Texas Bandits and Popular Delusions Hold State of California Hostage

by Harley Schlanger

How can it be, people all over the world must be wondering, that the state of California—the richest state in the world's richest nation, the home of Silicon Valley, Hollywood, and the Golden Gate Bridge, where fortunes are made and dreams come true—is now unable to keep the lights on in its citizens' homes and businesses?

And, once it was clear that an energy crisis of mammoth proportions has resulted from the schemes imposed by corrupt and greedy officials of power companies working with gullible bureaucrats, why is it that no elected official in the state has yet stepped forward to fight for the obvious solution? That was offered on Jan. 3 by Lyndon LaRouche: re-regulation, and the issuance of an emergency fund of credit for construction of new power-generating plants, with an emphasis on nuclear power?

As the U.S. Western states spokesman for LaRouche's just-announced 2004 Presidential campaign, I toured California in mid-January, to awaken its residents to the depth of the crisis—which, surprisingly, they do not yet admit—and to move them to act to save their state's, and the nation's, economy, before they are swept away in the biggest economic/financial crash in 500 years. Accompanying me was Joe Neal, a senior Democratic State Senator from Nevada, who is emerging as a national leader in the battle against the corporate pirates and thieves deregulating energy throughout the nation. We spoke at town meetings, and met with officials involved in energy policy in the state capital of Sacramento, Oakland, and Los Angeles.

As we travelled, the state ran out of luck, and a Stage 3 level of crisis was reached, leading to rolling blackouts. That night, Jan. 17, Gov. Gray Davis declared a state of emergency. But the blackouts returned next day. Factories were closed, schoolchildren were dismissed, businesses tried to ride it out. Even the building which houses the State Supreme Court in San Francisco experienced a two-hour power outage.

What we discovered is quite instructive: From the street corner to the Statehouse, citizens of the "Golden State" are trapped in their illusions, fearful of challenging the generally accepted view that deregulation is the only option for the state, and that it is necessary to "stay the course," even if things "seem tough" today. That these false axioms can be confronted by real leadership, was clear from the enthusiastic response to Senator Neal's briefings at town meetings held in San Francisco and Los Angeles, and the respect he received from officials as the only Western state legislator to stop deregulation in his state.

Tough Talk From Governor Davis

The way in which Democratic Governor Davis has reacted exemplifies the real problem which underlies the crisis, which is the failure to confront the faulty axioms of globalization, free trade, and deregulation—axioms which have brought the world to the brink of a global depression. A "Third Way" Democrat with a reputation for fiscal conservatism, Davis, like most California Democrats, was a supporter of deregulation. As the present crisis has deepened, however, he has become an increasingly vocal opponent.

In his State of the State speech on Jan. 8, Davis minced no words. "California's deregulation scheme," he said, "is a colossal and dangerous failure. It has not lowered consumer prices. And it has not increased supply. In fact, it has resulted in skyrocketting prices, price gouging, and an unreliable supply of electricity—in short, an energy nightmare."

He continued blasting deregulation, especially the way in which it rewards speculators, while penalizing producers. "Electricity is not an exotic commodity like pork bellies, to be traded in the chaotic equivalent of a futures market." As a result of this nightmare, he said, Californians "have literally lost control over our own power. We have surrendered the decisions about where electricity is sold—and for what price— to private companies with only one objective: maximizing unheard-of profits."

Asserting that the state will move to take control over its electrical power system, Davis said, "Never again can we allow out-of-state profiteers to hold Californians hostage. Never again will we allow out-of-state generators to threaten to turn off our lights with the flip of their switch." He did not, however, *name* the electricity robber barons who have destroyed California's power utilities in four short years.

They are Houston-based Reliant Corp., Dynegy, and Enron Corp.; Charlotte-based Duke Energy; Virginia-based AES, the biggest global buyer and seller of power plants; and San Jose-based Calpine.

Just over one week after the Governor's speech, those power conglomerates did, in fact, switch off California's lights, with cool arrogance. A Dynegy spokesman, after the company was asked by both Davis and President Clinton to stretch out the utilities' payments to keep them from bankruptcy, replied to the press Jan. 16, "We just aren't going to do that. There's too much at stake."

And now they are moving in to liquidate the utility companies, by going into bankruptcy court, to collect the unpaid jacked-up fees they are charging them to supply energy. The utilities have defaulted on hundreds of millions to the robber barons; but, they are likely now to set off defaults on *tens of billions* borrowed from banks. Governor Davis was not helped by his emergency meetings in late December with Federal Reserve Chairman Alan Greenspan, because Greenspan was in a panic at the time, lowering rates and pumping money to save the U.S. debt bubble. Davis's plan itself, is skewed by its attempts to bail out the bank creditors of the California utilities.

Fears and Illusions

In our meetings with state officials, we were assured, repeatedly, that they are fully aware of what they are up against. Yet, not once did these officials propose re-regulation. Instead, they offered the same mélange as that of the Governor: a little bit of financial management, some serious conservation, and a dash of hope that the Enrons and Duke Powers of this world will recognize their plight, and be more reasonable.

As a last resort, in case expecting reason from the privateers was asking too much, they spoke vaguely of invoking emergency powers, to ensure that electricity was delivered to the bankrupt utility companies.

Senator Neal, drawing upon his experience in Nevada, emphasized the need for Governor Davis to assert his authority under the General Welfare clause of the U.S. Constitution. No California legislator has yet put forward a plan for reregulation, amazingly. Neal told the legislators to give the Governor a finding that low-cost electricity is a necessity of the welfare of the state, so that Davis can use emergency powers, such as use of *eminent domain,* to ensure the delivery of electricity *and the rapid construction of new power facilities,* of which the state has added none in a decade. In both public and private meetings, he stressed that the primary role of elected officials is to act for the General Welfare, which takes precedence over shareholder values.

Ultimately, it is the illusion that Greenspan's bubble is prosperity, which has caused the people of California to tolerate an unreliable power system of the sort one would expect to find in a poor, Third World country.

Saudi Minister Yamani: 'Kissinger Was Behind 1974 Oil Shock'

by Our Special Correspondent

The British Sunday paper, the *Observer,* on Jan. 14, accused then-U.S. Secretary of State Henry Kissinger, of being a key player in orchestrating what was then a 400% rise in the price of crude oil following the October 1973 Arab-Israeli War.

The *Observer* interviewed former Saudi Arabian Oil Minister Sheikh Yaki Yamani, on the eve of the Organization of Petroleum Exporting Countries' January meeting in Vienna, where OPEC oil ministers decided to try to keep oil prices high by cutting output by 1.5 million barrels per day. That decision was widely opposed by the Organization for Economic Cooperation and Development member governments, as risking a deep economic recession.

Commenting on the Sheikh's warnings against the Organization of Petroleum Exporting Countries (OPEC) oil cuts at this time, the London paper noted, "He believes increasing the price could worsen the economic situation in the U.S.—with knock-on effects in the Far East and Europe—to the long-term detriment of producers, as industrialized nations seek other sources of oil, and of power. In this, he has remained consistent for 30 years: In the 1970s he was not persuaded of the benefits to OPEC of hiking crude prices by the 400% that came about in 1973."

The *Observer* added, "The Sheikh says he does not miss the day-to-day cut and thrust that characterized the 1970s oil crisis. However, it is with a smile that he adds: 'When you deal with oil you have to take so many other things into consideration.' The suggestion is that politics, rather than economics, is the key. . . . The key political question in his mind now is the same as it was in 1973—relations between Israel and its Arab neighbors."

Then, a bombshell: "He reminisces about the era of great oil diplomacy in the 1970s and his contemporary, former U.S. Secretary of State Henry Kissinger. . . . At this point he makes an extraordinary claim: 'I am 100% sure that the Americans were behind the increase in the price of oil. The oil companies were in real trouble at that time, they had borrowed a lot of money and they needed a high oil price to save them.' He says he was convinced of this by the