Ash's Litton Record Raises

Questions About His OMB Role

By Morton Mintz
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A new series of questions has been raised about the credibility and competence of Roy L. Ash, director of the Office of Management and Budget.

The central issue is the same it was a year ago, when Mr. Nixon plucked Ash from the presidency of Litton Industries: the quality of Ash's reign over the giant conglomerate and the implications of that reign for the OMB and the government.

The Attorney General-designate, Sen. William B. Saxbe of Ohio, criticized the appointment last January and predicted a scandal would develop sooner or later over a particular Navy contract with Litton.

"I don't think it's good to have a president of Litton sitting in the catbird seat," Saxbe said.

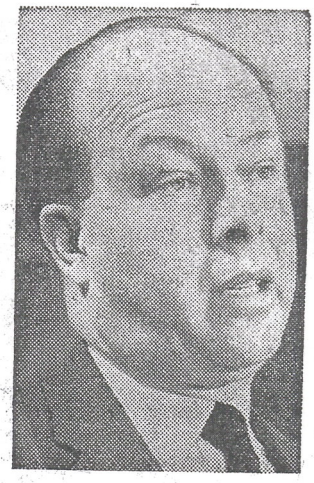
Two weeks ago, the Navy disclosed that Litton faces a possible Justice Department investigation in connection with a claim for $37 million in cost overruns on three nuclear submarines built by its Ingalls Shipbuilding division in Pascagoula, Miss.

The Navy told a congressional Joint Economic subcommittee hearing that Secretary John W. Warner will decide shortly whether to ask the department to look into charges by Vice Adm. Hyman G. Rickover that Litton had engaged in "misrepresentation, if not fraud" in making and pressing the claim. The "father of the atomic submarine" blamed Litton for the overruns; the company blamed the government.

On Nov. 14, the General Accounting Office revealed to the subcommittee that it has referred to the Justice Department "indications" of possible criminal violations in the dealings between Ingalls and five sub-contractors.

The congressional watchdog agency also disclosed that a federal grand jury has investigated an alleged attempt by a now "terminated" Ingalls vice president and two associates to get a $125,000 kickback on a $353,000 crane.

"I just wonder if Mr. Ash has demonstrated the kind of competence and responsibility as head of Litton, on the basis of the record we have here, that would qualify him for his present job," subcommittee chairman William Proxmire (D-Wis.) said.



William Saxbe, right, now Attorney General-designate, criticized the appointment of Roy Ash as OMB director.

"That is an immensely responsible job. And it does take just the kind of vigilance that seems to have been missing in this case."

A federal grand jury in San Diego raised additional questions a few weeks earlier with a 121-count fraud indictment against Litton Systems and four officers of the Litton Industries subsidiary.

The grand jury accused the defendants of having conspired to evade $216,000 in customs duties on millions of dollars of computer-memory circuits imported from plants affiliated with Litton in Mexico and Singapore.

The indictment, in the 120 remaining counts, listed specific uses of false entry documents that undervalued the worth of imported memory-processing circuits known as memory core planes. The defendants have pleaded innocent and face trail on Jan. 15.

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The period covered by the indictment was November, 1968, to August, 1972. Ash was president of the parent corporation during that time.

On Oct. 26, two days before the indictment was returned, Ash was shown in a proceeding in Superior Court in Los Angeles to have made conflicting statements under oath as to his place of residence.

The proceeding concerned an attempt by Ash to quash a subpoena to take his testimony in a sensitive libel suit involving his role in a $43.4 million overcharge of the Air Force in the 1950s. At the time he was in charge of accounting at Hughes Aircraft, reporting to Charles B. (Tex) Thornton, now chairman of Litton.

In the October proceeding, the lawyer seeking enforcement of the subpoena, Harold Rhoden, produced a paper filed by Ash in March in order to take advantage of a California law providing a reduced property tax on homes occupied by their owners.

Ash has a home in the Bel Air section of Los Angeles. By signing the paper, Ash decreased his property bill by about $200.

Ash swore in the document that "I occupied the property described hereon as my principal place of residence." He has an employe there who answers the phone with the words "Ash residence," maintains a "household account" in a Beverly Hills bank, and owns six automobiles licensed in California.

But Rhoden also brought out that Ash had recently filed a sworn declaration in Superior Court, as part of his effort to be freed from the subpoena, that his residence has been Washington, D.C., since last December.

Ash's lawyer, Felice R. Cutler, protested to Judge David N. Eagleson that Rhoden was treating an important government official at the call of the President "as if he's just a garage mechanic." Eagleson quashed the subpoena, saying Ash's "predominant residence" is in Washington.

On Capitol Hill, Ash abraded some legislators with a campaign to eliminate certain amendments to the conference report on the legislation clearing the way for the Alaska pipeline.

One of the amendments strengthens the powers of

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the Federal Trade Commission to fight deceptive trade practices and allows it and other agencies created by Congress as independent bodies to send questionnaires to large companies without OMB clearance.

Any involvement by Ash in this issue was destined to be examined critically because of his and Litton's past troubles with the House antitrust subcommittee.

In August, 1971, the staff of the FTC's Bureau of Competition urged the FTC to force Litton to divest Triumph-Adler, a German typewriter manufacturer, on the ground that the acquisition may tend to lessen competition in a "highly concentrated" industry.

The plea was coupled with criticism of the candor of Litton management with its stockholders, as well as the competence shown in the Triumph-Adler matter by Litton executives including Ash.

The FTC staff, in a 359-page document, also said it had taken testimony from Ash that was "inconsistent" with that of other Liton executives, to the point that it is "difficult to determine which (Litton) witness to believe."

Last March, the commission termed the Triumph-Adler acquisition "a clear violation" of the antitrust laws and ordered divestiture. Litton said it would appeal.

The House antitrust subcommittee, which held extensive hearings on Litton and other conglomerates, released a caustic report over the 1971 Labor Day weekend.

It said that Litton under Thornton and Ash had made "overstatement . . . a way of life," "utilized all of the sophisticated accounting techniques and statistical gimmicks available" to develop its image, and "is adept at concealment, misdirection and incomplete statement."

In a related development while Ash was trying on Capitol Hill to kill the FTC amendment to the pipeline bill the agency's former chief economist, Dr. Willard F. Mueller of the University of Wisconsin, charged that Ash's record is one of "proven hostility—both outside and within government—to the FTC's economic data gathering and analysis functions".

Prof. Mueller, in a paper filed with he OMB in a hearing on a proposal to strip secrecy from report filed with the FTC by large corporations, said that "perhaps more than any other company studies," Litton resisted FTC efforts to obtain "necessary information" by imposing "confidentiality restrictions on the use of data which it was required to supply."

Mueller lso protested that Ash, as chairman of the President's Advisory Council on Economic Organization, had "recommended" the dismemberment of the FTC by separating its antitrust and economic analysis functions."

The House floor manager of the pipeline conference report. Rep. John Melcher (D-Mont.), said on Oct. 24 that Ash made an "11th hour" visit to tell him of "a threat of a veto" if the FTC and other amendments unrelated to the pipeline were not killed.

"I did not appreciate what seemed to me to be rather high-handed ultimatums to reconvene the conferences and revise the bill to suit Mr. Ash's tastes about the OMB's powers," Melcher told the House.

"I believe in decisions openly and regularly arrived at—not deals consummated at the point of a popgun pointed by Mr. Ash," Melcher said.

President Nixon rejected Ash's recommendation of a veto and signed the bill Friday—but said he would propose separate legislation to get out "the clinkers."

Mr. Nixon's announcement in November, 1972, that he was naming Ash to run the OMB set off criticism especially because Litton and the Navy—which of course is dependent upon the budget agency—were in dispute over approximately a half-billion dollars in claims for cost overruns.

At a hearing before Proxmire's subcommittee in De-

cember, 1972, Navy cost-cutter Gordon W. Rule said Mr. Nixon had made "a mistake" in naming Ash and Ash had made "a worse mistake" in taking the post.

The senator asked the President to rescind the appointment. He cited a report by Navy and Maritime Administration investigators who found "poor workmanship" and an "excessive" rate of "repetitive defects" in Litton's automated "shipyard of the future" across the Mississippi River from the Ingalls facility in Pascagoula.

In January, The Washington Post, in a story on the $43.4 million overcharge of the Air Force, cited testimony from a court case showing that high-ranking certified public accountants at Hughes Aircraft in the early 1950s had revolted against their top bosses, Thornton and Ash, because they said they were being ordered to book false information.

Noah Dietrich, who for 37 years was chief executive officer of the parent firm, Hughes Tool Co., sued Litton and Thornton for libel in connection with the overcharge. A jury awarded him $6 million after a three-month trial in 1968, but the case is now being retried.

Dietrich's lawyer, Harold Rhoden, in a letter to Ash last Sept. 27, charged that his testimony in 1968 was replete with "self-contradictions."

In another pending California lawsuit, Litton Industries, Thornton and Ash are accused of defrauding owners of businesses acquired by the company with exchanges of stock.

The suit was filed in January by the estate of Los Angeles industrialist John B. Rauen, whose Chainveyor Corp. was acquired by Litton in 1967, and by members of his family.

They complained that Litton through manipulation forced a rise in the market price of special convertible preference stock, with the result that it had to give up fewer shares to acquire other firms than if "true value" had prevailed.

The suit, a class action in behalf of all companies acquired by Litton, also claims that Litton reneged on a promise to redeem each year 3 per cent of its 7 million shares of convertible preference stock on a graduated price schedule ranging from $51.65 in 1967 to $100.95 in 1989.

A Litton spokesman said directors of the firm decided not to proceed with partial redemption because the Tax Reform Act of 1969 would impose adverse consequences on stockholders. He said the suit had "no merit."