiversified generation base.

Krane clearly identifies the policy paradox faced by cash-flush oil and gas exporters that need to use subsidies to maintain political legitimacy. The subsidies increase domestic consumption of fuels production, which in turn reduces export revenues and undermines the rent flows (and has even required expensive natural gas imports for some countries). Lower rent flows undermine political legitimacy and increase the need for rentier policies to stabilize domestic political support. Then the corrosive cycle repeats itself.

The next three chapters (7-9) assess the current state of efforts to change the course of energy pricing across the region. Articulate communication of the economic and fiscal necessity of reform may be able to break cycle of rentier politics that has long held sway.

First, Krane looks across the Gulf at Iran and how its leaders have been forced to trim largesse as economic and fiscal pressures grew too great to bear. In late 2010, reforms were imposed that substantially increased prices of transportation fuels, natural gas, and electricity. Recognizing that the strong income effects in energy use meant that the wealthy were capturing most of the benefit, the reform replaced subsidies with cash transfers and was packaged as a populist policy. Krane takes no final position on the Iranian reforms, instead suggesting that Iran's experience trying to avoid a crushing fiscal burden of subsidies may be instructive to the Gulf States, if they are willing to take cues from a regional rival.

Dubai had begun its own series of reforms in 2008, but followed Iran's lead with substantial price increases for water and electricity in 2011. Both electricity and water consumption were reduced with the rate hikes, though political exigency led to the development of a two-tiered pricing structure. The third-degree price discrimination towards foreigners and ex-patriates is an interesting example for any microeconomics principles classroom. In assessing the political effects of these reform efforts, Krane draws on survey data that he helped collect—the kind of information that the autocratic regimes in the Gulf are not designed to collect easily. One result should be deeply troubling—a substantial minority of citizens (42 percent) felt entitled to subsidized energy. So while reforms have made some progress, there is a substantial barrier to further progress.

Saudi Arabia had previously failed to reduce electricity subsidies but took renewed action in 2016 and 2018 under Muhammad bin Salman, first as deputy and after 2017 as crown prince. This is the most sweeping reform to date in the Gulf; water prices and all energy prices are scheduled to gradually increase to international levels, with cash rebates aimed at the poor to offset the income effects. Despite some political dissatisfaction, and prices that remain below international levels (except for non-residential water), energy consumption has fallen and the reforms appear to be holding.

Kuwait and Qatar have expensive subsidies, but are better able to afford them than Oman and Bahrain. Oman and Bahrain, unable to afford their subsidies, instituted higher prices by necessity beginning in 2015 and 2016. Higher prices reduced fuel consumption, but also led to civil discontent. In the case of Bahrain, this extended a long-simmering unrest by a disenfranchised Shia minority. Oman has avoided unrest by delaying price increases for residential consumers and increasing enforcement against dissenters, underscoring the tight connection between energy policy and political power.

A final chapter gives a higher-level review of the implications of climate change policy for these states. Serious policy action to combat climate change would be doubly expensive for the GCC, in first part because they have stubbornly high energy consumption per capita or per GDP. But as owners of massive fossil fuel deposits, serious policy action would dim the prospects for continued wealth in the historic rentier and place a premium on a Hartwick-like transition to other forms of capital and affluence.

Energy Kingdoms is obviously relevant for any researcher interested in energy policy in the GCC, but it also delivers insights for those interested in related energy policy contexts beyond the region. Krane weaves the history, characters, culture, geopolitics, and domestic politics into a rich and insightful story about how these states evolved and the quandaries they now face. How those challenges are addressed, and further analysis of the successes and failures in reckoning with the political and economic realities of the Gulf will hopefully be the topic of future work.

Timothy Fitzgerald
Texas Tech University

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