

alone consumed an enormous share of Central Cover's resources and personnel, to the point where the handful of Central Cover officers assigned to IO's projects devoted most of their energy to routine administrative tasks and had little if any time left for deeper thoughts and new approaches.⁴⁵ 25X1

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25X1 At the time of Allen Dulles's resignation in 1961, no one office had enough authority to make fundamental changes in the Agency's covert subsidy program, and neither Dulles nor his successor DCIs had the interest or the expertise to intervene until too late. (S)

Top officials in the incoming Kennedy administration quickly grasped CIA's vulnerability to a covert funding disaster. Secretary of State Dean Rusk quizzed Allen Dulles on the subject in an early Special Group meeting. According to the minutes of the meeting:

Mr. Rusk said that he thought that some projects now handled covertly by CIA might well be made overt, 25X1

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for example. He cited his own experience, in saying that the Foundations are sometimes embarrassed when projects they are supporting or would like to support are in fact partially subsidized by CIA. Mr. Dulles said he had discussed this matter generally with Mr. [Elmer B.] Staats of the Bureau of the Budget and was awaiting the latter's reply.⁴⁶

DCI Dulles never gave the Kennedy administration a more substantive answer to this question. (S)

Administration concern over covert funding persisted as officials grasped the issue's complexity and despaired of solving it easily. In April 1961, National Security Action Memorandum 38 noted a "real hazard": the value of CIA-subsidized anti-Communist organizations was diminishing as their cover grew thinner. NSAM 38 ordered the Bureau of the Budget (BoB) to study the possibilities of new funding arrangements and consider terminating some programs.⁴⁷ Cord Meyer met at least twice with counterparts from the Department of State and BoB to discuss the problem, but little of substance emerged from these sessions.

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⁴⁵ Thomas A. Parrott, National Security Council, memorandum for the record, "Minutes of Special Group Meeting, 9 February 1961," 9 February 1961, 25X1

⁴⁶ McGeorge Bundy, National Security Adviser, to David Bell, Director, Bureau of the Budget, "Questions arising from CIA support of certain activities" (National Security Action Memorandum no. 38), 15 April 1961, 25X1

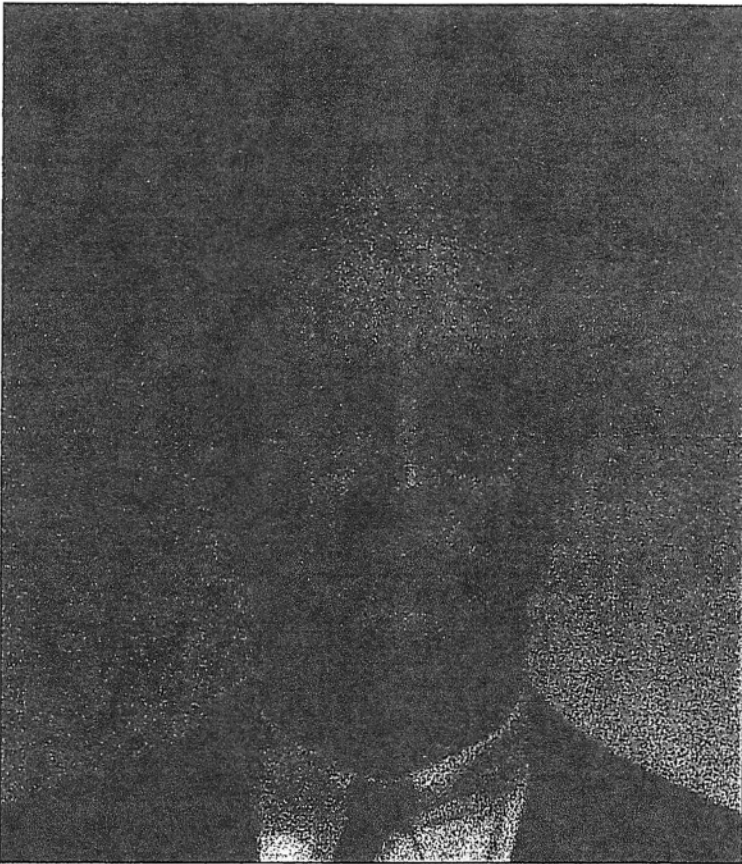
Meyer's counterpart Philip Coombs, the new Assistant Secretary of State for Educational and Cultural Affairs, told Meyer he feared a breakdown in the covert subsidy program that could result in a "cultural U-2 incident." After Meyer explained the lack of politically and legally acceptable alternatives to covert funding, Coombs admitted the problem was trickier than he had thought.⁴⁸ The study that NSAM 38 called for apparently never materialized. (S)

The President and his brother, Attorney General Robert Kennedy, apparently saw no need for reform of CIA covert action programs. Even the Bay of Pigs disaster in April 1961 did not shake the Kennedys' enthusiasm for covert action of all kinds. The Special Group tacitly approved the Agency's global program on 14 February 1961, just a few days after Rusk's complaint to DCI Dulles. The 14 February meeting was actually an orientation briefing for the Group's new members. 25X1

25X1 [REDACTED] apparently all were mentioned by name. The Special Group conducted a more thorough audit of the CIA's programs on 31 August 1961, but declined to impose serious changes on individual projects or on the scope and emphases of covert action as a whole.⁴⁹ The Group would not examine CIA's commitment to worldwide covert political action again until the Johnson Administration. (S)

The Agency's Office of General Counsel nevertheless grew increasingly worried. In 1962 General Counsel Lawrence Houston prodded [REDACTED] over the danger that official and journalistic probes of American tax-exempt foundations posed to the Agency's covert funding network. In particular, Congressman Wright Patman (D-TX) had

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General Counsel Lawrence Houston worried about the security of the funding network. (U)

mounted a campaign to rein in tax-free foundations' daring investment practices. Patman obviously was on the General Counsel's mind, as were quiet warnings from witting Internal Revenue Service (IRS) officials that the increasing computerization of tax records and greater scrutiny by tax

auditors had made it only a matter of time before CIA-initiated funding transactions would be publicly compromised.³⁰ (S)

Houston's worries prompted a series of inter-office communiques stretching into the autumn of 1963, as Central Cover (CCS) officers tried to placate OGC and keep it out of the day-to-day business of running the Agency's covert funding network.³¹ The debate took much the same path as the one that NSAM 38 had already prompted: vague high-level concerns about covert subsidies encountered on the managerial levels a mix of knowing nonchalance and institutional despair, aggravated by a measure of bureaucratic turf-guarding. OGC proposed several procedural changes and urged CCS to find new funding mechanisms. CCS officials, who appeared to have forgotten about the compromising information in the files of the IRS and the Foundation Library Center, politely but firmly rebuffed Houston's ideas for new procedures and dismissed his concern as exaggerated.³² In particular, CCS argued that the Agency's proprietary funding instruments—only one of several tax-free mechanisms used in the funding network—had not experienced significant problems with the IRS.³³ This rejoinder was reasonably accurate, but it showed no sensitivity to other potential problems already spotted by IO agents and case officers. (S)

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An angry Representative Wright Patman's comments to the press exposed a critical portion of funding network in 1964. (1)

Wide World ©

OGC's warnings were prophetic. In August 1964, Representative Patman, chairman of the House Select Committee on Problems of Small Business, became interested in the J.M. Kaplan Fund, a legitimate foundation that had passed money for the CIA. The IRS confidentially informed Patman of Kaplan's CIA ties. Patman also learned that CIA had continued to use Kaplan as a conduit for two years after learning from the IRS that the Fund was under investigation for tax fraud.⁵⁴ On

⁵⁴Morton Mintz, "Hearing Looks Into CIA Role in Tax Probe of Charity Fund," *Washington Post*, 1 September 1964, A13. Jacob Merrill Kaplan, founder of the Fund, had built the Welch Grape Juice fortune. (1)

10 August the Congressman asked the Agency for a briefing on its work with Kaplan. (S)

██████████ visited Patman's office and answered all but one of the questions asked of him, promising to return with more information. Patman never received the details he sought. The Agency's neglect of a powerful Congressman's request seems inexplicable, especially in light of earlier warnings in CIA files. 25x1

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By late August, Patman had tired of waiting and decided to hold the Agency's feet to the fire. On 31 August he announced in open session that the CIA had employed the J.M. Kaplan Fund as a funding conduit. Even worse, he also revealed eight other funding instruments that had contributed to Kaplan during the crucial period when it passed money for the Agency. Acting DCI Marshall Carter and senior IRS officials quickly prevailed upon Patman to say no more in public about Agency operations, but news services had already picked up the story.⁵⁶ (S)

DCI John A. McCone, just returning from a West Coast vacation, expressed his anger over the leak at his staff meeting on 1 September. The Patman leak may well have been the first occasion on which a Director of Central Intelligence was told that the Agency's covert funding network suffered from serious vulnerabilities.⁵⁷ McCone did not like what he heard. He was particularly irked to learn that DDP officers had seen the danger of an exposure looming three weeks earlier but had not alerted the DCI's office.⁵⁸ A private talk with President Lyndon Johnson later that morning probably did not improve the Director's mood; he told Johnson that Patman had badly damaged the Agency's covert action program.

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When Johnson asked what the Agency intended to do, McCone said there was little that it could do except keep quiet and develop new methods to fund its clients.⁴¹-(s)

Three days later the *New York Times* added insult to injury. In an editorial that presaged the shift in elite opinion that would one day turn on CIA's covert action mission, the *Times* intoned:

The use of Government intelligence funds to get foundations to underwrite institutions, organizations, magazines and newspapers abroad is a distortion of CIA's mission on [sic] gathering and evaluating information. It means operating behind a mask to introduce governmental direction into cultural and scientific spheres where it does not belong—at least not in a democracy like ours.⁴² (U)

Efforts To Avert Disaster (U)

An internal probe conducted after the 1967 *Ramparts* revelations concluded that several interrelated operational flaws had simultaneously created the potential for a breakdown while blinding Agency officials to the peril of exposure until too late:

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Indeed, most of the damage had been done years before the possibility of disaster suddenly loomed before the Agency in August 1964.⁴³-(s)

⁴¹John A. McCone, Memorandum for the Record, "Discussion with the President—1 September 1964," 2 September 1964, 25X1

⁴²"Misusing CIA Money," *New York Times*, 4 September 1964. (U)

⁴³CIA Statute Causes and Lessons of February 1967 *Ramparts* and Associated Exposures, CIA

The main problem was that, by the time Allen Dulles retired in 1961, the funding network had grown so large that repairs to make its cover watertight, if still possible at all, would have taken years to implement. Few if any of the Agency's covert clients could maintain their own credibility if they were to operate with no visible means of support, accepting large sums of clandestine CIA money without offering any plausible public explanation for its origin. At the same time, the Agency could not now substitute new, clean proprietary foundations and notional funding instruments because the Patman disclosure had tainted the projects themselves. Even completely new projects would not be able to employ the many agents and organizations that the Agency had painstakingly put in place since the early 1950s. The area divisions and CCS desperately worked to devise new funding methods, but

it rapidly became apparent . . . that the sheer bulk of the funds to be handled and the large size of project budgets were incompatible with acceptable standards of operational security in many cases [where] citable attribution was deemed necessary. The task had been allowed to become too large.⁶³

~~(S)~~

In September 1964, Agency officials began to patch the damage that Representative Patman's disclosures had done. CCS suspended further use of the "Patman Eight" proprietary funding entities and warned the operating divisions that these in turn had dealt with 25x1 other foundations or funding instruments 25x1 and client organizations.⁶⁴ The Agency prevailed on Congressman Patman to curb the enthusiasm of committee staffer H.A. Olsher, who wanted to press the Subcommittee's investigation into the activities of the eight funding instruments.⁶⁴ The Internal Revenue Service restricted public access to the files of the J.M. Kaplan Fund and the Patman Eight, and in November the IRS finally instructed field offices to screen incoming foundation returns (before making them publicly available) to ensure that the

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organizations had filed their 990-A forms correctly.⁶⁵ A high-level Agency study group, chaired by Cord Meyer, proposed useful procedural changes but still operated under the unspoken assumption that future embarrassing leaks, while inevitable, would dribble out instead of bursting forth in a catastrophic flood.⁶⁶ This assumption would prevail in CIA—and in the Special Group—for almost two more years.⁶⁷ (S)

CCS officers contacting the legitimate foundations that had passed CIA funds “donated” by the Patman Eight soon discovered more troubles. 25x1 foundations contacted, 25X1 misfiled their IRS Form 990-As. 25X1 had noted the prevalence of such mistakes years earlier, but Cord Meyer’s working group did not learn of their full extent until December 1964. A large section of the Agency’s covert funding network now lay open to exposure in publicly available files. An updated estimate of the Patman Eight’s links in the funding network concluded that 25X1 had received direct support from the eight, while another 25X1 had indirect ties. Central Cover warned DDP operating divisions of the Patman Eight’s wide connections, but apparently said little or nothing about the 990-A problem.⁶⁸ (S)

For over a year some DDP officers believed that the threat of exposure stemming from the Patman revelations might somehow pass them by. Cord Meyer assured high-ranking Johnson administration officials that the Agency had the problem well in hand and was busy devising new funding methods to supplement its necessary use of legitimate

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foundations.⁶⁹ Covert Action Staff's [redacted] acknowledged years later that "we could have gotten out sooner," but he noted:

There was much talk amongst us case officers . . . [about] how could we get out of this gracefully. But we didn't want to get out of it because we loved what we were doing, and we believed in what we were doing. But we also knew that we were treading on thinner and thinner ice.⁷⁰ (S)

Meyer's Covert Action Staff (CA) had not been neglecting the problem since the Patman revelations. Indeed, CA had a mandate from then-DDP Richard Helms to impose tighter controls and accountability on the sprawling covert action network. In mid-1962 Helms had directed that CA create a Plans and Evaluation Group (PEG) to survey all covert action, amass central files on projects, and recommend improvements to both operations and overall procedures. Under the able leadership of Paul B. Henze, CA/PEG had provided much of the data and analysis used by Agency principals in their response to the Patman leak. PEG would continue to analyze the deteriorating situation and to brief senior officers through the *Ramparts* flap of 1967. Nevertheless, the compartmentation of knowledge in the DDP meant that neither PEG nor CCS would understand the extent of the Agency's vulnerability until it was too late to fix. (S)

In October 1965 a new alarm sounded. Agency officials heard rumors that David Wise, the muckraking author of *The Invisible Government*, was writing a new and even more troubling book about the Agency's use of legitimate foundations. Richard Helms (who had become DDCI in April) conferred with the White House about finding some way to "head off" the Wise book but soon dropped the idea as impractical and potentially embarrassing.⁷¹ (S)

More bad news arrived a few weeks later. In November 1965, a Central Cover representative visited the 25x1 [redacted] and found the Patman Eight and other CIA proprietaries mentioned in the misfiled 990-A forms 25x1 [redacted]. The funding instruments contributed amounts to the foundations that matched grants [redacted], suggesting to potential sleuths that someone was using the foundations as conduits. A CCS check of IRS records the

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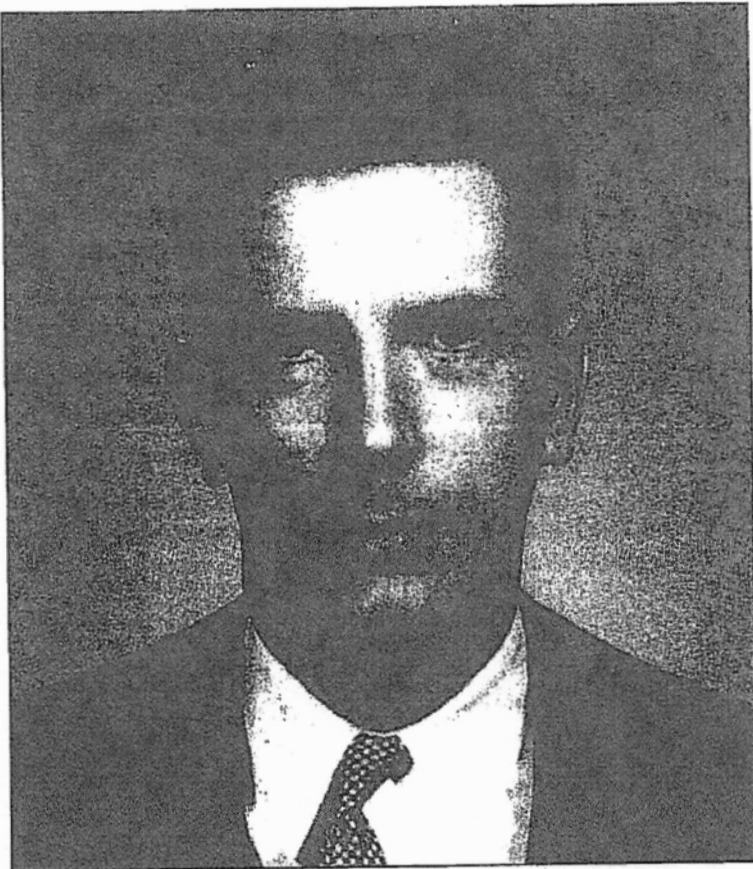
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As it developed, David Wise and Thomas B. Ross' new book, *The Espionage Establishment*, was not published until after the *Ramparts* flap in 1967. (S)

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Paul B. Henze of Covert Action Staff studied the funding network's vulnerabilities. (6)

following month showed that 25x1 had incorrectly filed their 990-A forms, listing reimbursements from CIA funding instruments (IRS officials promised to "clean up" these and other files before making them again available to the public). As a result of this research, the DDP suspended operational use

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25x1 [redacted] out of concern that they were tainted by their association with the Patman Eight." (S)

Central Cover had barely kept [redacted] apprised of its investigations, a lapse that helped to lull [redacted] and leaders into a false sense of security. In any event, the rumors about David Wise's new book finally awakened the Covert Action Staff, and prompted it to conduct its first comprehensive analysis of the funding cover arrangements for its projects. In December 1965, CA determined that 25x1 [redacted] projects were vulnerable (the *Ramparts* flap later exposed 25x1 [redacted] projects). At the request of DDP Desmond FitzGerald, CA then examined the operations of other divisions as well. Five months later, CA concluded that a combination of "the helter-skelter methods" and "pathetically meager resources" applied by Central Cover had imperiled 25x1 [redacted] projects." Although this was the most thorough investigation to date, subsequent events would prove even this survey to have underestimated the extent of the "contamination" problem." (S)

The CA Staff report sat on DCI William Raborn's desk until articles in the *New York Times* and the *Nation* magazine alerted all levels of the Agency that the threat of a massive exposure was intensifying. 25x1 [redacted]

25x1 [redacted] A few days later the *Nation* confirmed that determined, partisan investigators, following the leads provided by Congressman Patman, were gradually uncovering the covert funding network. The *Nation* article, written by Robert G. Sherrill, relied on the sleuthing of Group Research, Inc., a Washington-based organization that [redacted] was sponsored by the United Auto Workers leaders Walter and Victor Reuther as part of an effort to counter what they feared was the growing influence of conservative and right-wing foundations." The Agency soon learned that Group Research had asked

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"Robert G. Sherrill, "The Benificent CIA," *Nation*, 9 May 1966, p. 542. 25x1 [redacted]

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to inspect IRS files on a number of CIA-related organizations.⁷⁶ Group Research conducted its investigation in conjunction with a similar effort sponsored by the Institute for Policy Studies, a progressive Washington, DC, think tank with links to *Ramparts*.~~(S)~~

Ramparts later explained how its investigators pieced together an outline of CIA's funding network. At some point in 1966, its editors learned (presumably from Group Research or the *New York Times*) that four of the Patman Eight had passed money to a pair of charitable foundations in Boston: the Independence and J. Frederick Brown Foundations. These groups used the same address, and both had made grants to the National Student Association and the American Friends of the Middle East. *Ramparts'* editors also remembered that Robert Sherrill's *Nation* article had suggested that AFME took CIA money. Its young reporters kept digging, even though no one in any of the foundations in question would talk to them. *Ramparts* somehow learned that the Sidney and Esther Rabb Charitable Foundation had given NSA \$6,000 to retire an outstanding debt in 1964. In that same year the Rabb Foundation received \$6,000 from the Price Fund of New York—one of the CIA-affiliated funding instruments exposed by Representative Patman. This coincidence was made even more interesting by the fact that Rabb had matched its gifts from Price and other suspicious organizations with large grants to other American anti-Communist groups. For instance, Rabb had received \$15,000 from the Independence Foundation and shortly thereafter passed an equal sum to the Fairfield Foundation, the patron of the Congress for Cultural Freedom—another group rumored to have CIA ties. The large matching gifts and grants provided the key, allowing *Ramparts'* reporters to follow the subsidy trail from the Agency's clients all the way back to a shadowy group of paper foundations run from law offices that presumably received payments directly from the CIA.⁷⁷ (U)

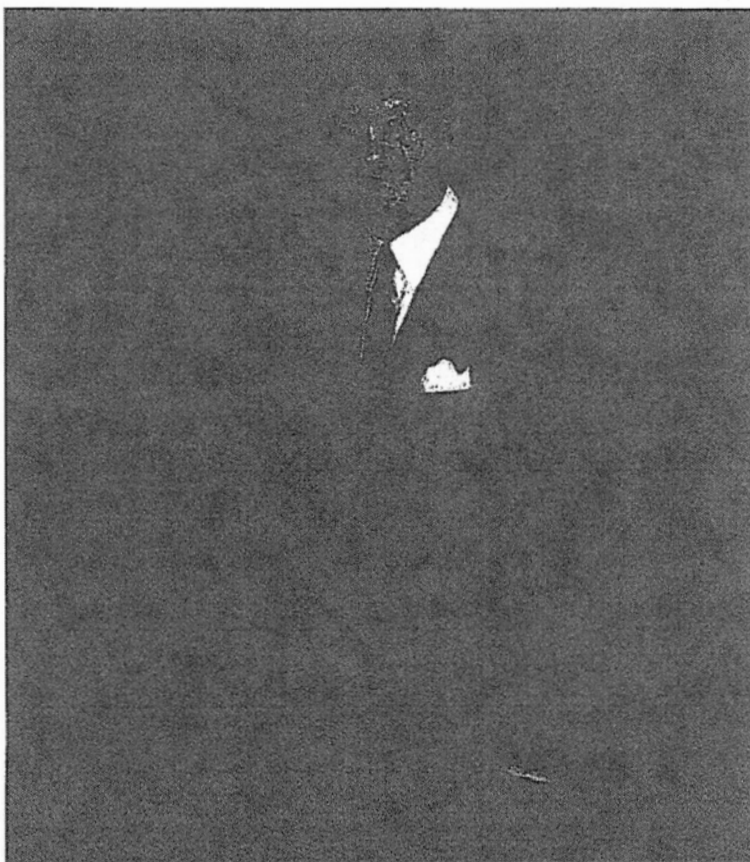
In mid-1966, the CIA's defensive measures finally shifted into high gear. That May, Desmond FitzGerald and Cord Meyer discussed the problem with White House aides, but no solutions emerged. FitzGerald established a team

This team, headed by Paul Henze of CA, included representatives of the Inspector General's office, the Office of General Counsel, and the relevant DDP offices. Meeting through August, used its authority to implement various improvements suggested over the last

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⁷⁶Sol Stern, "NSA: A Short Account of the International Student Politics & the Cold War with Particular Reference to the NSA, CIA, Etc.," *Ramparts*, March 1967, pp. 31-33. (U)

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DCI Richard M. Helms. (U)

two years, although it had no hope of undoing the damage done by the Patman disclosures and the misfiled 990-A forms." "My God, it's really this bad, you say?" asked DCI Richard Helms when Henze briefed him on the [REDACTED] findings. "Yes. It is," replied Henze.™-(S)

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Shortly before it went out of business, [redacted] commissioned a study that would provide the clearest possible warning of what lay ahead. Up to this point neither the Agency nor its critics had appreciated the importance of the information gradually accumulating in the [redacted] 25x1

Not surprisingly, CIA-origin grants tended to be conspicuously large and heavily concentrated in the relatively minor "international activities" field, which made them easy to spot. [redacted] 25x1 the significance of this problem in [redacted] 10 October 1966 report to Paul Henze. [redacted] words could hardly have been more ominous, or prophetic:

1. Unless the law of averages ceases to operate . . . the Agency may face the embarrassment of being publicly confronted in the near future with most of the past history of covert funding involving legitimate foundations.
2. There is far more on the public record compromising Agency operations than generally realized, it is far more easily accessible than previously assumed, and far far [sic] more damning than earlier studies indicate . . .
3. For the next two or possibly three more years, with luck, we may be apprehensively "waiting for the other shoe to drop."
4. It could drop next week, or next month . . . There is very little practically that can be done to soften the blow, and very little hope for its blunting except the passing of time. We should be prepared for the eventuality that fall it will unless the incredible good fortune, which has so far averted a full disclosure of Agency funding operations through foundations, continues to favor us.

CIA [redacted] demonstrated how recent [redacted] 25x1 contained [redacted] enough data to expose approximately [redacted] 25x1 using [redacted] 25x1 [redacted] Agency funds a year. Because of the unique funding pattern used by the Agency, every grant led to every other. As of August 1966, no major Clandestine Services project [redacted] was safe from exposure.¹⁰⁰ (S)

25x1 [redacted]

Despite this conclusion, CIA did not expect a dam-break, and did not tell Congress or the President's Foreign Intelligence Advisory Board (PFIAB) that such a disaster was possible and growing ever more likely. Indeed, the DCI's Annual Report to PFIAB, dated 30 September 1966, noted in its "Problems and Deficiencies" section: "There continues to be need for increased developmental activity [redacted] [redacted] This was the only problem that the Agency noted in the area of covert action." (S).

Conclusion (U)

The dam-break in February 1967 resulted from a perennial Agency weakness in the Cold War era—an early unwillingness and later inability to redress chronic problems that were serious enough to involve more than one directorate but not urgent enough to force the DCI's personal intervention. Specifically, the Agency's management of its domestic covert subsidy program suffered from an unintended side effect of Allen Dulles' enthusiasm for covert political action and his willingness to overlook problems that such operations encountered. Dulles sponsored the program but rarely bothered himself with its details; his benevolent neglect allowed the funding network to grow beyond the bounds of operational security. (U)

Without Dulles' intervention on behalf of his protege Tom Braden, there quite possibly never would have been an International Organizations Division. The area divisions strongly opposed its creation, and DDP Frank Wisner seemed inclined to respect their advice. Although IO functioned efficiently under Braden and his successor, Cord Meyer, Dulles's patronage enhanced its bureaucratic status and helped to keep its budget growing to proportions that eventually placed an intolerable strain on Agency support offices. By the time Dulles left the Agency in late 1961, IO had earned a reputation for good management that protected its programs and allowed them to live on even after the Division itself merged with the Covert Action Staff. (U)

Although Allen Dulles promoted the Agency's huge covert subsidy programs, he should not bear the sole responsibility for their collapse. DCI John McCone and DDP Richard Helms hardly involved themselves in CIA's internal debates about securing the funding network in the early 1960s. The Patman revelations of 1964 finally alerted senior officials to

25X1

the fragility of this network, but the Agency's damage control efforts still worked with a lack of urgency. Not until summer 1966—two years after the Patman revelations—did any Agency officer attempt to learn the full extent of the danger and predict that the funding network would collapse in a very public and embarrassing fashion. The CIA probably could not have protected some of its more vulnerable clients and agents any better than it did, but DCIs McCone, Raborn, and Helms shared a measure of responsibility for not acting earlier and more decisively to save operations that might have been spared during the *Ramparts* flap in 1967. (U)

The anti-Communist groups and fronts that the Agency subsidized required plausible but secret funding sources. These requirements—plausibility and secrecy—ultimately proved mutually contradictory. In retrospect, what seems most remarkable about the Agency's covert, anti-Communist funding network is not that it collapsed, but that it survived long enough to affect the course of the Cold War. The three case studies that follow examine the ways in which CIA client groups maintained (and ultimately lost) their cover as independent actors, and how they tried to counter the machinations of the Soviet Union. (U)