President Reagan sent OMB's 'junkyard dogs' after the Pentagon

by Jeffrey Steinberg

The June 14 FBI raid on the Pentagon and the offices of scores of major defense contractors was the direct result of a long-since-forgotten initiative by President Reagan, taken during the early moments of his presidency. That nominally "bureaucratic reform" initiative may well prove to have been Moscow's greatest foot-in-the-door for dismantling the Western alliance and bringing about a global "Pax Sovietica."

Defense contractors and Pentagon officials alike who find themselves siding with the Justice Department and FBI's "crime busters," as a means of shielding themselves from the worst of the pending "procurement fraud" bloodletting, would do well to consider the hideous consequences of the U.S. Congress's failure to defend its colleagues, when a rogue FBI went after a few "bad apples" during the "Abscam" operation.

The PCIE 'whistleblowers'

On March 26, 1981, President Reagan signed an Executive Order aimed at rooting out fraud, waste, and corruption among government officials and contractors. The principal mechanism created by the executive order was the President's Council on Integrity and Efficiency (PCIE). The initiative was the brainchild of David Stockman, the former campus radical turned free market conservative, who was Reagan's first Office of Management and Budget chief. Not surprisingly, the chairman of the PCIE was designated to be the deputy OMB director, who was to sit astride an interagency "crime busters" force comprised of the deputy attorney general, the deputy director of the FBI, and the inspectors general of every federal agency.

Echoing President Reagan's own words, White House Press Secretary Jim Brady promised that the new body would be "meaner than junkyard dogs" in pursuing government corruption. President Reagan himself pledged, in signing the executive order, "We are going to follow every lead, root out every incompetent, and prosecute any crook we find who's cheating the people of this nation."

Thus, President Reagan, who had campaigned for office on a pledge to rebuild the national defense, gutted by four years of Jimmy Carter, unleashed—perhaps inadvertently—the hounds of Hell against the Pentagon.

On April 16, 1981, PCIE chairman and deputy OMB chief Edwin L. Harper announced in President Reagan's name that the administration had created a system of "whistleblower hotlines" in 13 Cabinet-level departments, including the Department of Defense, and at seven independent agencies. Further, six new inspector general posts would be created to investigate allegations "of waste, fraud, and abuse."

"The vital element in any program designed to fight fraud and waste is the willingness of employees to come forward when they see this sort of activity. They must be assured that when they 'blow the whistle,' they will be protected and their information properly investigated," said President Reagan, in a prepared statement accompanying the release of the "whistleblowers' hotline" numbers.

PCIE set up an ambitious set of quotas, to be reached by 1988: 27,000 successful criminal prosecutions of government employees and contractors; 10,000 administrative actions (stiff fines, contract cancellations, firings and demotions); and over $100 billion in savings and recovered losses to the federal government.

The DoJ and FBI's roles

The "teeth" behind Stockman's budget-hacking brainchild, the PCIE, however, would be the Justice Department and the FBI's enthusiastic pursuit of the "crooks in the government." On May 16, 1983, the Justice Department announced the creation of the Economic Crime Council, headed by the deputy attorney general—who just happened to be the DoJ's representative to PCIE. This post was held in turn by Stephen Trott, Arnold Burns, and now Francis Keating. The executive assistant to the ECC was Robert Ogren, Fraud Section chief in the Criminal Division. Ogren's dubious credentials as a crime stopper were underscored by his bungling of the investigation and prosecution in the murder of Iranian anti-Khomeini leader Dr. Ali Tabatabai, who was gunned down in suburban Washington, D.C. in 1980, and also by his sweetheart settlement of the E.F. Hutton money-laundering case several years later.

Ogren was clearly bent on going after the Pentagon. Defense procurement fraud was listed by the Economic Crimes Council as its number-one priority, and Ogren had already established the Defense Procurement Fraud Unit within the Fraud Section to coordinate DoJ efforts with the Pentagon's inspector general.

Rounding out the "clockwork orange" apparatus, the Justice Department, in conjunction with other enforcement agencies, simultaneously established Law Enforcement Coordinating Committees (LECC) in 90 separate jurisdictions, drawing the FBI, Internal Revenue Service, Bureau of Alcohol, Tobacco and Firearms, Secret Service, and state and local police agencies into mega-task forces. Their target? Not drugs, not drug-related violence, but fraud and "business crimes."

Around the DoJ, the U.S. Attorney most frequently cited as running the "model LECC" was none other than William Weld, the chief federal prosecutor in Boston, Massachusetts, who earned media praise in 1983 when he launched a high-profile assault against a string of small defense contractors in the New England area and managed to get stiff jail terms for several top execs. Weld's September 1986 confirmation as head of the Justice Department's Criminal Division—in spite of his cover-up of a multi-billion-dollar money-laundering scheme by the Bank of Boston and Crédit Suisse—gave the green light to the "junkyard dogs" to stampede all over the military-industrial complex.

The Grace Commission joins in

When the President's Private Sector Survey on Cost Control, better known as the Grace Commission (after its chairman, J. Peter Grace) issued its findings in the spring of 1984, President Reagan wasted no time in embracing the budget-hacking recommendations. On June 2, 1984, he named a 24-member Council on Management Improvement (CMI), to work under the President's Council on Integrity and Efficiency. Reagan appointed then-PCIE chairman and deputy OMB director Joseph R. Wright, Jr. to head the new council. The Grace Commission had slated the Pentagon as the major target of "cost control" reforms.

In point of fact, ever since President Reagan signed Executive Order 12291 in February 1981, giving the OMB veto power over all federal regulations, he had unleashed a cost-cutting virus not seen around the federal government since Robert Strange McNamara and James Rodney Schlesinger tore through the corridors of the Pentagon with armies of "cost accountants."

The fact that fraud, waste, and corruption were never the real targets of the budget slashers, who were simply out to gouge the national defense, is underscored by a string of corruption scandals centered around key players in the PCIE, beginning with its longest standing chairman, Joseph Wright.

A former vice president of Booz, Allen, and Hamilton, Inc. and ex-president of Citicorp's credit card subsidiary, Wright surfaced in May 1985 at the center of a controversy over—of all things—overcharges, influence peddling, and nepotism.

It seems that in September 1982, the Department of Energy was about to launch a legal action against two Tulsa oil companies, Anchor Gasoline Corp. and its subsidiary, Canal Refining, on charges that during 1973-81, a period in which the federal government strictly regulated prices of oil and petroleum products, the two companies had overcharged government purchasers to the tune of $39 million in fees and interest. Anchor was run by Joseph Wright's father. The deputy OMB chief himself was a 3% shareholder in the company. On Sept. 23, 1982, according to press accounts, Wright contacted the head of DOE's Economic Regulatory Administration, Rayburn Hanzlik, seeking a review and reconsideration of the Anchor case. At the time, OMB was preparing its recommendations to President Reagan on the Energy Department's budget. Shortly after the coversation, Hazlik met with officials from Anchor, the case was transferred to a different field office of the Department of Energy, and the $39 million claim against Anchor was dropped.

Scandal surrounds Arnold Burns

Another PCIE bigwig, former Deputy Attorney General Arnold Burns, who presided over Stephen Trott and William Weld's 1986 onslaught against "Pentagon procurement fraud," continues to be at the center of a storm surrounding his potentially criminal involvement in a string of phony offshore tax shelters set up by his law firm, and his role in pushing the appointment of an ex-law partner, Stuart Summit, to a federal judgeship. According to a series of stories by *Washington Times* Justice Department correspondent George Archibald, Burns, whose law firm represents the Anti-Defamation League-mob linked Sterling National Bank, had been involved in offshore Caribbean tax shelters, purported to be investing in Israeli high-tech companies that were joint ventures with Americans. According to several sources, the funds never went to Israel, but may have been used to finance Israeli spy operations in the United States, including the activities of Jonathan Jay Pollard, who was later convicted for espionage.

When IRS turned the Burns probe over to the tax fraud section of the DoJ for possible criminal prosecution, William Weld personally put the kibosh on the probe, and later teamed up with Burns to have the tax fraud chief, Roger Olson, fired from the department.

Burns, it was later learned, received a total of over $1 million in continuing payments from his former law firm while serving in the Justice Department. At the same time, he failed to reveal that Stuart Summit, whom he had shepherded to a federal judiciary appointment, was a partner in that very same law firm. This June, the entire matter was turned over to the Public Integrity Section of the Justice Department. Criminal charges against Burns may follow.