

The High Price of Illegal Gifts

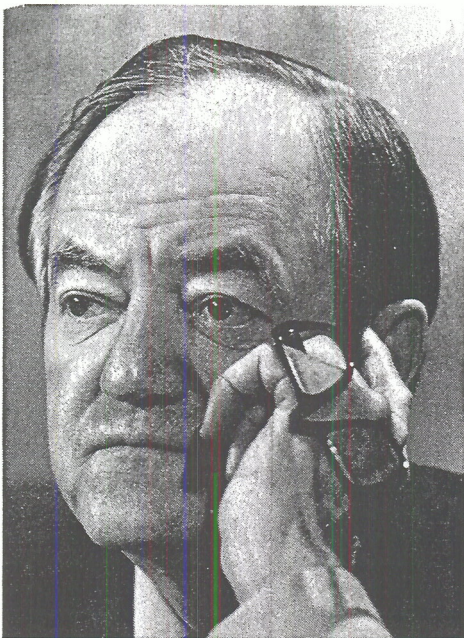
On Feb. 11, 1974, the four outside directors of the 3M Co., including two former Cabinet members—onetime Treasury Secretary Joseph Barr and former Commerce Secretary Peter Peterson—summoned the company's president to an urgent meeting. Barr put a startling question to him:

"If we ask for the resignation of your chairman, the chairman of your finance committee, the chief financial officer and possibly your general counsel, can you hold the company together?"

Raymond Herzog, the president, looked grim. "I don't think so," he replied. "Even if I could do so," he added, "it would be only with great difficulty."

Yet, except for Herzog himself, 3M's top echelon has, in fact, stepped down in scarcely one year. In February, Chairman Harry Heltzer gave up his post as

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PAUL CONKLIN

SENATOR HUBERT HUMPHREY
Many recipients of money.

chief executive after paying a federal fine for engaging in unfair political campaign practices; he will not run for reelection to the board in May. Bert S. Cross, a former chairman who is head of the finance committee, has withdrawn from active management and will quit the board in May. Financial Vice President Irwin Hansen, who faces a possible prison sentence on federal tax-evasion charges, resigned last November. In one legal action after another, 3M, among other things, has been found guilty of breaking the Federal Election Campaign Act of 1971, as well as Minnesota's fair-campaign-practices law. So far 3M has paid \$8,000 in fines, while Heltzer has paid \$500 and Hansen \$3,000. The litigation continues.

The episode is all the more poignant because Heltzer, Cross and Hansen were held in highest esteem in the tightly knit and circumspect business community of Minneapolis-St. Paul. And the 3M Co., Minnesota's largest employer, prides itself on its finely developed sense of civic responsibility. Actually, 3M's travail is a classic example of the post-Watergate traumas that have plagued many U.S. companies that made illegal political campaign contributions.

The payoff system was simple. Civic Affairs Director Wilbur M. Bennett, who has not been indicted, would submit the names of likely recipients to Bert Cross, who was chief executive officer from 1963 to 1970. Cross approved each gift. Hansen kept the cash in an office safe and then gave the money to Bennett, who passed it on to the approved candidates or their emissaries. When Heltzer succeeded Cross in 1970, he carried on the practice. He was under the impression, he testified earlier, that the money came from private contributions by 3M executives. "I know I should have suspected that these were company funds," Heltzer now concedes. "But I didn't ask the question."

It seems puzzling that 3M was so

concerned about currying politicians' favor. Unlike a defense contractor or a regulated company that depends on official favors, 3M has spun its legendary Scotch tape into hugely variegated product lines (ranging from diagnostic machines to reflective material for license plates) that sell mainly to consumers and industrial customers. Yet as early as 1963, the company began to dole out illegal contributions that ultimately amounted to \$497,500. Much of the money went to local and state politicians in amounts usually no greater than \$200 or \$400. Under the impression that they were accepting private donations, Democratic Senators Hubert Humphrey and Walter Mondale and Congressman Wilbur Mills received \$1,000 each from 3M in 1972. The great bulk of the money went to Republicans. Richard Nixon got by far the largest amount—\$135,400 between 1968 and 1972.

Since a company cannot very well carry on its books an entry for illegal campaign contributions, 3M built up a slush fund by laundering money through Switzerland. For example, the St. Paul headquarters would transfer sums to a secret Swiss bank account, supposedly to pay insurance premiums for its European branches. Instead, the money was secretly transferred back to the U.S. According to federal investigators, the company also "paid" a Zurich lawyer, Dr. Ludwig Gutstein, for unrendered services. The good *Herr Doktor*, who was on a retainer from 3M, would then hand back his "fees."

On March 26, 1972, 3M sent its company jet to fetch Nixon's chief fund raiser, Maurice Stans (see THE NATION), from Washington so that he could pick up \$30,000. After the Watergate investigators began to probe into illegal contributions, 3M confessed that it had made that gift. In the fall of 1973, a federal court levied fines on 3M and Heltzer for unfair campaign practices.

Lone Nay. Soon after, Chairman Heltzer asked the company's four outside directors for advice about whether he, Cross and Hansen should be disciplined by 3M for their misdeeds. After listening to President Herzog's doubts about the outlook for holding the company together, three of the four outside

directors decided against any drastic action. By a vote of 18 to 1, the 3M board decided to punish no one and even to limit the amount of public disclosure. The lone nay was that of Pete Peterson, who felt that the situation could not—and should not—be contained.

He was correct. Soon the company was besieged by renewed legal attacks. A disaffected shareholder, Judith Bonderman, started a suit last May seeking to force Heltzer and other 3M officers to reimburse the company from their own pockets for the funds that they had diverted to campaign contributions.

To make matters even worse, Minnesota deputy sheriffs and an assistant state attorney in early January burst into 3M's headquarters on a search for evidence of campaign misdeeds. In the first cabinet that the attorney opened, he found a thick folder labeled POLITICAL CONTRIBUTION FILE. As a result, 3M pleaded guilty on Jan. 22 to five counts of violating Minnesota's campaign-practices code and paid a \$5,000 fine. Hansen was fined \$3,000.

Then the SEC filed a civil complaint against Heltzer, Hansen and Cross for falsifying company records; the men settled by signing a consent decree. A federal grand jury indicted 3M, Hansen and Cross on charges of tax fraud. That case is still pending. Unpaid taxes on the illegal contributions could cost 3M as much as \$9 million.

Family Spirit. The company has managed to surmount the bad publicity and burden of the lawsuits. "We have been wounded, but it is not fatal," insists Vice President John Verstraete. 3M, a cozy and inbred company, has not lost its prized family spirit, which some critics say led executives to place loyalty to the company above respect for the law in the campaign-fund scandals. Five men—Heltzer, Cross, Hansen, Bennett and former Chairman William McKnight—have agreed to pay the company \$475,000 to settle the Bonderman suit. McKnight offered to contribute \$300,000 of his own funds, even though he was not implicated. "These other men don't have the kind of money I do," explained McKnight, now 87, whose 3M holdings are worth about \$200 million.

IRWIN HANSEN, HARRY HELTZER AND BERT CROSS

