

WXPost
FEB 10 1974
The Fall of a Black Capitalist

Nixon Supporter Faces Prison in Funds Case

By Barbara Bright-Sagner
Washington Post Staff Writer

On Good Friday of 1971, while President Nixon worked in his Oval Office across the hall, 18 top officials from Defense, Labor, Commerce and five other federal agencies gathered for an explanation of an administration pilot project that would soon pump \$2.5 million in federal contracts and loans into the shaky financial empire of black capitalist Dr. Thomas W. Matthew, a New York neurosurgeon.

White House counselor Robert Finch and special assistant Robert Brown did the explaining, and less than a month later, in May, 1971, presidential speechwriter Patrick J. Buchanan wrote a memo suggesting that Matthew's "businesses" become Nixon headquarters in the black communities in the 1972 campaign.

Today, the man whom the White House presented in 1971 as "the Thomas Paine of the black community" is appealing a December, 1973, conviction in New York for 71 counts of grand larceny in the illegal diversion of federal funds and a sentence of three years in prison.

Matthew's businesses are now "inoperative," according to a spokesman for Matthew, the properties foreclosed and the equipment seized following civil judgments for \$321,000 in defaulted federal loans against Matthew and his associates in the ghetto projects.

His criminal conviction on charges brought by a Queens County (New York State) attorney does not preclude a federal indictment. Yet the U.S. attorney for the Southern District of New York, Paul Curran, to whom Matthew's case was referred two years ago by the Justice Department, refuses to say whether it is seeking a federal criminal indictment against Matthew.

Four years ago, President Nixon, in his first act of executive clemency, freed Matthew from imprisonment on an earlier conviction for federal tax evasion.

That Good Friday, 1971, meeting in the White House was attended by representatives from the Departments of Defense, Labor, Commerce, Health, Education

and Welfare, the Office of Economic Opportunity, the Office of Minority Business Enterprise, the General Services Administration and the Small Business Administration.

"Finch gave the basic pitch," said Anthony Chase, former deputy administrator of SBA, and the man appointed to spearhead the

See MATTHEW, A18, Col. 1
MATTHEW, From A1

multi-agency task force to aid Matthews. "Then Bob Brown picked up the ball and made kind of a seconding speech . . .

"We got this story about a magnificent guy who's taking drug addicts, ex-convicts and prostitutes off welfare and putting them on a payroll," said Chase. "He (Matthew) was presented as the Thomas Paine of the black community, and we were to do everything we could."

In a May 3, 1971, memo from presidential speechwriter Buchanan to Brown, the President's black liaison assistant, and presidential counsel Leonard Garment, Buchanan wrote:

"To have some blacks outspoken and vocal and strong for the President would be tremendously helpful in both black and white communities," the memo from Buchanan continues, "and methinks Dr. Matthew's tough-minded self-help is the type of black leader we can win—not Brother Abernathy of the Mules."

(The reference is apparently to the Rev. Ralph David Abernathy, then president of the Southern Christian Leadership Conference.) The businesses of Matthew, spun off from the non-profit National Economic Growth and Reconstruction Organization (NEGRO), which he still heads, crumbled a few months later when reports of gross financial mismanagement prompted the cutoff of federal funds to them.

The 49-year-old neurosurgeon is attempting to save the assets of three of his Harlem businesses, according to Tom Ryan, whom Matthew has designated as his spokesman to the press.

Lawrence J. Finnegan, chief of Queens County investigations, led the investigation resulting in the criminal indictment against Mat-

thew on charges of diverting \$250,000 in Medicaid funds from his Interfaith Hospital to a bus company in Los Angeles. Finnegan said his office is still investigating the doctor.

Matthew's defenders, however, contend that "it's never been proved Matthew put a single penny in his own pocket," as Chase said recently.

Finnegan has turned over the House Small Business subcommittee, which is investigating corruption in SBA loan programs, memorandums of his conversations with Marvin Shelton, who made an external audit of Matthew's businesses for SBA. Shelton disputes Finnegan's recollection of the conversations, but Finnegan says Shelton said in August 1973, that he believed the Department of Justice had not prosecuted Matthew because Matthew had been touted by the White House as an example of black capitalism, according to the memoranda.

According to the memorandums Shelton told Finnegan that, based merely on Shelton's own external audit report, the Internal Revenue Service could prosecute Matthew for at least \$800,000 in undeclared income. Finnegan recalled Shelton as saying he believed there was an order not to prosecute.

Asked for verification of the statements attributed to him by Finnegan, Shelton denied saying that prosecution of Matthew had been deliberately stopped. In a telephone interview, Shelton acknowledged that the Matthew books were "certainly not complete" and that Matthew had "comingled funds," but he added: "Rarely is an audit report sufficiently developed for anybody to prosecute."

"I can't say the Justice Department is not, or has not, or will not" criminally prosecute Matthew, Shelton said.

Finnegan, informed of Shelton's denial, said he stood by the memorandums he had turned over to the House subcommittee.

"I'm sorry Marv and I have to disagree," Finnegan said Monday, "he was the most candid of all those with whom I talked. He's in a tougher position than I am. I'm sure he never expected the information to be turned over. He still has su-

periors in his job."

A former White House staff member, who requested anonymity because he remains in a sensitive position, said that the Shelton audit was given to then presidential counsel John W. Dean III, who subsequently turned it over to the Justice Department.

"I asked Dean myself several times why no indictment had been made, but he never answered me, and he eventually refused to return my telephone calls," said the former staff member.

It was after Matthew's arrest last year on larceny charges involving the Interfaith Hospital in Queens that his story began to come to light. Shelton's SBA audit

of Matthew and his NEGRO businesses then figured prominently in the House subcommittee hearings.

The New York doctor has garnered headlines of one sort or another throughout his turbulent career.

Born in the basement of a building next to New York's Knickerbocker Hospital (his father was the hospital janitor but his mother was denied entrance to the maternity ward because she was black, said NEGRO spokesman Ryan), Matthew was the first black graduate of the prestigious Bronx High School of Science and, at 19, the first black to graduate from Manhattan College.

In 1949 he was graduated from Meharry Medical School in Nashville, Tenn., taking his internship and residency at hospitals in St. Louis and Cleveland. After completing his neurosurgical training at Harvard Medical School, he returned to New York to join Mt. Sinai Hospital in 1955.

In 1956, he became director of neurosurgery at Coney Island Hospital and soon established a lucrative private practice in neurosurgery, with offices on Park Avenue.

In 1964, Ryan continued, Matthew established the Interfaith Hospital, which Ryan said was the first voluntary general hospital in the United States owned and operated by blacks. Using the hospital as a base, Matthew started NEGRO and began to develop small businesses to further his concept of ghetto rehabilitation.

NEGRO businesses, which included a clothing manufacturer, a chemical packager and a textile firm, would employ the "hardcore unemployables," Matthew said, and attempt to break the employees' antisocial behavior patterns and dependency on welfare.

In 1966, Ryan said Mat-

they gave up his private neurosurgical practice, which reportedly brought him a \$100,000 yearly income, and began to plow his capital into NEGRO.

At the height of his NEGRO capitalist efforts in 1968 Matthew opened several businesses in Washington, including a market on O street and a clothing factory at 1800 Vernon St., but the businesses no longer exist.

Matthew's ties to President Nixon date back to 1966, when speechwriter Buchanan introduced the doctor to Mr. Nixon, who was then practicing law in New York. Buchanan and the President apparently followed the doctor's fortunes, and Mr. Nixon lauded Matthew's approach to black capitalism in at least two of his 1968 campaign speeches.

News accounts of the 1970 pardon of Matthew, who had been imprisoned for failing to file personal income tax returns for 1961 through 1963, said that President Nixon commuted Matthew's sentence because of "the constructive work the doctor was doing in black capitalism."

Shortly after leaving prison, Matthew publicly endorsed the President's nomination of G. Harold Carswell to the Supreme Court, a nomination denounced by most other black leaders.

In October, 1970, Free Fashions Inc., a NEGRO-assisted clothing manufacturer that Ryan said had begun operations by sewing sheets and patient gowns in the basement of Matthew's Interfaith Hospital, was awarded two Defense Department contracts to make olive drab and white boxer shorts for men.

The contracts, according to Dale Babione, executive director of procurement for the Defense Supply Agency, were assigned "in the normal way" on a competitive

basis after defense inspectors certified that Free Fashions seemed capable of fulfilling the contract.

The Defense Department eventually awarded six contracts worth \$1.5 million to Free Fashions and two other businesses spun off from NEGRO—Domco Textiles and Domco Chemical Corp. These three businesses were also the recipients of SBA loans amounting to \$227,500.

In April, 1971, NEGRO staged a demonstration outside SBA's Washington office to thank the agency for its assistance. NEGRO demonstrators displayed signs which read "NEGRO credits SBA" and "Work Not Welfare."

In the summer of 1972,

Matthew also led a handful of black demonstrators who sat down in a Miami street to urge blacks to vote for Mr. Nixon.

Matthew's NEGRO-assisted businesses employed some 400 persons at their peak in 1970 and 1971 to manufacture boxer shorts, bandoliers and chemical heating pouches for the Defense Department, Ryan said.

Ryan said that efficiency was never high at Free Fashions or at the Domco companies because the NEGRO businesses hired drug addicts and alcoholics, prostitutes and exconvicts.

"But we felt our efficiency would grow," said Ryan. "We expected to have less financial outlay for the second or third contract. If we kept getting contracts, we believed it would even out," he said.

Ryan conceded that the businesses' bookkeeping operations were "confused." He said Matthew had never claimed to keep federal funds separate for the various NEGRO businesses.

"Like all poor people," he said, "we robbed Peter to pay Paul."

Matthew continues to draw a \$30,000 annual salary as president of the Interfaith Hospital, Ryan said, and he and his family still live in a NEGRO-owned brownstone in Harlem.

Ryan said Matthew is considering filing a countersuit against the federal government for the judgment on the defaulted SBA loans. Matthew would allege, said Ryan, that the government's "precipitous conduct" in canceling payments on the various loans and contracts was responsible for the failure of Free Fashions, Domco Chemicals and Domco Textiles.

The shaky management foundations of the NEGRO businesses were apparently evident in June 1971, only two months after the multi-agency task force was called together in the White House.

At that time Chase wrote in a report to the committee

that "the problems with respect to Dr. Matthew's efforts to assist in the psychological and economic development of disadvantaged persons are manifold."

Chase mentioned in the report "the absence of records of funds, disbursements and business-keeping procedures" and "the absence of proper delegation of authorities because of lack of depth of management talent and ability."

Despite such caveats, the task force continued to meet regularly, Chase said, to hear reports on Matthew's ventures. Speechwriter Buchanan attended at least two of the meetings, according to Chase. "He was con-

See MATTHEW, A19, Col. 1

MATTHEW, From A18

stantly reminding us that the President himself was very concerned with making this thing fly."

Chase still contends that, had Matthew "been honest" with the various governmental agencies, the pilot project would have worked. Matthew, he said, did not trust his subordinates and he tried, but failed, to supervise all the business operations himself.

I. Townsend Burden III, former special assistant to Chase at the SBA, compared the SBA loans to Matthew (and other minority businesses) to the U. S. D-Day attack on Normandy Beach on June 6, 1944.)

"We lose 80 to 90 per cent on the first wave," he said, "but if 10 per cent are suc-

cessful, it's viable." Burden added that he believed the government had "put enough money into those projects to make them profitable, but Matthew spread himself too thin."

Babione, at the Defense Supply Agency, agreed that Matthew "was way over expended. . . he ran something like 20 companies simultaneously."

Chase said he became suspicious of Matthew one day in the summer of 1971 when the doctor walked into Chase's office to ask for more money. Matthew, Chase said, alleged that the government grants were not sufficient because SBA officials in New York and Washington were receiving kickbacks. An SBA investigation, said Chase, found no

basis for the Matthew charges.

Shortly after that incident, Matthew, against Chase's advice, took at least 18 of his NEGRO associates on a trip to the Soviet Union. Investigators later said that the trip was paid for, illegally, with SBA funds, in that the funds were not used for the purposes originally intended.

NEGRO spokesman Ryan claimed that the Moscow trip had been made with the approval of the State Department. He said Matthew had hoped that the Soviets

could be persuaded to capitalize on their claim to friendship for the American blacks and award manufacturing contracts to the NEGRO businesses.

A State Department

spokesman said Matthew's trip had been encouraged as "a desirable contribution to the people-to-people efforts" between the United States and the Soviet Union.

But the publicity generated by Matthew's trip did not impress his federal creditors.

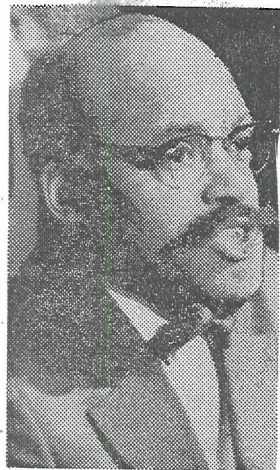
While Matthew was in Moscow, Chase said orders were sent to all agencies involved in the task force to cut off the federal grants, loans and contracts, and an SBA audit was begun of Free Fashions, Domco Textiles, Domco Chemicals, and Freedom Village, the building that housed the three companies.

Completed in December, the audit was given to members of the task force and

William Kolberg, then assistant director of the Office of Management and Budget, called a meeting in the White House to discuss the findings. Dean attended the meeting and directed that all information be turned over to the Justice Department.

According to one of the participants in that meeting, Shelton's SBA audit said that it was impossible to determine how much government money had been lost by the NEGRO companies. Approximately a quarter of a million dollars, however, was never accounted for, he said.

According to a summary prepared by Queens attorney Finnegan of that audit, 45.26 per cent of the payments on Defense contracts



DR. THOMAS MATTHEW
... businesses "inoperative"

had been made, but the NEGRO businesses had delivered only 23.7 per cent of the products ordered. The DSA had also registered complaints on the quality of the shipments of boxer shorts, and had rejected an undisclosed number.

All the loans made by SBA, the audit summary said, were "in serious default," and federal funds intended for one negro business had been diverted to others.

Presidential assistant Buchanan refused to comment on his relationship with

Matthew or on the memo he wrote suggesting that Matthew's "businesses" be turned into Nixon campaign headquarters.

Finch, interviewed by telephone at his office in Los

Angeles, said he had not initiated the White House pilot project but he had endorsed it "because my feeling was he (Matthew) was trying to do a worthwhile kind of thing."

Finch said he had been introduced to Matthew by Buchanan during his tenure as secretary at HEW. Finch said he had continued to meet with Matthew after assuming the job as counselor at the White House.

The task force, said Finch, had been called together "when he (Matthew) got into trouble" on meeting the Defense contracts.

"We continued to believe it was a bona fide effort," said Finch, "perhaps for an inordinately long period of time."

Leonard Garment, one of

the persons to whom Buchanan's memo was addressed, said his office had deferred any action on Buchanan's proposal to the black liaison office under Brown.

Brown, who now heads his own public relations office in North Carolina and Washington, said he did not recall having seen such a memo. He denied that the White House support of Matthew, or of any projects in the black community that were stimulated or directed by his office, were prompted by political motives.

Brown described Matthew as "a very dedicated man who operated contrary to the system, and the system seems to be chewing him up now."