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Watergate Reveals Gamy Election Money

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The Watergate scandal has bared the green underbelly of election-campaign financing: laundered money, secret money, stashed money, political switch-hitters' money.

Exposures of the origins of large chunks of money has been accompanied not only by exposures of the destinations — including bugging, burglary and political sabotage — but also of additional gamy aspects of fund-raising:

Foreigners' money, tax-free money, late-reported money, money followed by assorted governmental favors — ambassadorships, a Federal Power Commission barren of consumer representation, tax breaks, subsidies, beneficent antitrust rulings.

These disclosures, coupled with the indictments of a former attorney general and a former commerce secretary in connection with a $200,000 campaign gift, have raised anew the ancient question of whether the American government is or [illegible] to be for sale.

In the present heated atmosphere it is no wonder that, only 13 months after the effective date of the first major election financing reforms since 1925, a sudden sense of urgency about the need for further reforms pervades Capitol Hill.

Should Congress legislate more reforms, such as stripping enforcement power from the Justice Department and giving it to an independent elections commission? Only last Wednesday the Senate Democratic Caucus unanimously adopted a resolution to accomplish this, and a bill to the same effect was previously introduced by Minority Leader Hugh Scott.

Has the time come to grant outright federal subsidies to lessen or remove the dependence of candidates on private donors? Presidents starting with

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Theodore Roosevelt have urged this, without anyone paying much heed, but now the Senate Democratic Caucus has endorsed the idea, in the same unanimous resolution.

The political fund raising practices in controversy are illustrated below, many with cases originating before a new disclosure law, the Federal Elections Campaign Act, became effective on April 7, 1972.

Until that date, President Nixon's campaign organization contends, it was not required to disclose contributors—a contention Common cause is challenging in the courts. Sen. George S. McGovern disclosed his contributors months before he won the Democratic presidential nomination.

LAUNDERED MONEY

Early in 1972, Robert H. Allen, chairman of the Texas Finance Committee to Re-elect the President and president of the Gulf Resources & Chemical Co. of Houston, either contributed $100,000, or raised it in Texas or over a wider area of the Southwest.

By phone on April 3, the money was transferred from Houston into the bank account in Mexico City of an inactive subsidiary of the coal and silver mining firm. Shortly, a Mexican lawyer for the company withdrew $89,000 in four bank drafts and, apparently, $11,000 in $100 bills. On April 5 a courier delivered the checks and the cash in Houston to executives of Pennzoil United Co. Its president, William C. Liedtke, Jr., raised funds for the Nixon campaign in the Southwest.

Later on April 5, a Pennzoil plane ferried a suitcase containing the $100,000 plus an additional $600,000 in anonymous contributions—cash, securities, a few checks—to Washington. The same night, Pennzoil lobbyist Roy Winchester delivered the money to the Finance Committee to Re-elect the President at 171 Pennsylvania ave. nw.

G. Gordon Liddy, then counsel to the Fnanice Committee to Re-elect the President, next routed the $89,000 in checks into the bank account in Miami of Bernard L. Barker. Later, Barker and four other men broke into the Watergate headquarters of the Democratic National Committee. All five subsequently were arrested and pleaded guilty. Liddy was convicted.

In early January, the Justice Department told Rep. Wright Patman (D-Tex.) that it was making a criminal investigation. Two weeks after this became known, Gulf Resources executive Allen requested and got a refund of the $100,000. He claims to have given it personally and not to have made an illegal donation of corporate funds.

Last Thursday, The Washington Star-News reported that a federal grand jury in Houston had that day opened an investigation. Allen and Pennzoil's Liedtke and Winchester were among those called to testify.

SECRET MONEY

Hugh W. Sloan, treasurer of the Finance Committee, swore last October that Nixon fund-raisers gathered in "somewhere between $1 million and $2 million" in cash from unidentified sources and destroyed the records of the gifts before April 7, 1972, the date the new federal campaign financing law became effective. During the same period, Herbert W. Kalmbach, Mr. Nixon's personal attorney and then his leading fund solicitor, destroyed his personal campaign-financing records, a close associate of Kalmbach said recently.

One of the secret contributors was later disclosed to have been Robert L. Vesco, former board chairman of Investors Overseas Services, Ltd. The Securities and Exchange Commission, in a civil suit last November, accused him and 41 corporate and individual defendants of having looted four IOS-controlled mutual funds of $224 million.

Vesco contributed $200,000 —the largest single cash contribution the Finance Committee got—three days after the Federal Elections Campaign Act took effect.

A Vesco associate and the committee's top fund-raiser in New Jersey, Harry L. Sears, delivered a suitcase containing the money—2,000 $100 bills—to Stans, along with a message: Vesco wanted help on the SEC investigation.

The government now says that two hours later—at 1 p.m. on April 10—Sears met with then Attorney General John N. Mitchell to tell him the cash had been delivered. At 4 p.m., at a meeting Mitchell arranged, Sears conferred with then SEC chairman William J. Casey and his successor, G. Bradford Cook. More such meetings followed. The SEC complaint, when filed in November, made no mention of the $200,000.

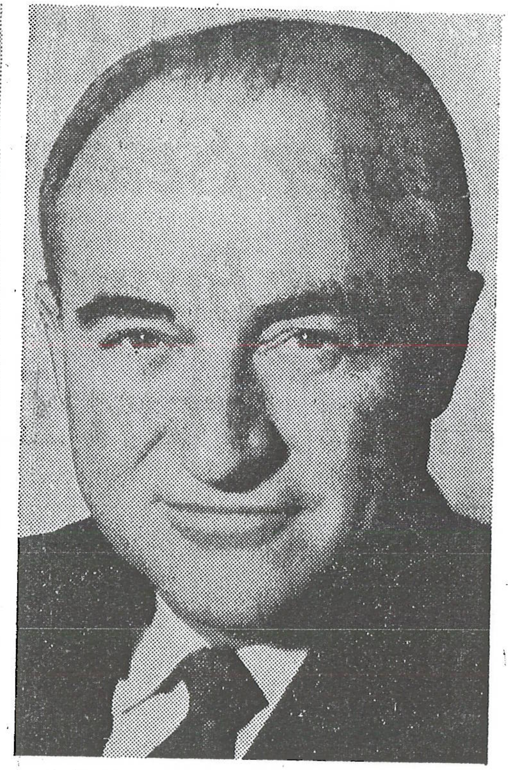
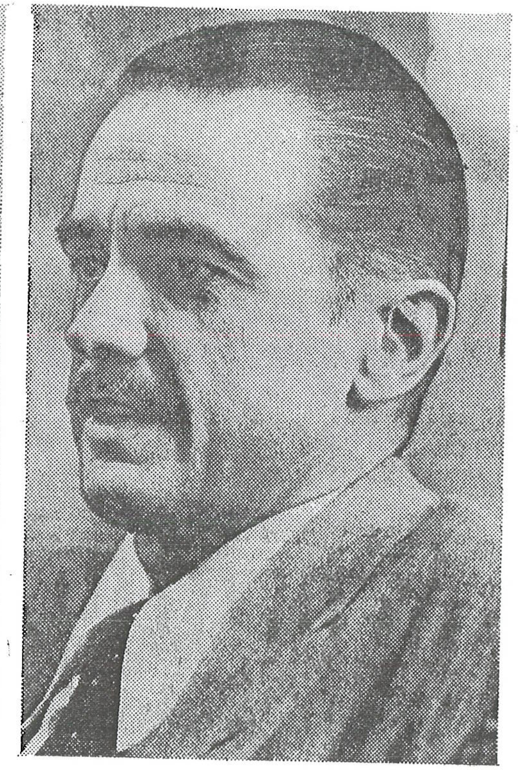
On May 2, the Justice Department filed a criminal information against the committee—but not against Stans—for having concealed the Vesco contribution from Congress' General Accounting Office. The committee has pleaded innocent.

Last Thursday, a federal grand jury in New York indicted Mitchell, Stans, Vesco and Sears for having obstructed justice in their dealings with the SEC and the GAO. The former Cabinet members, who denied the charges, also were indited for having lied to the grand jury.

STASHED MONEY

Between...$350,000 and $700,000 or more was kept at any one time in a safe in the Finance Committee office of former Commerce Secretary Stans. Included were the Vesco and Allen contrib-



These are some of the men mentoned in accounts of election-campaign financing. From left: Robert L. Allen, Robert L. Vesco, Dwayne O. Andreas, Howard Hughes.

utions. Some $235,000 was paid out to Watergate conspirator Liddy.

The Washingtn Post has reported that those controlling the money in the safe, in addition to Stans, were Kalmbach, Mitchell, then White House chief of staff H. R. Hadleman and former White House special assistant Jeb Stuart Magruder.

Before the law took effect, $350,000 reportedly was transferred out of Stans' safe to a safe in the White House on Haldeman's orders.

In Newport Beach, Calif., meanwhile, Kalmbach kept up to $500,000 in campaign funds in an account in a Bank of America branch. At least $30,000 reportedly was paid to Donald H. Segretti to conduct political sabotage.

Segretti was indicted on May 4 on charges that he fabricated and distributed a letter designed to damage three Democratic presidential candidates in the Florida primary.

POLITICAL SWITCH-HITTERS MONEY

Sen. Hubert H. Humphrey (D-Minn.) disclosed the leading contributors to his campaign for the presidential nomination. First on the list was Dwayne O. Andreas, a Minneapolis investor and soybean tycoon down for $75,000 (a brother, Lowell W., was listed for an additional $25,000).

However, Dwayne Andreas in early April, 1972, contributed $25,000 to the Nixon campaign which, along with the $89,000 laundered in Mexico, went into the pre-Watergate Miami bank account of Bernard Barker.

Andreas and the man to whom he gave the $25,000, Kenneth H. Dahlberg, President Nixon's Midwest finance chief, were members of a group that applied to the comptroller of the currency for a federal bank charter soon after the contribution was made. Of 424 such applications submitted since 1966, only 12 received swifter approval than the Andreas-Dahlberg proposal.

After the election financing law took effect, Andreas gave the Nixon campaign an additional $114,000, of which almost $40,000 was not disclosed until after the November election.

Other leading political switch-hitters:

- Walter T. Duncan, an elusive Texas financier who gave the Nixon campaign a $305,000 i.o.u., later cancelled, after giving Humphrey $257,000.
- Meshulam Riklis, head of the conglomerate Rapid American Corp., also a former leading Humphrey contributor, who gave the President an estimated $150,000, much of it after the expiration of the final pre-election reporting period.
- Edward J. Daly, chairman of World Airways, gave $51,000 to Humphrey, followed with about $100,000 to Nixon and then was listed for $2,000 to McGovern.
- John L. Loeb, an investor reported by the General Accounting Office to have given $48,00 to Humphrey in the names of others alquires the true donors to be though the election law reidentified. He later gave $42,000 to Mr. Nixon. The Justice Department has taken no action, although the GAO reported the apparent violation 11 months ago.

FOREIGNERS' MONEY

The McGovern as well as the Nixon campaign received sizeable sums from foreign nationals. The largest known contribution from such a source, about $220,000, went to the Democratic presidential candidate from Alejandro Zafferoni, a Uruguyan citizen but a California resident who is president of the Alaza Corp. in Palo Alto, Calif. He is the developer of a synthetic hormone for contraception.

Two of the President's contributors are the subject of inquiries by the GAO to the Justice Department because they have ties to foreign corporations.

One is Frank McMahon, a multi-millionaire Canadian oil man who contributed in excess of $80,000 to the Nixon campaign after Oct. 26, the final day of the last pre-election reporting period. He maintains homes in Vancouver, New York and Palm Beach.

The other contributor, Greek oil man Nikos Vardinoyannis, says he contributed $15,000 to Mr. Nixon in January, 1972, a few days after disclosure that the U.S. Sixth Fleet would be based in Athens.

The Navy awarded a fuel oil contract for the Sixth Fleet to Motor Oil Hellas, the oil man's family firm, on Sept. 25, although the Greek press did not announce the contract until Nov. 2. On Nov. 10, according to reports filed by the Nixon organization, Vardinoyannis gave an additional $10,000. He denies any connection between his contributions and the contract award.

Howard Hughes, a $100,000 contributor, used to play and unusual variation on the foreign theme, according to Noah Dietrich, who was the elusive billionaire's chief executive officer for 32 years, until 1957.

Dietrich, in his 1972 book, "Howard: The Amazing Mr. Hughes," and in an interview, said that in the 1940s and 1950s Hughes laundered hundreds of thousands of dollars a year in bipartisan political contributions through a Canadian firm set up solely for that purpose.

Dietrich said that lawyer Frank P. Waters, then counsel to Hughes and his wholly owned Hughes Tool Co., was the primary conduit for distributing the laundered money to American candidates at all political levels. Waters, reached in Los Angeles, refused to comment.

TAX-FREE MONEY

The tax laws permit a person to give up to $3,000 in a year to a single recipient without owing federal gift taxes.

But the Internal Revenue Service, with an extraordinary ruling, made it possible for a fat-cat political contributor to give hundreds of thousands of dollars to a single recipient—a candidate—and yet avoid gift taxes. The ruling did this by the simple device of treating multiple paper committees for the same candidate as if they were truly independent entities.

If the gift was in the form of stock that had appreciated in value rather than in the form of cash or checks, capital gains taxes also were avoided—not only by the donor, but by the recipient as well.

As a practical matter, the avoidance of gift and capital gains taxation amounted to a legalized subsidy from the public treasury even if it was not so labeled.

Moreover, the formation of literally hundreds of Nixon and McGovern committees for no purpose but to avoid gift taxes frustrated the timely disclosure of campaign financing—the primary stated purpose of the new election law—by burying the law's administrators and newsmen under mountains of paper.

Although the Democrats benefitted from tax-free gifts, the Republicans were far and away the principal beneficiaries. Some examples:

- W. Clement Stone, the Chicago insurance tycoon, who gave Mr. Nixon $2.1 million before April 7, 1972, (and has said he gave him $2 million for his 1968 campaign).
- Richard Mellon Scaife, heir to the Mellon fortune (Gulf Oil, banking, aluminum), $1 million, also before the effective date of the new law.
- Milledge A. Hart III, president, and Thomas J. Marquez, vice president, of Electronic Data Systems Corp., a Dallas firm whose chairman is multi-millionaire H. Ross Perot.

Together, Hart and Marquez gave stock in the firm valued, when the Nixon organization sold it, at $224,000. Each share, for which the donor had paid about 20 cents, skyrocketed by the time of sale to as much as $60, congressional sources say.

The House Intergovernmental Relations Subcommittee, in hearings in 1971 on the firm's contracts to process Medicare and Medicaid claims filed by Blue Shield groups, heard testimony that Electronic Data had made profits of an estimated 100 per cent—that is, its profits equaled its costs.

Witnesses testified that the firm, which needed approval from the Department of Health, Education, and Welfare for the contracts, valued at about $100 million, had violated federal regulations, including those requiring competitive bidding and access to company records. Perot, who made a much publicized effort to aid American prisoners of war in North Vietnam, has denied there were any violations.

LATE-REPORTED MONEY

Between Oct. 26, the final day of the pre-election reporting period, and election day, Nov. 7, the Nixon organization received contributions exceeding $1 million. Each of the gifts involved at least $5,000. The law requires a committee receiving such a gift to report it within 48 hours, but the President's orgaiization reported none until Jan. 31—almost two months after the election. This violated "the spirit" and "clearly the intent" of the law, the GAO said.

One contribution of $100,000 came from a political committee of the Seafarers International Union, AFL-CIO, on election eve after being borrowed from a New York City bank a short time before. Several weeks earlier, the Justice Department had dismissed a prosecution of the union begun under the old campaign financing law, the Corrupt Practices Act of 1925.

The larger issue raised by practices such as late reporting of contributions to a President's campaign organization is whether that President's Justice Department will prosecute them. In this case, a senior GAO official admitted to a reporter, his agency did not recommend prosecution because of despair, based on past experience, that anything would come of it.

His concern was consistent with the affirmative record of the White House in keeping contributors happy.

AMBASSADORS

Take ambassadorships. American embassies the world over are presided over by men and women distinguished by their wealth and largess but not always by their credentials.

In London, there is Walter H. Annenberg, the former Philadelphia media magnate and principal stockholder in the Penn Central. He is listed for a $254,000 donation.

In Luxembourg there is Ruth L. Farkas, sociologist wife of the founder of the Alexander's department store chain in New York; she gave $100,000 before the election and $200,000 afterward. All $300,000 was given before President Nixon nominated her.

In El Salvador there is Henry Catto, $25,000; in Trinidad, Anthony D. Marshall, $48,500; in Austria, John P. Hunes, $100,000; in Janaica, Vincent P. de Roulet, $29,000, plus $86,000 from his wife's parents, Charles S. and Joan Whitney Payson.

In Paris there is John N. Irwin II, down for $50,000 in the partial list of contributions obtained by Common Cause for the period preceding April 7,1972. A former under secretary of state, Irwin is also the brother-in-law of the previous ambassador, Arthur K. Watson, who in the same list is down for $300,000.

Watson came from and is now a director of International Business Machines, where the chairman of the executive committee is Thomas J. Watson Jr., his brother. Thomas Watson, a lifelong Democrat, joined Democrats for Nixon as a vice chairman. Then as now, one of the largest anti-monopoly suits ever filed by the Justice Department was pending against IBM.

ECONOMIC POWER

Possibly more than any other regulatory agency, the Federal Power Commission has come to symbolize the process by which the economic power of large contributors translates into government actions and policies virtually indistinguishable from their own.

To take an outstanding specific example, the oil and natural gas industry wants the prices of new natural gas at the well-head to be set by the buyers and sellers, rather than being under ceilings based on actual costs. So do the President, the three men he has put on the FPC and the two men he has nominated to be commissioners.

To be sure, everyone involved may honestly believe that an end to ceiling prices is the best approach to assuring an adequate supply of gas at acceptable prices.

But some who would be only skeptical toward such a proposition are pushed toward cynicism by considerations such as these:

- The estimated cost to consumers of de-regulation of new natrual gas will be at least $750 billion, over the varying but lengthy time periods it will take to exhaust known supplies.
- Contributors with financial stakes in the industry gave millions of dollars to the Nixon campaign.
- While all of Mr. Nixon's appointees to the FPC have sided with the industry on de-regulation, the commission staff recently disagreed on the ground that the industry is monopolistic and, consequently, will charge prices un-checked by competitive forces. In a current case, the commission, over staff opposition, is expected to approve gas prices that will yield one company, Tenneco, 48 per cent on equity.

A case in point concerns Pennziol United, which owns United Gas Pipeline, a firm regulated by the FPC. As was noted, Pennzoil president William Liedtke helped to raise most of the $700,000 in contrubutions that was flown to Washington in a company plane two days before the disclosure law took effect.

Liedtke also sounded out a former commissioner, Rush Moody Jr., before Mr. Nixon appointed him to the FPC, Sen. Frand E. Moss (D-Utah) has said. Gordon Gooch, former general counsel of the commission, came from a Texas law firm whose senior partner was Pennzoil's general counsel. On resigning from the FPC last year Gooch became a Nixon fund-raiser.

Leaving aside broad questions of equitable taxation and distribution of income and wealth, controversial tax breaks, subsidies and antitrust rulings have been prominint in the Nixon era.

- For more than 40 years, bipartisan support maintained the oil depletion allownace, a vastly lucartive tax break for a small number of people, at 27½ per cent. Congress finally did cut it to 22½ per cent—but only over Mr. Nixon's opposition.
- For more than three years, the President rejected a recommendation of his own Cabinet task force that the mandatory oil import quota system—mostly benefitting the major oil companies—be abandoned in favor of a tariff. The quota's cost to consumers was at least $5 billion annually—5 cents on each gallon of gasoline and 4 cents on each gallon on household heating oil.
- The Agriculture Department, in the spring of 1971, rejected a request from dairy producers to raise milk price supports. However, the administration changed its minds and raised the price supports several days after a group of dairy co-op leaders met with Mr. Nixon. At the same time, the co-ops started to make contributions to the Nixon campaign which now total $422,500.
- International Telephone and Telegraph, which pledged up to $400,000 to finance the 1972 Republican National Convention,

wanted to preserve its merger with the $2 billion Hartford Fire Insurance Co. The then antitrust chief in the Justice Department, Richard W. McLaren, was opposed. A mass of government and ITT papers shows that numerous top aides to the President—including Attorney General Mitchell and Commerce Secretary Stans—helped ITT. The dispute ended with a settlement that preserved the merger.

AN OLD TAINT

Tainted political campaign financing has long been a fact of American life.

"From the Civil War on, the great corporations and those who amassed fortunes from American industry paid a major share of campaign costs," Herbert E. Alexander, an expert on campaign financing, told a Senate hearing last March.

"It was accepted that businessmen should support the political party which most clearly favored their interests."

In the campaigns of the late 19th century the genius of fund-raising was the GOP's Mark Hanna. "In 1888, he raised more money than the Republican National Committee could spend," said Alexander, who is executive director if the Citizens' Research Foundation.

In 1896, helping to elect William McKinley, Hanna determined the contributions of business "by ability to pay," Alexander said. "Banks were assessed at one-quarter of 1 per cent of their capital."

Last year, Maurice Stans similarly was urging big contributors to donate at least 1 per cent of their gross income. "That's a low price to pay every four years to ensure that the Executive branch of government is in the right hands," he told an interviewer.

But there can be no universal imputation of venal intent. Look at the enormous gap that separates, say, billionaire Howard Hughes from Clement Stone, who has given Mr. Nixon at least $4.1 million for two presidential campaigns.

Hughes' biographer, Noa Dietrich, wrote of his former boss, "He cared nothing about candidates or issues—unless they had some effect on Howard Hughes—'Everybody has a price,' he always said. And he was willing to offer that price..."

Stone, in contrast, cares so much about Mr. Nixon that he idolizes him. Reacting breezily to the Watergate scandal, Stone said, "Mr. Nixon has PMA (Positive Mental Attitude) and therefore . . . will do the right thing because it is the right thing to do."

The $4.1 million Stone gave to Mr. Nixon represented no sacrifice at all, so great is his wealth. When he began his massave money infusions he had no way of knowing that legislation seriously affecting his health and life insurance enterprises might become a serious possibility. That possibility happens to exist now; and few would question that Stone, if he wanted to, could have easy access to White House ears on the subject, however pure his motive and positive his attitude.

But why, former Sen. Albert Gore (D-Tenn.) asked on the Senate floor six years ago, "should we perpetuate a system that would permit one man, because of the size of his pocketbook, to offset the ballot of 1,000 ordinary citizens; or one industry, or one interest, because of its vast holdings and resources, to usurp the public will? This is a threat to our democratic processes. This is a threat to free government."