

CAMPAIGN FINANCING

The Land of Milk and Money

During his televised session with newspaper managing editors in Orlando, President Nixon was so anxious to explain one of the potential scandals hovering over his Administration that he repeatedly invited questions about it. "Would you mind asking me about the milk?" he pleaded with one interrogator. When no one did, the President proceeded to ask and answer his own question. A 1971 increase in federal milk price supports, which added some \$500 million to the annual income of dairy farmers, had absolutely no connection, as many have charged, with campaign contributions from their professional organizations, Nixon said. The real reason why he ordered the hike in price supports, the President insisted, is that the Democratic Congress was on the verge of legislating an even larger bonanza for milk producers than the one he approved. Said Nixon: "Congress put a gun to our head." He acted only to prevent that larger increase.

Another Round. This week the Senate Watergate committee begins inquiring into that contention—plus a good deal more about the tangled "milk deal" than Nixon mentioned. From background testimony, court depositions and other evidence pieced together by TIME Correspondent Stanley Cloud, it appears certain that the President will have to issue yet another round of new and amended explanations about his conduct in the affair. Moreover, the scheduled witnesses include a onetime Administration superstar who has thus far stood clear of any Watergate shadows: John Connally, Nixon's Treasury Secretary in 1971-72 and a presidential hopeful for 1976. Connally's summons to provide testimony has already proved politically embarrassing to him.

The contributions in question came from political committees run by three dairymen's cooperatives, all of which regularly and legally supply contributions to friendly candidates and lobby in Washington for measures helpful to their members. In the 1972 campaign, the nation's largest milk co-op, Associated Milk Producers Inc. (AMPI), spent more to back candidates of both parties (\$906,245) than any other organization except for the political arm of the 14 million member AFL-CIO. Precisely how much the milk producers gave to the Nixon re-election cause is unclear, but it is at least \$527,500, or more than five times what corporate giants like Gulf Oil and Phillips Petroleum ponied up.

AMPI officials had backed Hubert Humphrey for President in 1968, and they thus felt a special need to establish relations with the victorious Nixon Administration. According to AMPI Attorney Jake Jacobsen, Jacobsen's Washington law partner Milton P. Semer got in touch with then Attorney General John

Mitchell in mid-1969 to ask how the milk producers might win the Administration's attention. Mitchell recommended that Semer see Herbert Kalmbach, the President's personal attorney and a key Nixon money man. In time, Jacobsen has testified, "Kalmbach said that he [Semer] ought to make a contribution, and he did make a contribution." Indeed he did. In August 1969, says Jacobsen, Semer delivered \$100,000 cash in AMPI funds to Kalmbach in California. The money was added to a \$1.7 million surplus from Nixon's 1968 campaign and was eventually used for a variety of purposes, including donations to



AMPI OFFICIAL HAROLD NELSON

congressional candidates in 1970, the operations of White House "Special Investigators" Tony Ulasewicz and John Caulfield, and Nixon's 1972 campaign.

The dairymen's prime goal was an increase in federal milk price supports, a level set by the Government through its own purchase of surplus commodities and other means that are designed to keep domestic prices high enough to ensure an adequate income to farmers. In 1970 the Administration raised support levels by 38¢ per hundredweight to \$4.66, one of the biggest such increases in the program's history. No one has charged that the price hike was any kind of payoff. It was not long, however, before the Administration provided some other goodies for the milk industry that did come under suspicion.

New Money. On Dec. 16, 1970, an AMPI attorney named Patrick J. Hillings, who is a former Congressman from Nixon's old congressional district in California, wrote the President a letter declaring that "the time is ripe" to impose import quotas on ice cream and three other dairy products—a perfectly normal request intended to cut the supply of foreign-produced dairy goods and thus force up domestic prices. But in the

same letter, Hillings informed the President that AMPI had been in touch with his financial men to set up "appropriate channels for AMPI to contribute \$2,000,000 for your re-election." Two weeks later, Nixon issued an Executive proclamation setting up import quotas on the requested products.

Further, despite the increase in price supports during 1970, milkmen in early 1971 decided that an offensive for still higher prices was in order. Their efforts were firmly resisted by then Agriculture Secretary Clifford Hardin, hardly an enemy of the dairy industry, who argued that higher support levels would stimulate overproduction. But the milkmen found a friend in Connally. According to evidence given Ervin committee investigators by two AMPI officials, Harold Nelson and George Mehren, Con-



HARDIN (LEFT) GREETING CONNALLY

nally met with representatives of three milk co-ops—AMPI, Mid-America Dairymen Inc. and Dairymen Inc.—some time between March 12 and March 23, 1971. There is testimony that Connally told the milkmen that "new money will have to come" if they wanted to see price supports boosted, an accusation that Connally denied.

Several milk executives have testified that on the same evening or shortly thereafter they met Connally by accident at a small private airport adjacent to Washington's National Airport. Robert Lilly, the secretary of AMPI's political organization and one of those present, recalled hearing Connally say something like: "Go ahead with the new contributions because it's in the bag." Lilly has testified that he assumed Connally was referring, by "it," to the price-support increase. Again, Connally has denied saying any such thing. Whatever the facts, officials of the three co-ops agreed to divide AMPI's \$2,000,000 obligation among their groups, and AMPI made a \$10,000 payment to Nixon committees on March 22.

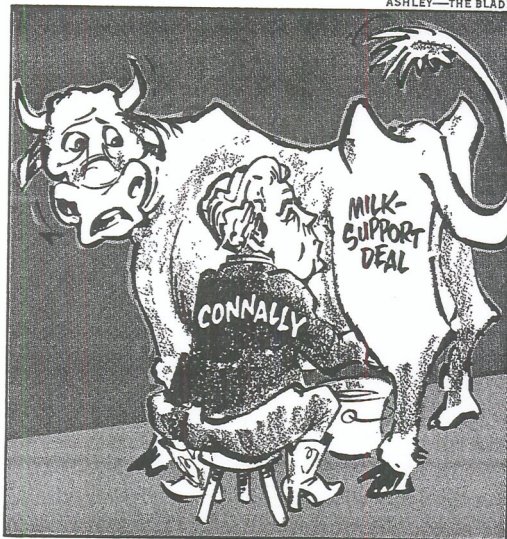
The very next day the dairymen finally had an audience with the man who was, among other things, the na-

tion's most notorious cottage cheese customer. Nixon and other Administration officials met with a dozen leaders of the three co-ops to discuss price supports. Later, the President held a follow-up meeting with Hardin, Connally and George Shultz, then director of the Office of Management and Budget, to discuss the milkmen's arguments. That evening, according to Ervin committee testimony, Connally met yet again with the co-op executives at a private home in Washington to go over the results of the busy day's events. According to a committee source, there is "multiple testimony" that Connally took part in a discussion linking the dairy industry's proposed contributions with White House policy on price supports.

Connally has testified that he cannot recall that meeting. He did have one

pensive than most of those being considered by Congress. Moreover neither house had actually passed a milk bill, making Nixon's claim about a gun at his head somewhat extravagant; and the President has rarely backed down on other issues because of the artillery against him in Congress. Finally the timing of the decision was curious.

Curious on the other side was the fact that early in 1972 John Mitchell's Justice Department charged AMPI with antitrust violations in a 14-state area, a blow that brought Connally back into the picture. According to participants in a meeting at Connally's office on March 16, 1972, the Treasury Secretary telephoned Mitchell (who by then had left the Justice Department to run the Committee to Re-Elect the President) to warn that the antitrust suit might jeop-

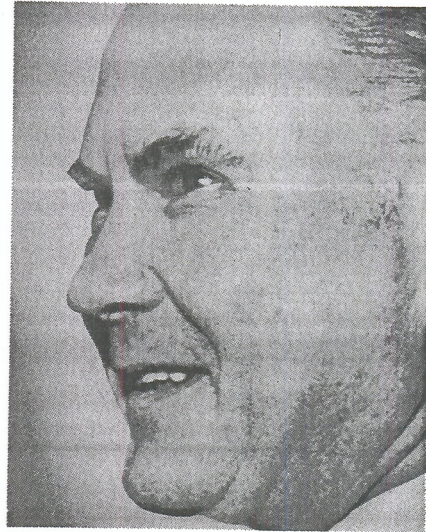


"Sure your hands are clean, John?"

private discussion about price supports with Jacobsen, but at no time put things on the basis of paid-for favors. He said that in talks with the President he favored the dairymen's position but only on economic grounds.

Meanwhile, as Nixon pointed out, the dairymen were certainly not putting all their milk in one can. Almost immediately after Hardin began opposing a price-support increase, legislation was introduced in both houses of Congress aimed at raising the level substantially. Most called for an increase that would have pegged milk prices to at least 85% of parity, the idealized measure that has traditionally denoted "full prosperity" for U.S. farmers. The Congressional push, as the President noted, was led by Democrats, many of whom had received contributions from milk producers during their own recent campaigns.

On March 25, just two days after Nixon had personally met with the milkmen, Hardin announced that he had changed his mind: milk support prices would go up to \$4.93 per cwt., or 85% of parity. Thus Nixon has a dubious point in claiming that he saved money for consumers and the Government, since his own plan was no less ex-



AMPI OFFICIAL GEORGE MEHREN

ardize further milk campaign contributions. Connally admitted talking to Mitchell about the suit but not in the presence of the milkmen, and he denied mentioning the campaign money. Nevertheless, according to some of the milk executives, Connally asked for and got another \$50,000 for Democrats for Nixon, which he headed, and various state G.O.P. organizations.

Censored Memos. As with many other presidential controversies, Nixon could help substantiate his version of the story by releasing evidence that is stored in his files. In connection with a civil suit filed by several consumer groups, he has made public seven complete memorandums and turned over 24 others—six of them censored—to the U.S. Circuit Court of Appeals for a ruling on whether or not they should be released. But White House Counsel Leonard Garment has maintained that 36 other memos requested by the consumer groups and the deleted portions of those being held by the court are "central to the decision-making process by the President and his staff" and are thus protected by Executive privilege. Among them are memos on Nixon's face-to-face meeting with the milk executives.