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Pete Stark
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NEWS UPDATE

Thursday, January 25, 2001

SUMMARY

In the News...

- *CongressDaily* reports on the efforts of big money interests to combine forces in efforts to pass huge corporate tax breaks
- *Associated Press* reports on “moderates” marshalling their forces
- *Washington Post* reports on the potential creation of a special panel to review election reform proposals
- *Reuters* reports on the Senate mustering only two votes against Interior Secretary-nominee Gale Norton despite her vast record of opposing most major environmental initiatives
- *New York Times* reports on huge profits by drug industry giants at the same time the pharmaceutical industry continues to fight all efforts to reduce the cost of medicines in the United States

From the Editorial Pages...

- *Professor Bob McChesney* writes in *Newsday* about incoming FCC Chairman Michael Powell’s extensive ties to the very industries that he will oversee
- *Rep. Bernard Sanders (I-VT)* writes about the need to drastically increase funding for college aid and loan forgiveness programs in college newspapers throughout the nation
- *Robert Samuelson* writes in the *Washington Post* about how the California energy crisis highlights “Americans’ energy illusions.” He writes, “We refuse to confront obvious conflicts. As he writes, “If you want to limit dependence on imported oil, you can’t just encourage domestic drilling; you’ve also got to discourage domestic demand”

Quote of the Day...

"[Lieberman] does not speak for us. He’s not even on the Education Committee. What New Democrats are trying to do is move an agenda on false promises. You’re not going to do anything to help schools in this country unless you’re willing to invest considerably more money per student."

- *U.S. Senator Tom Harkin in Roll Call, discussing education legislation (Roll Call, 01/25/2001)*

In the News on January 25, 2001

CONGRESS DAILY: Corporations Seek Specific Breaks In Any Tax Proposal

Business groups are poised to push for specific corporate tax breaks as Congress prepares to assemble a major tax cut bill this year. A spokeswoman for the National Association of Manufacturers played down the idea of an organized campaign for business tax cuts, but affirmed that business groups want to see items in the bill designed to promote their growth and competitiveness. In recent years, up to a third of the provisions in major tax legislation have been devoted to business relief. But President Bush has put most of his focus on rate reductions, marriage penalty and estate tax relief. Treasury Secretary O'Neill told the Finance Committee during his confirmation hearing that true tax reform should reflect the fact that corporations in fact pass on their tax liability in a variety of ways and the nation's tax burden is carried almost entirely by individuals. But that does not mean business groups will stop trying to have their interests met.

For example, this year's oil price spikes and electricity crisis in California may prompt a new push for tax breaks for oil and gas interests. A spokesman for the American Petroleum Institute would not rule that out, but said API has not adopted a tax agenda and strategy for the year. An aide pointed out that Democrats would likely demand corresponding tax breaks to promote energy conservation. Also, the National Federation of Independent Business and the National Restaurant Association might renew their push for a package of tax breaks aimed at small businesses should Democrats succeed in getting a hike in the minimum wage moving again this year. Financial services firms also are looking at tax code changes that might be needed to reflect the landmark legislation affecting their industry enacted last year. In addition, education tax breaks put forward this week by **Senate Finance Chairman Grassley** and **Finance ranking member Max Baucus**, D-Mont., were not included in the education reform package Bush unveiled Tuesday. Grassley said the education tax breaks might end up in a larger tax bill or move separately but noted, "Education and other things deserve as much consideration as interest depreciation for machinery and equipment." — *by Stephen Norton*

AP: Senate moderates say they intend to be a policy-making force

WASHINGTON -- Seizing a rare moment in Senate history, senators from both parties who consider themselves centrists are uniting to help Congress and the White House find common ground on education, taxes and other fundamental issues.

About one-third of the Senate, which is evenly divided between Republicans and Democrats, showed up Wednesday for a brief organizational meeting of the Senate Centrist Coalition. Senate Majority Leader Trent Lott, R-Miss., and Democratic leader Tom Daschle of South Dakota, acknowledging their potential influence, appeared before the group to give their blessing to the endeavor.

Solutions to many issues of the day "are going to defy partisan politics," Lott said. "Different times and different situations call for different approaches."

The Senate has 50 Republicans and 50 Democrats, which prompted Lott and Daschle to forge a unique power-sharing relationship. President Bush also emphasized in his first days in office that he needs Democratic support to carry out his agenda.

Bush met Democratic congressional leaders Wednesday at the White House to discuss budget matters, education, election reform and other issues. There were no negotiations of their differences, but Bush said that meeting with members of Congress was a habit he intended to keep. He said it is time "to get together and get things done."

Sens. John Breaux, D-La., and Olympia Snowe, R-Maine, leaders of the centrist coalition, said they plan to meet once a week to draw up policy recommendations and offer their ideas to committee chairmen and other Senate leaders.

Snowe said they might, for example, come up with a compromise solution on school vouchers to children attending failing public schools, a key part of Bush's education package but strongly opposed by most Democrats. "We may be a catalyst for that middle ground on that issue," she said.

Breaux said he thinks Lott and Daschle "both realized that unless there is some bipartisan recommendations, nothing will get done in this Congress."

Among the Republicans aligned with the coalition are Education Committee Chairman Jim Jeffords of Vermont, Commerce Committee Chairman John McCain of Arizona, Governmental Affairs Committee Chairman Fred Thompson of Tennessee, Armed Services Committee Chairman John Warner of Virginia and Budget Committee Chairman Pete Domenici of New Mexico.

Democrats included former vice presidential nominee Joseph Lieberman of Connecticut, Dianne Feinstein of California, Bob Torricelli of New Jersey and six Democratic freshmen.

Daschle acknowledged that it's now popular to be considered a centrist in this age of political parity, joking, "There was a meeting called of the fringe element and no one showed up."

WASHINGTON POST: Election Reform Gets Push From Bush, Congress

President Bush and congressional leaders of both parties, prodded by public revulsion at the Florida vote-counting debacle, agreed yesterday to consider dramatic changes in the way Americans choose their leaders.

Election reform came up as a surprise topic during a morning White House meeting between Bush and the leaders. Aides to Bush said the president is concerned about confusing voting methods such as Palm Beach's "butterfly ballot," plus the difficulty some members of the military had in casting absentee ballots, and the ease with which some felons voted illegally.

Democrats, who raised the subject at the meeting, want to consider a uniform poll-closing time for the country, as well as the possibility of stretching voting over a weekend so that polls would open Friday night and close Sunday afternoon. Democrats are also exploring the idea of doing away with punch-card ballots and their infamous chads in order to provide a more standard way of voting.

Speaker J. Dennis Hastert (R-Ill.) said he and Democratic leaders are planning to create a select committee on election reform. He said the panel will begin a thorough investigation shortly, and come up with recommendations for legislation in six to eight months.

The agreement to look into election reform may serve as a critical test of bipartisanship in the early days of the Bush administration, with Democrats contending the panel will be the best way to resolve lingering doubts surrounding Bush's win last fall.

Bush said as the meeting began: "I hope people are now beginning to realize that when I said the executive branch is willing to work with the legislative branch to do what's right for the country, it's not hollow words -- it's what I believe we need to do."

Bush's support for a study of election reform was an unusual deviation from the six-point agenda he hammered throughout his campaign. Bush's position appears to be part of his effort to win over the many Democrats who remain skeptical about the outcome of Florida's presidential election, which was decided five weeks after the Nov. 7 Election Day, when the Supreme Court voted 5 to 4 to halt recounts. Florida officials certified Bush as the victor over Vice President Gore by 537 votes.

The disputed outcome led to a variety of complaints about access to polls and the counting of votes, including the handling of absentee ballots, the ways of verifying that voters were registered and the difficulty of accurately counting votes cast with outmoded machinery.

Bush press secretary Ari Fleischer said, "The president wants to make certain that one of the focuses of attention this year is electoral reform."

Curtis Gans, director of the Committee for the Study of the American Electorate, said the changes being contemplated are the most far-reaching in more than 60 years. "It took Florida to get people to focus on the integrity of electoral process," he said. "People now understand that many of these problems exist in every election."

Meeting with congressional leaders over fruit and pastries in the Cabinet Room, Bush focused on his legislative agenda, especially his tax cut plan. He noted that the outlook for the economy "is not as hopeful as we'd like."

Bush indicated that he will want a panel on election reform to look forward and not "rehash" the 2000 election. "It's over," he said bluntly, according to participants. House Minority Whip David E. Bonior (D-Mich.), who brought up the issue, replied, "This piece is very important to the healing process and getting our members to believe it's over." Since voting irregularities surfaced in Florida, election reform has emerged as a rallying cry for rank-and-file Democrats. African American voters, many of whom feel disenfranchised after the election, are particularly passionate about the issue.

As a result, many Democrats say the question of voting reform is the true test for Bush in the coming days. If he is willing to seriously explore how to ensure their constituents have access at the ballot box, these Democrats said that will serve as a more compelling example of bipartisanship than an accord on education or even taxes.

The vice chairman of the Congressional Black Caucus, Rep. Elijah E. Cummings (D-Md.), said the image of black voters being turned away at the Florida polls is still "very painful" for him, and said he is looking to Bush to show a commitment to reform. "If you think about any healing process, you first of all have to diagnose the problem and then you've got to come up with a solution," Cummings said.

House Minority Leader Richard A. Gephardt (D-Mo.) said in an interview that while the two parties differ on "what the facts are" coming out of last year's election, they need to reach a consensus on how to change the balloting process.

"We think in order to keep a lot of people voting, including many who voted for the first time last election, we have to show in the next year we can change this system and improve it," he said, noting that many voters have long commutes that make a weekday election difficult. "We make it hard for people to vote in this country because we have not modernized the process."

While the two parties differed sharply over how to interpret last year's presidential contest, there are several areas where they may find common ground. Bonior, an Air Force veteran, suggested Congress explore whether people in the military could vote on their bases or on their ships rather than having to mail in absentee ballots.

Bush said he was particularly concerned that television networks reported results of Florida voting while polls were still open in part of the state, and some Democrats have suggested that a universal closing time could address that. Gephardt has already begun thinking broadly about possibilities for electoral reform, including instituting weekend voting.

Democrats are also exploring the idea of providing more funds to local election officials to help them update their machinery. Republicans have yet to come up with any specific reform proposals. "We are just starting the process," emphasized Hastert spokesman John Feehery.

Senate Minority Leader Thomas A. Daschle (D-S.D.) said there was a "general agreement" at the White House meeting that legislation to update election procedures should be considered separately from campaign finance reform.

However, Senate Majority Leader Trent Lott (R-Miss.) continues to think that election reform and campaign finance reform should be considered together, a GOP aide said. But Sen. John McCain (R-Ariz.) has strongly opposed attaching election law proposals to the campaign finance bill that he is sponsoring with Sen. Russell D. Feingold (D-Wis.), warning that putting the two together could delay and complicate passage of his bill.

Election experts said that while lawmakers could conceivably enact major reforms before the next election, they would have to undertake a massive education effort to inform voters and election officials. Kimball Brace, who specializes in election administration and redistricting, said state and local governments have struggled with antiquated equipment and other balloting problems for years but these issues have only garnered national attention since the fall election.

REUTERS: Senate Panel Backs Norton As Interior Chief

By Adam Entous

WASHINGTON (Reuters) - The Senate Energy and Natural Resources Committee backed Gale Norton as the next U.S. interior secretary on Wednesday, clearing the way for her confirmation next week by the full Senate despite opposition from environmental groups.

One of President George W. Bush ([news](#) - [web sites](#))'s most controversial nominees, Norton reached out to Democratic critics at her confirmation hearings, promising to act as a "compassionate conservationist," to enforce environmental laws and to preserve the nation's parks.

Environmental groups and a few Democrats scoffed at Norton's assurances, citing her record of opposition to the Endangered Species Act and her ties to oil, natural gas and grazing interests.

But in the end, the Energy Committee backed Bush's interior nominee by a vote of 18-2, and Republicans and Democrats alike predicted that Norton would be confirmed by the full Senate next Tuesday.

"I think it will be a large vote" in Norton's favor, Senate Democratic Leader Tom Daschle said.

Bush spokesman Ari Fleischer praised Norton, telling reporters "the president believes she will make an outstanding secretary of the interior."

And Energy Committee Chairman Frank Murkowski lashed out at environmentalists who opposed her. "I think these groups went overboard with their rancorous and misleading attacks on her, and they have truly hurt their credibility," said Murkowski, an Alaska Republican.

Democrats on the committee said they continued to have concerns about Norton's record but would take the nominee at her word. "Her actions as secretary will ultimately speak louder than anything she has said," said Sen. Jeff Bingaman ([news](#) - [bio](#) - [voting record](#)) of New Mexico, the committee's ranking Democrat.

Democratic Sens. Ron Wyden of Oregon and Charles Schumer of New York stood alone in voting against Norton becoming the first woman to head the Interior Department, responsible for managing nearly half a billion acres (200 million hectares) of federal land and enforcing laws protecting threatened and endangered species.

"I strongly hope her record in office proves me wrong," Wyden said.

A Watt Protege

A former Libertarian, Norton, 46, began her career as a lawyer with the Mountain States Legal Foundation, a law firm headed by James Watt, a controversial interior secretary during the Reagan administration. Environmentalists had reviled Watt for favoring opening of public lands for exploration.

Norton was elected in 1990 as Colorado's first female attorney general before term limits forced her from office in 1998.

Environmental groups said they were crushed. In television, radio and newspaper advertisements, the Sierra Club and other organizations derided Norton as an "anti-environmental extremist" who would favor logging, grazing and mining interests over land conservation.

Friends of the Earth ([news](#) - [web sites](#)) President Brent Blackwelder staunchly opposed the nomination, saying:

"Gale Norton is a wolf in sheep's clothing, and she pulled the wool over the eyes of most of the Democrats on the committee."

NEW YORK TIMES: Strong Performance by 2 Drug Makers

Two big pharmaceutical companies, Pfizer and Bristol-Myers Squibb, posted double-digit fourth-quarter earnings growth yesterday, but analysts said Bristol-Myers succeeded largely by cutting costs.

The New York-based Bristol-Myers also disclosed in a conference call that its experimental drug for stroke, Maxi-Post, had failed in a late-stage trial. And it acknowledged challenges ahead, including generic competition expected for its second- biggest product, Glucophage, for Type II diabetes.

Bristol-Myers reported net income of \$1.2 billion, or 59 cents a diluted share, exceeding forecasts of 58 cents from First Call/Thomson Financial. A year earlier, it earned \$1.05 billion, or 52 cents a share.

Pfizer, the nation's largest drug maker, said earnings fell 3 percent to \$1.42 billion, or 23 cents a share. Excluding one-time items, Pfizer earned \$1.76 billion, or 27 cents a diluted share, up from \$1.47 billion, or 23 cents a share, a year earlier. Analysts had forecast 27 cents.

Revenue was up 8 percent, to \$8.1 billion. Global sales of Lipitor and Viagra rose sharply.

From the Editorial Pages on January 25, 2001

NEWSDAY: Media Giants Have a Pal at the FCC

by Robert W. McChesney

ALL YOU NEED to know about Michael Powell, whom President George W. Bush promoted this week to chairman of the Federal Communications Commission, can be summed up by the statements of close FCC watchers.

"He's a listener, an advocate, an effective policymaker," said one.

"Michael Powell has demonstrated a keen intellect and a firm grasp on public policy issues," said another. "It's rare that you have somebody in public office who is so favorably regarded by all constituencies and competing industries," added yet a third person.

Wow. This guy Michael Powell must be hot stuff, right? Wrong. The three quotes come from Gary Lytle, Eddie Fritts and Robert Sachs, the heads of the trade associations for the "Bell" telephone companies, commercial broadcasters and the cable television industry, respectively. These are the very industries Powell is commissioned to regulate in the public interest. They love Powell for a reason. He has a record of advancing their interests, not ours. And, as a result of Powell's tenure, their firms will grow much larger, much more powerful and much more profitable and operate in less competitive markets. It will be bad news for democracy.

Most Americans don't know much about the FCC or what it does, but it is very important to setting the ground rules for the media and communications industries.

Radio, television and cable companies do not operate in traditional markets, where anyone with enough cash can enter. These are businesses built on government-granted monopoly rights to valuable broadcast frequencies, or local telephone or cable-TV monopolies. When the government awards licenses for these services, it isn't setting the terms of competition -it is picking the winners.

That's why these industries have such huge lobbies to make sure the politicians and regulators keep doling out the goodies to them. That's why, in theory, the FCC sets conditions for these companies. If these firms are going to have semi-monopolistic licenses that make it possible for them to make piles of money, they should be required to serve the public interest.

Powell, who has been an FCC commissioner since 1997, doesn't believe in that deal. He believes these firms should be "deregulated" and permitted to respond exclusively to market forces-that is, to exploit their status to rake in as much money as possible. Powell also is a fan of scrapping limitations on how much these companies can own and how big they can get. Powell claims that this will bring more competition to their industries, and that will make media more responsive to public concerns.

But all the evidence of ownership deregulation in communications over the past five years repeatedly shows the exact opposite. Radio ownership was relaxed in 1996, and since then over half the stations have been sold and the industry has been consolidated into the hands of a few giants, each owning hundreds of stations.

That's great for those firms, but bad for the rest of us as we are increasingly subjected to standardized commercial radio fare marinated in advertising. Telephone companies have been freed to merge, too, since 1996, and the number of players has fallen in half. And complaints about lousy telephone service have skyrocketed in the past four years. Let's face it, if deregulation actually produced more bona fide competition, these firms would hate it. But it doesn't, so they love it.

But don't confuse Powell with the facts. "The oppressor here is regulation," Powell recently told a conservative think tank forum. "We must foster competitive markets, unencumbered by intrusions and distortions from inept regulations." This is the sort of drivel that gets corporate CEOs high-fiving each other in the aisles, as the government then hands the keys to the kingdom over to them.

Don't for a second think that Powell wants real competition, real media diversity, any more than his corporate paymasters. In the past year, he opposed the FCC's own cautious plan to open up radio to 1,000 low-power radio broadcasters to be operated by nonprofit groups. The proposal was opposed by the commercial giants who fear new competition for "their" listeners.

He also opposed setting conditions to the AOL-Time Warner deal, which created the largest media firm on Earth. The AOL-Time Warner merger deliberations should have embarrassed Powell.

His father, Colin Powell, owns about \$6 million in AOL stock. But by today's standards of corruption, this barely registers a blip on the radar. So Powell did not recuse himself, and he strongly advocated the case for the company in which his inheritance is located.

Powell, like President Bush, has indicated he wishes to eliminate the few remaining ownership restrictions on broadcasters. The rule limiting companies to having TV stations in no more than one-third the nation is soon to be relaxed or eliminated. The prohibition on owning multiple TV stations in the same market, or a newspaper and TV station in the same town, also are possible casualties of this deregulatory jihad.

The net result will be a tidal wave of mergers and consolidation in the media industries that will make the last five years look like a stroll in the park.

Look for most of the few remaining newspaper companies and cable companies to become part of the huge media conglomerates like AOL-Time Warner, Disney, Viacom and News Corp. that already own all the major movie studios, all the TV networks, all the music companies, most of the cable-TV channels, and much, much more.

Needless to say, such a concentration of media power into so few hands violates every known theory of a free marketplace of ideas in a liberal democracy. But who has time for that mumbo jumbo when there is good money to be made? So it will be party time on Wall Street for Goldman Sachs and the other investment bankers who put together these deals. George W. Bush's 2004 campaign coffers will be stuffed with tens of millions of dollars from the firms who benefit by these policies. And Michael Powell will have assured himself a long and lucrative career in the private sector upon leaving the FCC.

COLLEGE NEWSPAPERS: Paying More Than Lip Service to College Education

By U.S. Rep. Bernie Sanders

Every time politicians talk about national priorities, we hear about how education should be our country's number one concern. Our nation's economy needs a highly educated work force, they tell us, if we are going to be able to compete in the new global economy. A college education, they warn us, is now a necessary ticket to a middle-class and decent-paying job. And a strong democracy, they sometimes point out, depends on well-educated and informed citizens.

Unfortunately, many of those who talk the loudest in Washington often do the least. Despite all the rhetoric about the importance of education, the federal government has failed to allocate the funding that millions of young people and their families need to make higher education affordable.

The bottom line is that the cost of a college education is soaring, and students and their families are going deeper into debt to pay for that education.

Twenty-five years ago, the maximum federally funded Pell Grant (which was designed to provide the main portion of student aid) covered more than 80 percent of the average cost of attending a public four-year college, and about 40 percent of the cost of attending a private college.

Today, the maximum Pell Grant covers only 39 percent of the average cost of attending a four-year public college, and only 15 percent of the cost of attending a private college.

In fact, the average Pell Grant, adjusted for inflation, has not increased at all in ten years. Federal student aid, which 20 years ago was a grants-based system, is now a loan-based system.

Pell Grants today account for only 10.7 percent of all student aid, while federal student loans comprise 51.4 percent. The end result of this policy is that students graduating with four-year degrees bear an average debt of \$19,000, not including what their parents owe. Students finishing graduate school are even deeper in debt.

It strikes me as extremely unfair to young Americans, and contrary to the best interests of our country, that millions of them are beginning their careers so deeply in debt.

Among other things, it forces many new graduates to take jobs that earn them enough to pay off their loans, rather than pursuing the careers that would satisfy them and serve society. It is impossible to calculate how many excellent teachers, childcare workers, nurses, law enforcement officers and other professionals we have lost as a result of the federal government's failure to adequately fund financial aid programs.

Accordingly, when the new Congress convenes in January, I will be proposing substantial increases in the federal support for higher education, including doubling the funding for Pell Grants, from \$7.6 billion to \$15 billion; doubling total federal spending on aid to post-secondary students from \$13 to \$26 billion; and substantially increasing funding to cancel the education debts of graduates who enter public service — including teaching, social work, childcare, law enforcement, etc.

Can the federal government afford to give students and families more financial help to pay for college? The answer is clearly yes.

At a time when the current federal budget surplus is over \$200 billion, and when very large surpluses are anticipated in coming years, we now have a unique opportunity to make certain that a college education becomes affordable for every American family.

In order to do that however, we have got to get our priorities right. Do we — as President Bush and the Republican leadership propose — provide hundreds of billions of dollars in tax cuts to the wealthiest two percent of the population? Do we continue to spend \$300 billion a year on the military despite the end of the Cold War? Or, do we instead make certain that every family in this country, regardless of income, can send their children to college without going deeply into debt?

The answer is clear: Education in this country must become a major national priority, and not something to which we just pay lip service. That means the federal government must accept its responsibility to adequately fund it. Currently, we are providing only \$13 billion a year in aid to post-secondary students and contribute less than 15 percent of the operating costs of our nation's colleges and universities.

If we can afford to give the Pentagon a \$22 billion increase in its budget — as we did this year — surely we can afford to increase student aid for higher education by \$13 billion. If we can afford to spend \$125 billion on corporate welfare each year, surely we can afford to increase Pell Grants by \$7.4 billion.

Will we be successful in significantly increasing federal aid to college students and higher education? Will we be able to end the absurd situation of millions of young Americans beginning their careers oppressively in debt?

The answer depends totally upon the willingness of the citizens of this country, especially college students, to demand a fundamental change in national priorities and to be actively involved in the political process.

Currently, members of Congress are assaulted every day by well-paid lobbyists representing multi-national corporations and the wealthy who demand tax breaks and favors for the powerful special interests in our country that need it the least.

On the other hand, my Congressional colleagues and I hear almost nothing from college and graduate students and their parents who incur tens of thousands of dollars in educational debt.

We can change this situation, but only if students play a leadership role in that process. Hold campus rallies, arrange for meetings with your member of Congress, march on Washington. Working together, we can change our national priorities, and make college affordable for all.

WASHINGTON POST: Energy Fantasy

By Robert J. Samuelson

The power crisis in California -- rolling blackouts, two huge utilities verging on bankruptcy -- is a fitting commentary on U.S. "energy policy." We Americans want it all: endless and secure energy supplies; low prices; no pollution; less global warming; no new power plants (or oil and gas drilling, either) near people or pristine places. This is a wonderful wish list, whose only shortcoming is the minor inconvenience of massive inconsistency.

In California, the contradictions are stark. Here's a state that loves its cars and whose computer industries thirst for megawatts -- yet California also embraces environmental rectitude, abhorring pollution and new power plants. From 1988 to 1998, the state's electric-generating capacity actually declined 5 percent, says the U.S. Department of Energy. Some older capacity was retired; little new was added. Over the same period, power consumption rose 15 percent; in the next two years it increased a further 7 percent. The emerging imbalance in power supply and demand, which is at the heart of the present crisis, reflects a larger imbalance in public thinking.

The advertised charm of electricity "deregulation" -- passed by the California legislature in 1996 -- was the promise of lower power rates. The presumption (false, as it turned out) was that the state had an enduring surplus of generating capacity. By breaking up the "bad" utility monopolies, the state would foster competition and drive down rates. The major utilities are Pacific Gas & Electric in the north, Southern California Edison in the south and San Diego Gas & Electric. They would sell most of their power plants to independent power producers. These companies would compete with each other to sell power back to the utilities, which would remain in the distribution business to final customers.

The pressure of bidding against each other to supply power would make the generating companies more efficient. Bureaucratic bloat would vanish. As implemented by the California Public Utilities Commission, deregulation reduced residential retail electricity rates by 10 percent and froze the new rates until March 2002 for most

customers. It also required that the old utilities -- now mainly distribution companies -- buy virtually all of their electricity on a daily spot market (in other words, the utilities couldn't make long-term contracts to cover their long-term power needs).

While surplus generating capacity remained, spot rates stayed low. But once surging demand began to collide with fixed supply, the new system raised spot prices and drove the old utilities toward bankruptcy. With their rates frozen, consumers have had little incentive to save power. Meanwhile, PG&E and Southern California Edison have had to pay far more for wholesale electricity (on the spot market) than they could recover from retail customers.

The gap is huge. The utilities have paid three, five, eight times as much as the 6.5 cents per kilowatt-hour that they can charge consumers. For all of 2000, PG&E says its excess electricity costs totaled \$6.6 billion; Southern California Edison puts its total at \$4.5 billion. Until recently, they paid their bills by borrowing from banks that had assumed -- wrongly -- that wholesale prices would drop in the fall and winter. They usually do, because after air-conditioning season, demand slackens. The record high in California's summer-peak demand (45,844 megawatts on July 12, 1999) was a third larger than that in its winter-peak demand (34,432 megawatts on Dec. 13, 1999). Once spot prices dropped, the utilities would stop losing money and could repay their loans.

Why didn't spot prices drop? Good question. Broadly speaking, there seem to be two explanations.

One is a combination of bad luck and bad behavior. Prices of natural gas (used to generate electric power) jumped unexpectedly, forcing up spot-electricity prices. Bad luck, perhaps. The bad behavior is alleged by the utilities, which say that the new power companies have manipulated the spot market. Power plants usually go off-line for maintenance in the winter, but this year the outages (recently, between 11,000 megawatts and 15,000 megawatts) have been exceptionally large. The resulting scarcity increases prices. Whether generating units have been deliberately taken out of service to raise prices is unclear.

The second explanation -- undoubtedly true -- is that California's leaders, through incompetence and political cowardice, made a bad situation worse. In March 1999, Southern California Edison asked the utilities commission for permission to make long-term purchase contracts for electricity. This would have provided a stable source of power at fairly stable prices. It would have relaxed pressure on the spot market. The utilities commission refused. Another needed step is to raise consumer rates. This would dampen demand and bolster the utilities' finances. But California Gov. Gray Davis opposes higher rates.

If the utilities don't get some sort of relief, they will go bankrupt -- with unpredictable consequences. "We've got hundreds of thousands of retirees [who] depend on stock dividends from those companies," says Sen. Dianne Feinstein (D-Calif.). A bankruptcy might hurt the credit of other utilities and raise their borrowing costs. California's experience casts doubt on the sanity of power deregulation. Despite theoretical advantages, the separation of power production from power delivery creates practical problems that jeopardize the reliability of the electric network. But the larger problem lies in Americans' energy illusions. We refuse to confront obvious conflicts. If you want cheap power, you have to build power plants (some experts think California needs about 10,000 megawatts more, about a 20 percent increase). If you want to curb pollution and global warming, you can't have cheap power. If you want to limit dependence on imported oil, you can't just encourage domestic drilling; you've also got to discourage domestic demand, probably through a tax.

By and large, Americans prefer energy fantasy to energy reality. This is good for the news business. It creates recurring controversies and "crises." Unfortunately, it's bad for the country.