

laundering 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 administration 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 Yeltsin'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-

agement hedge fund, the “Harbingers of Horror” have reappeared: the spreads between corporate and government bond yields, which have risen so dramatically in recent days that everybody was forced to look back to the pre-Christmas 1998 period, “when the bond market was almost entirely coming to a halt.” Now we are again witnessing spreads of up to 117 base points, reached in the United States last week for ten-year maturities, and this is of an “historical dimension. Something must be really going wrong.”

The U.S. Federal Reserve was very alarmed about the rise of bond spreads; and, therefore, at the beginning of the week of Aug. 16, the Fed secretly asked for explanations from the City of London and Wall Street.

London and New York bankers told the Fed that there is absolutely no reason to worry, because it’s only the big appetite for bonds by the “booming U.S. economy” which is driving up the yields, in particular before the expected rate increase on Aug. 24. Should this “very optimistic view” of the present “dramatic developments” turn out to be not in correspondence with reality, concludes the editorial, then we have a big problem.

Heinz Brestel, “Flood Danger” editorial in the German daily *Frankfurter Allgemeine Zeitung*, Aug. 19.

The corporate bond market will run into turmoil in the autumn, states Swiss financial expert Brestel. He warns that international bond markets are being flooded right now with private sector issuances, in particular in the United States, but also in Europe. Corporate bond issuances have been multiplied in recent years due to the huge number of corporate mergers.

Concerning Europe, Brestel points to an eruption of junk bond emissions in some of the southern European Monetary Union member countries. As a consequence, corporate bond yields are rising across the board. So far, newly issued corporate bonds were still finding buyers. “However, the question is, how long can this go on, as markets are being flooded with new emissions? When will the dams break?”

Brestel notes that, according to market specialists in London and Zürich, “this is the biggest danger this autumn.” Watch out for the first signs of market hesitance to buy up new corporate bonds. Then, “over-night, the short-term period of summer weather on markets will suddenly come to an end and will be replaced by the first autumn storms.”

Brestel adds that the Daewoo disaster in South Korea will, in the coming weeks, cause further financial turbulence, leading to “thunderstorms over Far Eastern markets,” including Japan.

“Stock Market Crash Will Halve Equity Values,” London *Guardian*, Aug. 16.

“Wealthy people should start liquidating their stock market holdings now before a crash that will halve share prices

and keep them depressed for up to 20 years.”

The article quotes a senior investment consultant, Andrew Smithers, from his foreword to the 1999 edition of an investment guide to private asset managers: “Massive over-pricing is a common feature of all equity markets, though Wall Street seems to represent the most extreme example.”

Smithers calls on investors to liquidate their stock holdings, given that “share prices have reached levels that may not be seen again for 20 years or more and will probably halve.” Investors should not count on their fund managers to take the appropriate measures, because, “faced with a conflict between the risks to the clients’ money and the risks to their own careers, fund managers will not hesitate to act in their own interests and it would be unreasonable for the outsider to expect them to behave differently.”

Smithers advises “those who seek to be responsible stewards of their own and their families’ fortunes” to “read widely and sceptically about stock markets” and to “absolve the investment manager” from responsibility for his decisions about their money.

John Grieve Smith, editorial in the London *Observer*, Aug. 15.

“Do we need a collapse on Wall Street and a run on the dollar,” before finance ministers become “interested in tackling the instability of global financial markets?” asks Smith. He states, “The international financial system is overdue for an overhaul. The last time this was done was in 1944, when the Bretton Woods Agreement set up the International Monetary Fund and the World Bank as part of an international regime designed to avoid a repetition of the instability and mass unemployment of the inter-war years. It is time for a new Bretton Woods that will take into account the way in which the world has changed since then.”

However, Smith offers only an agenda for mini-reform, such as limiting the liberalization of capital markets by regulating the inflow of short-term capital, and perhaps introducing a tax on speculative transactions. Smith calls for setting “informal arrangements” on foreign exchange, but not fixed exchange rates as in the early Bretton Woods period.

Otmar Issing, chief economist of the European Central Bank, interview published in the *Frankfurter Allgemeine Zeitung*, Aug. 19.

The central issue, Issing argues, is whether there is “asset price inflation” on world financial markets, what the consequences of this could be, and whether central banks will have to take counter-measures. He concludes that asset price inflation is already in the making, even though consumer prices show no sign yet of inflation.

He concludes that a situation of “general and rapid rise of asset prices . . . would cause the highest alarm for a central bank. Then it’s time to act.”