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FORUM

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ENERGY

What's roiling the gl

By Daniel Yergin

The ongoing turbulence in the world oil market engulfed Britain this month, almost bringing the nation to its knees in a matter of days. But what was really enraging the protesters who were blockading refineries and terminals was not the price of fuel, but the tax. Out of the \$4.40 a gallon that a driver pays in Britain, some \$3.30 is tax – or 75 percent of the retail price. By comparison, the average U.S. tax bite is 40 cents out of a gallon that costs about \$1.60.

Moreover, the British tax system works in such a way that whenever the price of gas goes up, the tax goes up even more. Prices finally reached a level high enough to turn those whose livelihoods depend on motor fuel into blockaders – their action no doubt spurred by earlier protests in France that led the government there to cut its gas tax.

As cargoes go, diesel fuel and gasoline carry more

Daniel Yergin,

author of "The Prize: The Epic Quest for Oil, Money and Power,"
wrote this article for the Washington Post.

risks than, say, potatoes. As a result, tanker drivers were loath to risk physical attacks by driving out of the refinery gates. Soon, the majority of Britain's gasline stations went dry. Supermarkets were beginning to ration bread and milk; ambulances were out of service, and the national health service went on "red alert." Prime Minister Tony Blair acknowledged that the country was in a national crisis but declined to follow the French government's example. A week ago the protesters withdrew, claiming their point had been made. The shaken transport ministers from the European Union countries gathered last week to assess the protests.

So are we on the verge of a short-term oil crisis? Or is it a tax rebellion? Certainly the latter. Possibly, the former. Consumers in the United States should realize that this month's blockades were more than just a spontaneous reaction to a price rise. Fundamental questions and issues are roiling the world's oil markets as winter approaches.

Watching from the sidelines, some OPEC countries like to point out that the \$30 to \$35 they receive for a barrel of oil is far less than what the British government "earns" through its gas tax – the equivalent of about \$140 a barrel. Other Euro-

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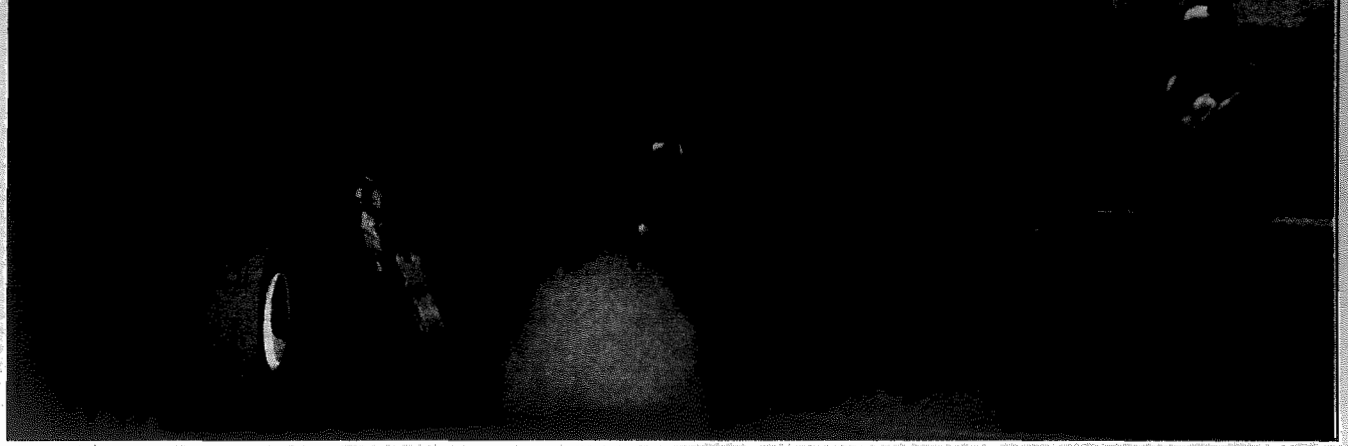
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ARMED FORCES





An F-14 starts to take off from the USS Theodore Roosevelt aircraft carrier, and (r.) Marines arrive for duty in the

The myth of the h

By Gregg Easterbrook

The president of the United States stood in downtown Kiev, cheered by thousands waving American flags. Throughout the seas he had traversed, vast American supercarrier battle groups roamed the waves at will, while U.S. submarines patrolled the depths and an unseen network of acoustic listening posts tracked the

Gregg Easterbrook

is senior editor of the New Republic, from which this article is reprinted.

world's few remaining unfriendly vessels.

In the skies through which the president had traveled, American fighters, bombers and jammers enjoyed uncontested supremacy. On land, U.S. troops camped in no fewer than 70 nations. In space, an unparalleled satellite network silently watched potential adversaries, vigilant for any exhaust plume or coded transmission that might signal trouble. Back home, thousands of tanks, jets and helicopters sat in reserve.

While the president visited Kiev, American personnel examined Site 49

near Severomorsk, once one of the most closely guarded secrets of its navy's nuclear stockpile. The victors in Moscow asked the victors to go there for security. In return, the United States allowed Russian officers into the facilities. But the Russians came as peddlers offering leftover secrets. With no chance of acting on them, the U.S. military, they figured, might as well become its suppliers.

This is no Tom Clancy fantasy. It describes the conditions surrounding Bill Clinton's visit to Ukraine half months ago. The American

SCHOOLS

Vouchers, Prop 38 — and a populist hope betrayed

By John E. Coons and Stephen D. Sugarman

Save for occasional centrists like Joe Lieberman, the voices arguing for and against school vouchers have for two decades come largely from the two poles of our politics. The result has been to deflect our public debate from the real problem — the inadequate schooling received by poor children — and

the role vouchers could play in dealing with it.

The anti-choice pole is occupied, of course, by the teachers unions and public school administrators — and Al Gore. They say

John E. Coons and Stephen D. Sugarman are law professors at UC Berkeley's Boalt Hall and authors of "Education by Choice: The Case for Family Control."

the basic flaw of our public school system is a shortage of money, a defect that vouchers might somehow aggravate.

This line of attack secures a united political front for what in fact is a deeply fractured teaching profession. When consulted individually, educators are highly conflicted over the teaching methods, intellectual content and school restructuring that might remedy the urban education calamity. But were their political leaders to concede this professional discord, they would make school choice a solution surely worth testing. Hence the troops rally round the all-con-

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bility that could well follow in the wake of the price collapse. The Mexican government, for instance, depends upon oil for as much as 40 percent of its total revenues. The oil exporting nations – led by two OPEC members, Saudi Arabia and Venezuela, and non-OPEC Mexico – instituted a series of production cutbacks that stabilized and then restored oil prices.

But two other factors were required to turn a stabilized market into a tight one. First, the drastic fall in the price of oil threw the industry into survival mode. Spending was drastically reduced.

Money not spent in 1997 or 1998 shows up as supplies today.

The other factor is the unanticipated strength of world oil demand, reflecting strong economic growth. In the United States, people are driving more. And today, one out of every two new vehicles sold in the United States is a sport utility vehicle, light truck or van, which as a category averages about 25 percent less fuel efficiency than the typical

parlant is called "spare capacity." These are the wells that are not in current use but which can be called on if extra supplies are needed.

They are the ultimate balancer of supply and demand.

The world's spare capacity is now less than 3 million barrels per day. Except for the period before and during the Persian Gulf War in 1991, this is the lowest level since the early 1970s, on the eve of the 1973 oil crisis. Half of this capacity is in one country – Saudi Arabia.

Higher oil prices mean that there will be a big increase in exploration and production. In fact, it is already beginning. But the impact will be governed by the "law of lead times" – that is, the real effects will not be felt for a couple of years.

The current narrow band of spare production capacity means a tight oil market. That in itself does not mean a crisis. But a tight oil market is one that is subject to disruptions and price spikes. An obvious risk would be a determination by Iraq's



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The smokescreens that keep public in da

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selling need for more cash.

These artful opponents of choice do, of course, make negative arguments that are directed specifically at vouchers. One example is their claim (important were it true) that extending choice to the private sector would encourage undesirable social attitudes (as if today's private school graduates were our present problem).

Again, however, these same critics disagree among themselves about the proper way to train good citizens just as much as they quarrel about the teaching of reading. The consistency of their anti-private-school propaganda is another handy device that obscures this professional division. The effect of these smokescreens on the level of debate is dreadful, because it keeps voters in the dark about the public school failures that

money won't fix.

Unfortunately, the frustrated citizen will learn little more from the champions of the version of school choice that is now before California voters. Seldom do the arguments of the supporters of Proposition 38 focus upon any of the wide range of potential outcomes of school vouchers (other than asserting that there will be a rise in test scores). For example, what would be the impact of parental choice on children who are in special education and on those from low-income families? These are important questions of justice and policy that should be addressed by more than brief TV images of smiling minority children in wheelchairs.

Why do many prominent champions of choice neglect these specifics? Blame the dominating influence that "pure" market ideology has achieved in libertarian circles over the last 20 years.

Proposition 38 is promoted as if it were an application of the economic theory used to deregulate banks and airlines. The voter is asked to assume that, once deregulation is achieved in any complex human activity, all outcomes are *by definition* correct. With schools, as with banks, *laissez faire* is itself the sufficient criterion of reform.

This intellectual addiction has strongly influenced the practical design of such efforts as Proposition 38. Detesting every sort of regulation, backers of Proposition 38 have sponsored a measure lacking any of the protections that could make choice actually work for the poor who most need it.

These protections are modest enough. Either the voucher must be provided exclusively to the poor or their reasonable access to participating schools must be assured. The simplest solution would: 1) make the voucher ade-

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Associated Press photograph

Thousands of Spanish farmers marched in Valladolid Tuesday to protest higher fuel prices.

Saddam Hussein to get into a standoff with the United Nations and turn off his tap, which is currently putting 2.3 million barrels per day into the world market.

Or it could be political turbulence that significantly interrupts oil exports in one or two troubled countries. Or it could be some kind of physical dislo-

cation that creates a bottleneck in the complex logistical system that moves 76 million barrels of oil around the world every day.

At any such point, the U.S. Strategic Petroleum Reserve – and similar reserves in other industrial countries – would look like a pretty good insurance policy. But then that could be a real crisis.

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quate to fund good quality new schools and 2) require random selection among all or some of a school's applicants.

The American public cares about all this. If only by intuition, California citizens grasp that the flat \$4,000 subsidy promised by Proposition 38 would build few new private schools for the poor, while encouraging them for the middle class. Only the latter can afford the extra tuition that would be necessary to stimulate the new providers.

In their economic purity the drafters of Proposition 38 have even made it problematic for the Catholic bishops, whose long established schools would be the most immediate beneficiaries. Without an effective "preference for the poor," the church is not interested.

Ironically, in picking Joe Lieberman as his running mate, Al Gore has identified a reincarnation of

the Democratic party's historic hope for vouchers. The first practical proposals for empowering low-income families were designed by liberals in the 1960s, stimulated by Lyndon Johnson's War on Poverty. Making the poor responsible to choose the provider of their child's education was to be a step toward the middle class.

This is the sort of school choice scheme Lieberman favors. For example, Lieberman voted for a proposed experiment in which low-income families in the District of Columbia would receive federally funded scholarships to be used to send their children to participating private schools.

Sadly, the Democrats dumped vouchers in the 1970s, not because they wouldn't work for the poor but precisely because they would. School choice threatened to discomfort union leaders. Gore made that clear the day after he selected Lieberman. In the same

breath, he proclaimed that he opposed giving needy families scholarships to help their children attend private elementary and secondary schools but that he favored giving those same families tax credits that would enable their children to enroll in private colleges and universities of their choice. Gore is well aware that the giant national teachers' unions have yet to organize faculty at the college level.

Alas, the intellectual vacuum created by the abandonment of school vouchers by most Democrats was filled in the late '70s by libertarian apostles of a pure market. In California, as elsewhere, their schemes are likely to attract about 30 percent of the voters. The bulk of us in the middle can only hope for the chance one day to vote on a Lieberman-like proposition that is directed at what is the real problem and our own social concern.