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COVER STORIES

# Who Was Betrayed?

*While his aides were out of control, Reagan was out of touch*



They were only five words, and rather bland ones at that. But they were among the most self-damaging the President of the U.S. could have uttered. "I was not fully informed," Ronald Reagan told the reporters he summoned to a special briefing last Tuesday. In an attempt to defend himself from suspicion of complicity in the biggest scandal to threaten Washington since Watergate, he thus highlighted the most fundamental flaw in his stewardship of the presidency, one that could undermine his effectiveness for the remaining two years of his term.

More immediately shocking, to be sure, were the other matters that Reagan and Attorney General Edwin Meese went on to disclose. America's secret sale of arms to Iran, distressing enough to begin with, had turned into an outright scandal: much of the money Iran paid for the weapons had been diverted to the *contras* in Nicaragua. There was every indication that laws had been broken. Heads were starting to roll: Reagan had accepted the resignation of National Security Adviser John Poindexter, the fourth departure from that critical post in six years, and fired Marine Lieut. Colonel Oliver North, Poindexter's subordinate in the National Security Council. Perhaps most startling of all, Reagan and Meese were asking the nation to believe something that seemed flat-out incredible: that Ollie North, a furtive, 43-year-old member of the NSC staff who operated out of an office across the street from the White House, had arranged the *contra* scam without the knowledge of the State Department, the Defense Department, the CIA, the Joint Chiefs of Staff, the White House chief of staff or anyone in authority except his boss, Poindexter, who did nothing to stop him.

It was more than enough to raise dread echoes of the word so often tossed around in hyperbole, so rarely in earnest: Watergate. The parallels might be exaggerated—this scandal, after all, was announced by the Administration rather than forced out by the courts—but they were there just the same. Once again there were rumors of documents being destroyed (by North and Poindexter). Once again the White House was resisting demands for a special prosecutor (now called independent counsel) put forth by Congressmen who did not trust the Administration to investigate itself. Once again congressional hearings were getting ready to launch upon their unknown and potentially damaging course. Worst of all, there was a revival, before last Tuesday's

press briefing was over, of the quietly poisonous question so well remembered from 1973: "What did the President know and when did he know it?"

Yet in the end the truly shattering possibility presented itself that Reagan really did not know what was happening across the street. Indeed, questions about what he did not know and why he did not know it seemed fully as unsettling as their echoes from the Watergate era. That little secret everyone shared about the President—that he is oblivious to the nuances of his policies, out of touch with the daily operation of Government and blithely detached from distracting bits of fact—has begun to seem, in the wake of Iceland and Iran and Nicaragua, to be far more dangerous than bemusing.

In the past few years these tendencies have combined with two others that were almost bound to cause trouble sooner or later. One is a penchant for covert actions that fit in with Reagan's gung-ho activism. Finding some legal justification for them was another of those details that the President left to aides. The other tendency was to delegate disproportionate authority to subordinates who took a can-do

approach, and then to let them operate with little supervision. In retrospect it seems absurd that so ostensibly minor a functionary as North would have been entrusted with such delicate matters as negotiating freedom for American hostages held in Lebanon and organizing a secret network to supply the *contras*. And not only seems—it was absurd, and it got Reagan right into a dangerous mess. For almost six years Reagan got away with his approach to the presidency. In fact, he managed to convince the public, and even some of his critics, that it was part and parcel of his magic for dynamic leadership. Like his policies or not, it felt right to have a President who kept his eye on bold initiatives and left the details to experts. Certainly mistakes were made, and in the field of foreign policy in particular the Administration often seemed to be speaking in a cacophony of quarreling voices that the President could not or would not harmonize. But on the whole the results appeared to be good.

Now, however, in the suddenly intertwined cases of Iran and the *contras*, all the distressing tendencies of the Administration have combined to produce the kind of blunders that resonate far more than an error in judgment, however serious. Errors in judgment can be, and in Reagan's case regularly

have been, forgiven. But this disaster throws a pitiless light on the way the President does his job, confirming the worst fears of both his friends and his critics. Simultaneously stumbling into the Iran fiasco and allowing a bizarre scam to fund the *contras* to take place had an impact powerful enough to scar Teflon precisely because the events seemed to reveal personal characteristics that were both fundamental and worrisome.

For that very reason, perhaps, Reagan stubbornly refuses to admit he made any mistakes. Yes, he concedes, the diversion of funds to the *contras* was "improper"—but then he did not know about it. He fails to see he should have made it clear that he would not tolerate any flouting of the express will of Congress. And as for secretly slipping arms to Iran—well, he did it for the worthy motives of restoring American influence in a strategically vital nation and securing the release of hostages. "I think we took the only action we could have in Iran," he said in an interview with TIME last week. "I am not going to disavow it. I do not think it was a mistake." Even now he seems unable to appreciate that this action shattered his own vehemently proclaimed principle of never paying ransom to terrorists, and in the process dented the moral stature and credibility that is the true source of America's unique clout in world affairs.

For the same reasons, the blunder is a peculiarly difficult one to repair. Disastrous policies can be reversed, subordinates who get a President in trouble can be replaced, and those who may have broken the law can be punished. What is not readily recoverable, once it has been lost, is trust. And Reagan has seriously, if unwittingly, strained the trust of allies, Congress and the American public in his Administration's credibility and competence. It is too early to say that his Presidency has been crippled, though that could happen if the dismaying pattern of new revelations and unconvincing explanations continues much longer. But it seems almost certain that whatever comes of the many investigations now in progress, Reagan will emerge as a diminished President, his aura of invincibility shattered, his fabled luck vanished, his every policy regarded with new suspicion.

That had been a strong possibility even before last week's

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bombshells about the *contra* cash diversion. The sale of arms to Iran had hit a raw nerve in a public still nursing bitter memories of the violent anti-Americanism displayed during the hostage crisis of 1979-81, and the Administration's early explanations of the rationale and methodology of the shipments convinced hardly anyone. Briefings of the Senate and House intelligence committees by Poindexter, CIA Director William Casey and other officials on Friday, Nov. 21, failed to dispel congressional feelings that the full story had still not come out. The Congressmen did not know that Meese shared their

opinion. The day before the briefings, Meese called his assistant, Charles Cooper, into his office for a long review of legal issues that Congressmen might raise. The more they studied what the Administration officials proposed to say, the more Meese became convinced that they were not entirely sure what they would be talking about. Says Meese: "A lot of people didn't know certain things that were going on that were being done by others."

Worried that the Administration was about to damage its case, Meese went to the White House Friday morning, while the briefings were in session, to lay out his fears to the President. They were joined by White House Chief of Staff Donald Regan and Poindexter. Poindexter's head may already have been on the block: Regan had been talking, perhaps inadvertently, about the National Security Adviser's departure as if it were an accomplished fact.

In any case, the President authorized Meese to conduct an investigation and report results to him before the next meeting of the National Security Council at 2 p.m. the following Monday. It was a natural move: some of Reagan's retinue of unofficial advisers from California had begun pressing to have control of the Iran mess turned over to old Reagan loyalists, of whom Meese is one of the most trusted.

Meese chose a select team of three assistants, including Charles Cooper, who assembled and read documents Friday night. On Saturday they began their questioning. The Attorney General called on Secretary of State George Shultz at home and talked with Secretary of Defense Caspar Weinberger and CIA Director Casey as well. Other investigators questioned Poindexter and his predecessor, Robert McFarlane, who had begun the contacts with Iran. Meese's assistants pored over North's papers in his office from early Saturday morning until late into the evening, then summoned North to Meese's office in the Justice Department on Sunday for a session that lasted all afternoon.

When the questioning began, nobody except North, Poindexter and McFarlane knew of the trail

that would lead from Iran to the *contras*, or so goes the official story to date. On Saturday, however, Meese's team came across some puzzling and alarming evidence, in the form of "intercepts," hinting that Iran had paid more for U.S. weapons shipped through Israel than the \$12 million the U.S. had received for the arms. "Intercepts" is intelligence-community jargon for transcripts of telephone or cable messages that have been wiretapped. Says Meese: "There was

talk in the field that there were deficiencies in the amount of money involved, and we found some documents that hinted at this happening."

On Monday Meese went to the White House early to brief the President and late in the day interviewed Vice President George Bush. Bush later told TIME he is convinced the "President is telling the full and total truth" (see interview). That afternoon the NSC met as scheduled, but the problems that had surfaced in Meese's inquiry were not discussed in detail.

The President had other matters to worry about. He had to cope with an open rebellion by the State Department, the most astonishing example yet of how deeply his Iran policy had split his own Administration. The previous week, Shultz had won Reagan's grudging announcement that there would be no more arms sales to Iran, but the Secretary was not satisfied. Just before the NSC met, he dispatched Deputy Secretary of State John Whitehead to testify at a hearing of the House Foreign Affairs Committee. Whitehead directly contradicted Reagan's repeated assertions that U.S. contacts with Tehran had caused Iran to moderate its support of terrorism. Said Whitehead: "I don't like to differ with my President, but I believe there is still some continuing evidence of Iranian involvement in terrorism." One U.S. official considered Whitehead's testimony "tantamount to a declaration of war."

If so, Shultz won the war. At the NSC meeting Reagan agreed to give the Secretary of State full control of future Iranian policy. It was more a symbolic than a practical victory. Since arms sales have been ended and Shultz is not eager to resume diplomatic contacts with Tehran, even supposing Ayatollah Ruhollah Khomeini would allow any, there is no longer much of an Iranian policy to be in charge of. The State Department nonetheless exultantly trumpeted its triumph and announced that Shultz now planned to stay in office until the "end of the Administration." Well, maybe: the Secretary is still under fire at a displeased White House for this rebellion. Speculation continues that the Secretary will quietly depart in another few months after the uproar dies down.

Following the NSC meeting, events moved quickly toward the climax almost nobody in Washington had anticipated. Late Monday afternoon Meese personally questioned Poindexter for the first time and got the impression that the National Security Adviser was ready to quit. Poin-

dexter, who is a Vice Admiral, promptly confirmed that desire by immediately offering his resignation to Reagan, who accepted it the next morning; he told the President he wanted to return to active duty in the Navy. Nobody made any attempt to dissuade him. According to one insider, Reagan was far more angry with Poindexter than the President would let on in public. North was "relieved of his duties," as Reagan put it, sometime Tuesday morning. Although he had tendered his resignation beforehand, he found out about his fate officially only when Reagan and Meese went on television.

At a special meeting Tuesday morning, Meese laid his findings before the NSC. The advisers agreed that the Administration had to disclose immediately what the Attorney General had discov-

ered. Reagan had asked Meese to conduct the press briefing that was scheduled for noon that day. "I was not being apprised of a great opportunity," joked Meese, but his manner belied his words. He spoke with verve and at times appeared to be enjoying playing again the prosecutor he once was.

The essence of his report was stark and startling. The U.S. had provided \$12 million in weapons and spare parts to Israeli representatives. They then resold the arms to Iran for a much higher price, and the money was paid into Swiss bank accounts. The CIA received the original \$12 million and repaid it to the Pentagon. But anywhere from \$10 million to \$30 million went into numbered accounts that Meese said were "under the control of representatives" of the *contras*. Presumably, the money was used to purchase weapons that the rebels need to wage their guerrilla war against the Marxist Sandinista government of Nicaragua. North was, according to Meese, the "only person in the United States Government" who knew precisely of the money transfer. Poindexter knew vaguely about the transactions, and McFarlane learned something about them while pursuing diplomatic contacts with Iran as a special presidential emissary after he had resigned from the NSC. But neither seems to have told anybody in the Administration's chain of command. Later in the week, Meese added that "one or more consultants" to the Government, whom he would not name or further identify, also appear to have been involved.

The immediate result of Meese's revelations was a spate of denials. In Jerusalem, the three top officials of the Israeli government—Prime Minister Yitzhak Shamir, Foreign Minister Shimon Peres and Defense Minister Yitzhak Rabin—met in a crisis session and drafted a statement. For the first time, the government admitted what everyone knew: Israel had "helped in the transfer of defensive weapons and spare parts from the U.S. to Iran." But the Israelis flatly denied funneling any money to the *contras*. According to the statement, "The payment for this equipment was made directly by an Iranian representative to a Swiss bank, in accordance with instructions from the American representatives."

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More surprising, Adolfo Calero, one of the three directors of the *contras* umbrella organization, vehemently insisted that neither he nor any colleague that he knew of had got the cash, or received arms that would have cost anything like \$10 million (let alone \$30 million). His statements caused some private grumbling among delegates to a *contra* meeting in Costa Rica: some appeared to suspect that the money might have gone into someone's pockets.

At week's end the mystery of who did get the money from the slush fund was developing into one of the most intriguing aspects of the entire affair. A whole complex array of questions awaited answers: Who, exactly, negotiated the price Iran paid for its U.S. weapons? Who might have set up the Swiss bank accounts and really controlled those accounts? What happened to the money that supposedly flowed through the accounts? Was it connected in any way to the arms that a network of private donors assisted by North had supposedly bought for the *contras* and had flown to them from an air base in El Salvador?

Another controversy was developing over the destruction of documents. North's office was not sealed until after he was fired, and he is said to have fed some papers into a pulverizing machine before that happened. Administration officials contended that copies of any official documents would still exist in Government files, and doubted North's personal papers would have shown much; North was not a man to leave a "paper trail." They added that if Poindexter destroyed any documents, they were only the kind that NSC staffers routinely pulverize every night. The Senate Intelligence Committee nonetheless seemed concerned that something important might have been lost. It directed a letter to the White House on Friday, urging that Reagan ensure that all documents that might aid investigators be saved.

The scandal over the diversion of funds to the *contras* was itself a diversion, at least for the moment, from the boiling debate about the wisdom and legality of shipping arms to Iran as part of a murky effort to free American hostages. But it is not a diversion that can give the Administration any relief, given the devastation that could come from revelations about the *contra* slush fund. Nor is it likely that the search for the culprits who mishandled the fund will completely distract attention from more basic questions about allowing NSC officials to operate covert arms schemes that run counter to stated U.S. policy.

**M**eese was the first to admit that he did not yet have the answers to the almost innumerable questions raised by the Iran-*contras* scandal. The Attorney General pledged to continue his investigation until he did, and Reagan backed him with an order to all Government departments to

answer any questions Meese and his probers might pose. The President also appointed a panel—made up of former Senator John Tower of Texas, former Secretary of State Edmund Muskie and former National Security Adviser Brent Scowcroft—to investigate the structure of the NSC and its role in coordinating and carrying out foreign policy.

But no amount of Administration self-investigation is likely to satisfy Congress. In a letter to Meese that put on the record what many other legislators had demanded, a House Judiciary Subcommittee requested the appointment of a Watergate-style independent counsel. Subcommittee Chairman John Conyers, a Michigan Democrat, bluntly challenged the Attorney General's ability to conduct an impartial probe, citing among other things "your closeness to the President." The White House is so far resisting calls for such a special prosecutor. But as more information emerges each day, it becomes less likely that the affair can be concluded simply through Meese's probe.

In the meantime, congressional committees are rushing to schedule hearings, many of which will focus on the possible involvement of other Government officials or agencies in the Iran-*contras* scam. First up: the Senate Intelligence Committee, which was scheduled to hold hearings Monday to investigate what might have been known by Casey and the CIA, which keeps close tabs on the *contras* and set up a Swiss bank account to receive money paid by Iran for U.S. arms. Says Vice Chairman Patrick Leahy, a Vermont Democrat: "I don't see how the money could be transferred, the logistics could be handled, the arrangements could be made, without the help of some people in the CIA." He added ominously, "There's no question that lies have been told by Administration officials." At the closed-door session, witnesses will be required to testify under oath.

The House Foreign Affairs Committee is already investigating legal aspects of the arms shipments, and its members can expect to be joined soon by many other congressional probers. They will be mining a rich lode: the list of laws that might have been broken by the arms shipments to Iran, the diversion of funds to the *contras*, or both, is a long one.

First is the Boland Amendment, which forbade any use of federal funds to aid the *contras* from 1984 until this October, when it expired. Meese contends that "provisions had been made by Congress to permit the U.S. to seek funding from third countries," such as Israel, but he appears to be simply wrong. The amendment was rewritten last year to include an explicit prohibition against U.S. solicitation of third-country financing, and that ban was in effect throughout the time Ira-

nian money supposedly was being funneled to the Nicaraguan rebels.

Next, at least three arms-export laws include bans against the export of U.S. arms to countries that support terrorism—and the Reagan Administration has formally identified Iran as such a country. The laws do provide waivers that allow the President to skirt them in the event of a crisis, but they generally stipulate that the White House notify Congress, which it did not do. More generally, the Intelligence Oversight Act requires prior notice of covert operations to the House and Senate intelligence committees.

Finally, some legislators are raising the question of whether North and possibly others could be prosecuted under laws banning the spending of money on secret missions that are not authorized by Congress. The CIA is exempted from one of these statutes, but other federal bodies,

notably the NSC, are not. Unlike the Boland Amendment and the Intelligence Oversight Act, the laws against unauthorized transfers of funds provide criminal penalties against violators.

One potential casualty of the revelations last week is the goal that the bizarre scheme was intended to further: keeping alive the *contra* struggle, which after five years of stop-and-go funding has yet to seriously threaten the existence of the Sandinista regime in Nicaragua. The President's fervent support for the *contra* cause is the most visible manifestation of what has been called the Reagan Doctrine, America's attempt to counter the spread of Communism by fostering insurgencies to undermine Moscow-backed regimes. After a long struggle, Reagan squeezed out a narrow victory this May by persuading Congress to authorize renewed, open military aid to the *contras*, who will be provided with \$100 million during the current fiscal year.

**E**ven before last week's revelations, the President faced a hard and uncertain fight to get the funding renewed when the new Congress meets in January. Now Capitol Hill resounds with predictions that angry legislators will cut off aid again as a kind of punishment to North and those in the Administration who failed to monitor his activities. Says Minnesota Senator David Durenberger, a Republican and reluctant *contra* supporter: "It's going to be a cold day in Washington before any more money goes to Nicaragua. Ollie may have killed off his Nicaraguan program." Such a reaction has little logic. There are valid arguments for and against helping the anti-Sandinista guerrillas, but the issue should be debated on its merits rather than being made a kind of extralegal, and

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ineffective, penalty against the NSC.

In other areas, the Administration—and the country—might have to pay a heavy price for this latest and most serious blow to the credibility and competence of U.S. foreign policy. The prestige of the President has been seriously weakened, his staff is in disarray, and the Administration seems less able than ever to speak with a coherent voice on matters ranging from arms control to antiterrorism. Reagan's ability to project a sound foreign policy was badly hurt by revelations that he deceived the American people, Congress and the world about his stance against dealing for hostages and sending arms to Iran. The latest disclosures that he was likewise deceived by members of his own staff, who zealously pursued his desire to help the *contras* despite the wishes of Congress, will make it even tougher for his pronouncements to be greeted as believable.

One American official who deals with the Soviets on arms control is picking up disquieting signals that the Kremlin now considers Reagan to be so weak politically that it will rethink what concessions it might offer in order to get a deal. Says he: "Coming on the heels of the loss of the Senate, the Iran business seems to have raised basic questions in Moscow about how they should deal with Reagan, whether they need to bargain with him seriously or whether they can just wait for the next President." Reagan's decision last week to abandon the unratified SALT II ceilings on strategic weapons is likely to make Moscow even more standoffish.

In the Middle East, U.S. policy, to the extent that the Reagan Administration still has one, seems likely to be paralyzed as well. Moderate Arab nations friendly to the U.S. feel betrayed by the Administration's arms sales to Iran, a nation they fear because of its potential—and uncooled desire—to stir up Islamic fundamentalist revolution outside its own borders. Says one veteran Arab diplomat in Cairo: "This Reaganite crisis will incapacitate the Administration. I am very much afraid we will have to wait two years [that is, until Reagan's successor is elected] before the U.S. can play a major role in the region."

In the U.S., the fear is not of incapaci-

tation but of that dreadful "W" word: Watergate. However, it comes to the same thing. All over Washington last week there was a sickening feeling of "here we go again," a dread of another orgy of public self-flagellation, of deepening public suspicion that might undermine all governmental authority. Nor was that foreboding confined to the Administration's allies. Journalists could sense among those Congressmen most determined to investigate the Iran-*contra* scandal an unspoken fear of where the investigations might lead, a kind of silent prayer that it would not once again be straight into the Oval Office.

There is still time to avoid the worst consequences, though only if the Admin-

istration pushes its own investigations hard enough and fast enough to convince its critics that it has at last provided a full and convincing explanation of its activities, and one that does not spare the highest officials. "I think one iron rule in situations like this is, whatever must happen ultimately should happen immediately," said Henry Kissinger last week. "Anybody who eventually has to go should be fired now. Any fact that needs to be disclosed should be put out now, or as quickly as possible, because otherwise ... the bleeding will not end."

Pursuing such a course is not, as some might claim, a self-destructive obsession that represents an inherent flaw in a democracy. The strength of the nation, not its weakness, comes from the fact that it has a government of laws, run by officials who can be held accountable. This moral principle, more than even its arsenal of nuclear missiles, accounts for the fundamental strength the U.S. exerts in its dealings with people around the world. That is why any operation—whether it be the covert shipment of arms to Iran or the secret diversion of funds to the *contras*—that is run in a manner designed to skirt legal accountability represents such a deep danger. —By George J. Church. Reported by Ricardo Chavira, Michael Duffy and Hugh Sides/Washington