Bush and Gore are both losers in the 'who lost Russia' debate

by Edward Spannaus

The cover of the Sunday *New York Times Magazine* of Aug. 15 sports the headline "Who Lost Russia?" in huge red letters—thus resurrecting a debate that first surfaced about a year ago.

On the eve of President Clinton's September 1998 trip to Moscow, the question of "Who Lost Russia?" was broached in the online magazine *Salon*. Although no one had yet publicly raised that question, author Jonathan Broder wrote, scholars and experts considered that such a debate would be inevitable: "If it comes to that . . . the first to wear an 'R' on his forehead will be Vice President Al Gore, the administration's most outspoken proponent of the reforms that have decimated the Russian economy and fomented the current political crisis."

Russia specialist Stephen Cohen was quoted as saying: "The front guy in the administration is Gore," stressing his role in what was then still called the Gore-Chernomyrdin Commission. "That's been his baby. Of course, you can't find him now. He's hiding. This will hurt him in the Democratic primaries when Democratic challengers say this policy was Gore's and he'll have to take the responsibility." Cohen also correctly pointed out that the economic "reform" policies being pushed by the Clinton administration went back to the George Bush administration, which formulated these policies in 1991.

Today, the issue is being raised again, but this time it is being pushed by the people who are absolutely in no position to bring up the subject credibly—that is, former Bush administration officials who are now advisers to George W. Bush, the purported Republican party front-runner for the Presidential nomination.

The looting of Russia

The Aug. 15 Sunday *New York Times* magazine article, written by the former Moscow bureau chief of the London *Financial Times* John Lloyd, opens with a description of his own attendance at one of the meetings of the "reformers" held at a dacha outside Moscow in October 1991, attended by Anatoli Chubais, Konstantin Kagalovksy, Pyotr Aven, and chaired by Yegor Gaidar. (For a further account of those meetings, see *EIR,* Aug. 6, p. 12.) Lloyd notes that the meeting was discussing its declared mission "to make Russia a free, democratic, capitalist state," but instead, he writes, "today Russians are poorer, the wealth of the country has shrunk, and is concentrated in a few hands."

Lloyd goes back to what he describes as the debate already raging in 1990 as to what should come first: privatization of state assets, or the development of market institutions and infrastructure. On one side was World Bank official Joseph Stiglitz, who opposed rapid privatization; on the other were Harvard economics professors Jeffrey Sachs and Lawrence Summers—the latter who became Deputy Treasury Secretary in 1993, and is the current Treasury Secretary.

The "Who Lost Russia?" debate begins with the events of 1991-92, Lloyd writes, and in the course of his article, he provides a reasonably accurate description of the effects of shock therapy, and particularly of the IMF-promoted privatization programs which began in 1992.

When the new *biznismeny* ("businessmen") got hold of the privatized state properties, Lloyd says, their first thought was not how to spruce them up or to extend their product lines. "Rather, it was how to realize the assets in cash, change the cash into dollars and get it out of the country. Capitalism became capital flight." Lloyd cites estimates that between $200 billion and $500 billion has been taken out of Russia since 1992.

Lloyd also describes how, at the February 1996 Davos World Economic Forum, Chubais cemented the alliance of the "reformers" and the banker/oligarchs which still rules Russia today as the "Yeltsin government."

One of those who was at the 1991 dacha meetings was Konstantin Kagalovsky, whom Lloyd again visited recently. Lloyd says Kagalovsky was the first "reformer" he had gotten to know in Moscow in 1991; Kagalovsky then lived in a comfortless two-room Moscow apartment, and "talked of Adam Smith and Milton Friedman and Jeffrey Sachs." Kagalovsky entered government in 1991 and was Russia's chief negotiator with the IMF in 1992-95; he then took a position with the Menatep bank, and today is vice-president of Yukos oil company, which Menatep acquired through the loans-for-shares scam. Today Kagalovsky lives in an expensively renovated 19th-century Moscow mansion; on his wall are photographs of his meetings with George Bush and Margaret Thatcher.

Four days after the publication of the "Who Lost Russia" feature, the *New York Times* ran as its lead story, a report that Federal officials are investigating one of the biggest moneylaundering operations ever uncovered in the United States—involving as much as $10 billion funnelled through accounts at the Bank of New York. The *Times* reported that the bank has suspended two senior officers in the bank's eastern European division. One of these is Natasha Gurfinkel Kagalovsky—the wife of the very same Konstantin Kagalovsky.

Gore covers up Russian corruption

Lloyd makes the accurate point, that Vice President Al Gore "was deeply involved in Russia policy through the Gore-Chernomyrdin Commission," and he recounts the now-famous account of how the CIA sent a dossier on Chernomyrdin's corruption to Gore's office, which was returned with a "barnyard epithet" scrawled across the cover. "Gore will have much to answer for," Lloyd writes—but then he goes on to note, without a hint of irony, that it is the George W. Bush campaign that intends to make a big issue of it.

There is now "an increasingly cohesive 'Lost Russia' lobby," Lloyd says, noting recent comments by Pennsylvania Rep. Curt Weldon (R); the lobby's "mouthpiece" is likely to be G.W. Bush's foreign policy adviser, Condoleezza Rice, who is pressing to make the accusation "that the Clinton-Gore administration lost Russia a major part of the Presidential campaign." Of course, even Lloyd's own account makes it clear that the Clinton adminstration by and large simply carried forward the International Monetary Fund policy direction *already* established in 1991-92 during the Bush administration.

On the same day, a front-page article in the Sunday *Washington Post* "Outlook" editorial section also cited Gore's role in suppressing information about corruption in Russia. The article quoted E. Wayne Merry, who headed the "internal political" section of the U.S. Embassy in Moscow from 1991 to 1994, saying that, "after the creation of the 'Gore-Chernomyrdin' working group led by the American Vice President and Yeltin's longest-serving Prime Minister," the embassy was under pressure to find evidence that U.S. policy was producing tangible results, and it was blocked from reporting "about the realities of crime and corruption . . . failures in the privatization and general bad news." Many cables reporting such matters were drafted, but were never sent to Washington.

The current issue of *The Nation* urges that U.S. policy toward Russia should be a subject of serious debate in the Presidential campaign. Noting that Condoleezza Rice wants Bush to make Russia a major issue of Russia, the magazine says that Rice offers no alternative except to wait for a decade until real reformers appear—"a defeatist, condescending attitude." And Gore "is deeply implicated in the administration's failed policy," the magazine says, stressing Gore's vulnerability because of his role in the Gore-Chernomyrdin Commission, and "direct testimony that Gore suppressed U.S. intelligence reports revealing the corruption of Yeltsin officials, including former Prime Minister Viktor Chernomyrdin."

European analysts warn of 'financial crash'

In the United States, the month of August saw a stream of mindless commentary on so-called "positives" in the financial situation, such as government reports of low inflation indexes, hype over new mega-mergers, and the 11,000 Dow Jones index, while in reality, the global financial system unravels.

For example, "Good News on Inflation Sends Markets Up Sharply" (*New York Times,* Aug. 14), or, "It's Starting to Look Like a Summer Rally" (*New York Post,* Aug. 14).

But in Europe, the press is full of dire warnings about an imminent U.S. stock market collapse, and what the international repercussions will be. Leading commentators in London, Germany, and Switzerland are ringing the alarm, whatever their individual alignments and analyses may happen to be. As one London-based financial analyst described it to *EIR,* "We are getting near the end game for the Greenspan Bubble."

This senior source continued: "This U.S. stock market of the past days is rising on near-zero volume. The market technicals, as they are called, are very alarming. I expect to see one more push to try to hit the Dow all-time highs between 11,100-11,200. Then, the market will begin one of the worst sell-offs we have seen, sometime in the next few weeks. Already 57% of all New York Stock Exchange-traded stocks are trading below their 200-day lows, signalling that the broad market is already in a bear market. Only manipulation of the prices of a small handful of stocks is allowing Wall Street to maintain the illusion of a rising market.

"This market, reaching new highs just as interest rates on bonds continue to rise, is as vulnerable as I have seen the market in my 32 years in the business. And if Greenspan, for whatever reason, decides not to raise rates on Aug. 24, the long end of the bond market will simply crash, as confidence in the Fed vanishes."

Prominent among the pre-crash tremors are the rumored losses by major Swiss banking corporations, which reportedly had big bets on bad derivatives. Such developments are eerily reminiscent of the financial chain-reactions in the aftermath of the Russian default of Aug. 17, 1998.—*Marcia Merry Baker*

Commentaries

"Harbingers of Horror," editorial in *Handelsblatt,* German economic daily, Aug. 18.

One year after the panic over the Long Term Capital Man-