

Hugel Resigns as Chief Of CIA Spy Operations

A Security Breakdown Career Officer Selected

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The CIA has a reputation for making the strictest security checks in the U.S. intelligence community, but its investigation of Max Hugel appears to have been a hurry-up, seven-day job that failed to sound even a mild alarm about his complex business career.

Hugel, who held one of the CIA's most sensitive posts, wasn't particularly helpful himself. His dealings with two Wall Street brokers in the early 1970s involved what Hugel described as attempted "blackmail," but he said he saw no need to report this or other details of the acrimonious relationship when he joined the agency earlier this year.

The CIA's investigation posed a sharp contrast to the measured pace outlined in an official description of the agency's standard procedure.

Reaction from members of the Senate Intelligence Committee late yesterday indicated that the Hugel matter could cause problems for the Reagan administration on Capitol Hill.

As deputy director for operations, the post he resigned yesterday, Hugel had access to the government's top secrets and directed the agency's global network of covert intelligence agents.

The first interviews concerning Hugel were conducted by the CIA's Office of Security beginning Jan. 14, just one week before Hugel started work at the agency, and the last were completed on Jan. 16.

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Max Hugel, the Central Intelligence Agency's chief of clandestine operations, resigned yesterday within a few hours after he was accused in published allegations of improper or illegal stock trading practices.

He was immediately replaced by John Henry Stein, 49, a career CIA officer.

White House aides said they were prepared to recommend that President Reagan fire Hugel but his resignation preempted them. In an early morning telephone call, CIA Director William J. Casey informed White House chief of staff James A. Baker III, "Max is going to step aside."

This call concluded five days of discussions among Casey, Baker, CIA counsel Stanley Sporkin, White House counsel Fred Fielding and others about how to deal with an anticipated series of damaging allegations against Hugel based on tape recordings provided by two Wall Street stockbrokers who did business with him seven years ago. The charges were disclosed in yesterday's Washington Post.

Reagan was not informed until late Monday of the charges against Hugel, whose job as CIA deputy director for operations is one of the most sensitive in government. Baker told the president that the story was due to be published in The Post on Tuesday morning and said Reagan's response was that he was "saddened" to learn of the accusations.

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SECURITY, From A1

The records indicate that Hugel had been "cleared" at some CIA echelons on Jan. 19 and was given final approval by the Office of Security, pending some overseas checks, on Jan. 21, the day Hugel started work at the agency.

Some of the interviews, including a set in the New York area that contained just a whisper of criticism, were not put together and synopsized until March 6, several weeks after Hugel had been given his first promotion, to deputy director for administration.

Through it all, however, the Office of Security, which is responsible for investigating everyone hired at the agency, from top officials down to the cleaning crews, evidently found nothing to arouse its suspicions about Hugel's business dealings or any other facet of his life.

Under a longstanding directive from the director of central intelligence, last updated in 1976, anyone to be granted access to "sensitive compartmented information" — which is a notch above top secret — is supposed to be called in for questioning about "any significant adverse information and/or inconsistencies" that government investigators might have turned up.

No such interview was conducted of Max Hugel.

The CIA's field interviews, which a reporter inspected with Hugel's consent, certainly show no cause for alarm. The agency's general counsel, Stanley Sporkin, said he regarded them as "amazing" in their consistency.

They are uniformly full of praise, depicting Hugel as a hard-driving millionaire whose "workaholic" habits constitute his biggest failing.

In all, 28 people were interviewed in New York, New Jersey, New Hampshire and Florida, although nine were just short-time neighbors and acquaintances of acquaintances with nothing of substance to say.

Those questioned at length included Manchester (N.H.) Union Leader publisher William Loeb and other individuals that Hugel gave as references. They included his tax adviser in New York and a business as-

sociate in Florida who owns a penthouse near Hugel's in Bal Harbour.

The CIA also checked with what it called "developed informants," but this is apparently a catchall category that includes everyone, except neighbors, whom Hugel did not list as references.

For instance, Robert Howard, president of the Centronics Data Computer Corp., who had known Hugel for more than 20 years, was listed as a "developed informant." So was Roy Nagagawa, successor to Hugel as chief executive officer of Brother International Corp. in Piscataway, N.J., and an acquaintance since World War II.

The flavor of the interviews is reflected by those conducted Jan. 16 in the Miami area, where Hugel was described as "hard-driving, very adept, intelligent, capable of working well under pressure" — a man wealthy enough to relax, but who was, nonetheless, accustomed to working 18 to 20, sometimes 24 hours a day.

Police records turned up nothing but three speeding tickets in Nashua, N.H., one in 1976 and two in 1978, all of which resulted in \$15 fines.

The only slightly reproachful notes crept in during some of the New York area interviews, where several associates and longtime neighbors recalled some marital strains brought on by Hugel's preoccupation with work that caused him to spend a lot of time away from home. But these had apparently been smoothed over, investigators were told.

The investigation produced not a hint of Hugel's volatile relationship with brokers Thomas and Samuel McNell.

The McNells, who secretly taped a number of Hugel's business conversations, charged that he participated with them in a series of improper and perhaps illegal stock market practices to boost the stock of Brother International Corp.

"I didn't think it was a reportable event," Hugel told reporters and editors of The Washington Post. At a subsequent meeting, he added that he "never regarded the McNells as

being able to blackmail me." But he also asserted that "time and again, that ploy was used."

Several intelligence experts faulted Hugel in strong terms for his failure to report any of this to the agency. One called it "a great mistake."

"He damn well should have," declared another professional, who once was deputy director for operations himself. "He had to . . . for his own protection as well as for the agency's. If there were explanations, he should have given them."

"It certainly sounds like a rather pertinent area," an FBI official agreed. "His discretion, his ability to keep confidences, to protect secrets, all those things could be affected."

Under the rules of the business, CIA employes are supposed to be above reproach. Marital difficulties and financial irresponsibility are grounds for rejection. So is marijuana smoking. And homosexuality.

According to the CIA's regulations, it is imperative that its personnel be "of excellent character, and of unquestioned loyalty, integrity, discretion and trustworthiness."

To that end, the agency has developed security procedures that a staff report for a House intelligence subcommittee characterized two years ago, on paper at least, as "the most comprehensive and stringent in the intelligence community."

Newcomers begin by filling out a personal history statement that takes up 17 pages. According to Robert Gambino, former director of the Office of Security, "that stops a lot of people right there."

Then there is a background investigation, beginning with a check of the files at the FBI and a short list of other government agencies. The CIA's inquiries are supposed to encompass the last 15 years of an applicant's life, or go back to the 17th birthday, whichever is shorter.

The routine seems designed for omniscience. As the House staff report described it:

"Investigators examine the applicant's education, employment and residences and conduct. neighbor-

hood checks, criminal justice information checks and credit checks. A minimum of five character references must be interviewed with a view toward establishing the habits, loyalty and morals of the individual. Both positive and negative information must be taken into account."

If no problems turn up, physical examination and a battery of psychiatric tests come next. The final step is a polygraph test that the CIA alone requires of all its personnel, including military officers on temporary assignment.

The main goal, as Gambino has testified, is to prevent "penetration of the agency, through its personnel, by foreign intelligence services or others whose interests are inimical to those of the United States."

The FBI steps in only to conduct background investigations of candidates for the CIA directorship and deputy directorship. And even for them, the CIA's Office of Security is in charge of the polygraph tests. According to CIA officials, the standards are the same for everyone, from janitors to top executives, no matter what level of secret clearance they are to have.

About one of every 10 CIA applicants is turned down for security reasons, which run the gamut from thievery to homosexuality to "gross character deficiencies."

Another 3 to 5 percent are rejected as "unsuitable," a category of failings that ranges from "limited mental capacity" to marital difficulties. Alcoholics are considered "unsuitable." Drug users are regarded as security risks.

The standards were first promulgated by President Eisenhower in a 1953 executive order that cautioned investigators to be on the lookout for any signs of unreliability or untrustworthiness on the part of applicants for sensitive jobs as well as "any deliberate misrepresentation, falsifications, or omissions of material facts."

At the CIA, about one of every four applicants turned down for security reasons is rejected as a result of the background investigations alone.

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The next time Reagan heard about the matter, Hugel had already quit. The news was relayed to the president at the regular morning staff meeting by Baker, White House counselor Edwin Meese III and deputy chief of staff Michael K. Deaver.

In his resignation letter to Casey, Hugel called the allegations against him "unfounded, unproven and untrue." The 56-year-old former president of a New York wholesale firm said he was leaving because "under present circumstances, I feel I can no longer effectively serve you or the agency."

In a two-paragraph letter, Casey replied: "It is with deepest regret that I accept your resignation. I do, however, respect your wishes and fully understand your position. I greatly appreciate your efforts for this agency. You have deservedly earned the respect of those with whom you have worked."

Later in the day, White House spokesman David R. Gergen reiterated that the decision had been made at the CIA by Casey and Hugel and several times repeated Hugel's assertion that the charges have not been proven.

In response to a series of questions at the daily White House briefing, Gergen said that the president continued to have "great faith" in Casey's judgment and believed that he had done "a first rate job" at the CIA. At the time Hugel was appointed to his sensitive post more than two months ago, Casey's judgment in making the choice was widely questioned.

Veterans of the intelligence community, as well as some high White House aides, said they were surprised that Casey had chosen a politically oriented and inexperienced outsider rather than a career man.

Following initial questions about Hugel's qualifications, Casey defended him in a long, personal letter to Reagan. Casey's main argument was that he needed someone in the sensitive post in whom he could place his absolute trust and that Hugel, Casey's friend of 20 years, filled that prescription better than any other candidate.

There was no immediate sign that Casey's own position within the administration had been shaken. The president has trusted Casey, aides emphasized, ever since the 68-year-old former chairman of the Securities Exchange Commission helped straighten out the tangled finances of the Reagan campaign last year.

Casey was an unpopular figure with other campaign aides, and since his appointment as CIA director he has been

accused of politicizing the agency. There is no evidence that this opinion is shared by Reagan, however.

Meanwhile, a federal judge in New York has ruled that Casey knowingly misled potential investors in a now-defunct agribusiness company which he served as a board member and corporate secretary. [Details, Page A9]

Gergen said that Fielding heard the first report of Hugel's difficulties "from a third party" last Wednesday. Fielding told Baker about it. On Thursday, Gergen said, Fielding sat down with Hugel to discuss the issue.

That night, CIA counsel Sporkin, former chief SEC enforcer under Casey during the Nixon administration, began detailed questioning of Hugel.

Friday morning, Sporkin requested a meeting with Post editors and reporters. The meeting was arranged on the condition that Sporkin would bring along Hugel to confront allegations made to the paper by Thomas R. McNell and Samuel F. McNell, whose securities firm traded the stock of Brother International Corp. Hugel was president of this company from 1954 to 1975.

The McNells charged that Hugel regularly provided them with confidential inside information about his company. They said Hugel improperly funneled \$131,000 into the McNell securities firm and that he helped them use the firm to improperly boost trading in Brother stock.

At a four-hour session Friday, Hugel emphatically denied these accusations, but asked for time to consult his business records.

While Hugel was doing this over the weekend, there were conversations on what to do about the controversial spy-master at both the White House and the CIA. At some point, portions of tape recordings made by Sporkin of the interview at The Post were played for Casey.

Sources close to the investigation said that the most damaging recording was one in which Hugel complains that he's "got my bank on my ass" and urges the McNells to do anything to create additional trading activity in his company's stock.

"At least trade," the taped Hugel says. "And I'm going to blow this thing right into China if I have to."

It is not clear when the precise moment was that the administration decid-

ed to jettison Hugel. At the White House the strategy was to insist that Casey had made the appointment and that it was up to him to decide on whether Hugel would go. This had the seeming advantage of keeping the action further removed from the president.

Baker insists that the White House never had to make a decision.

He said that Casey and Hugel did it on their own and added, "This is probably more likely Max's idea than it was Casey's — the way Casey put it to me."

Casey has refused to comment. Hugel

was described as having been completely ostracized at the Langley headquarters of the CIA. People who saw him said that he was subdued in manner and that he still firmly believes that the business practices detailed on the tapes were neither illegal nor improper. He is said to believe that the comments he made demonstrated no more than the enthusiasm of an aggressive business executive.

Hugel regards his accusers as vindictive men who tried to swindle him out of an insurance settlement. Thomas McNell, reached yesterday, responded, "He's a liar, he swindled us."

Securities experts said yesterday they see little likelihood that charges will be brought against either Hugel or the McNells because the statute of limitations probably has expired.

The swift appointment of Stein in Hugel's place as the new deputy director for operations signaled a return to the familiar pattern of putting a career intelligence official in this sensitive job. The prevailing view in the White House and the intelligence community was that

Stein should have been given the job in the first place.

Stein's resume reads like a central casting version of the successful CIA agent. He graduated from Yale in 1955 and held posts in Europe, Africa, Cambodia and Libya.

Former ambassador to Cambodia Emory C. Swank, who served with Stein in Phnom Penh, described Stein as "very career, doesn't make waves, very hard worker, the sort of personality the agency prefers, particularly on the operations side."

Behind the public statements of how "saddened" Reagan was by the episode, White House aides were congratulating themselves on how quickly Hugel had left the administration. "It was done in time for the afternoon papers," said one aide.

Casey's parting letter to Hugel, his friend of 20 years, said: "I know that you will not lose your dedication to our nation's security and welfare and I wish you well in whatever you undertake in the future."

Texts of the Hugel-Casey Letters

Following are the texts of Max Hugel's letter of resignation as CIA deputy director of operations to CIA Director William J. Casey, and Casey's response.

Hugel's letter:

Dear Bill:

As you know, since I was appointed deputy director of operations, I have been the subject of repeated unfavorable articles in the press, the most recent one being this morning.

These allegations, although unfounded, unproven and untrue, have become a burden which I no longer believe is fair to impose on the administration, the agency, my family, and the splendid men and women who work with me.

Accordingly, with deepest regret and sorrow, I hereby tender my resignation effective as of the close of business today.

I want you to know how appreciative I am for the opportunity you have provided to serve my country.

However, under present circumstances, I

feel I can no longer effectively serve you or the agency.

Although I am resigning, I want you to know that I am available for any future assignment in which you believe I can be of help.

Sincerely,
Max Hugel

Casey's reply:

Dear Max,

It is with deepest regret that I accept your resignation.

I do, however, respect your wishes and fully understand your position.

I greatly appreciate your efforts for this agency. You have deservedly earned the respect of those with whom you have worked.

I know that you will not lose your dedication to our nation's security and welfare and I wish you well in whatever you undertake in the future.

Yours,
William J. Casey