

*The Hazards of Private Spy Operations*

## The Pond: Running Agents for State, War, and the CIA

Mark Stout

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Mark Stout is an analyst in the Institute for Defense Analyses. He has served in the Directorate of Intelligence in CIA.

*Editor's note: The career of John "Frenchy" Grombach has long been a mystery that apparently would never be solved, given the secrecy of his actual work and the exaggerations of his memoirs and collaborators. Mark Stout has labored valiantly in publicly available sources and, with the help of other historians, in personal collections to outline Grombach's activities. This article presents his findings. In late 2001, however, voluminous records of Grombach's semi-private intelligence organization were found in a barn in Virginia. Those records are now at the CIA, which, after reviewing them for lingering security concerns, will transfer them to the National Archives. Mr. Stout had access to the newly discovered records before he left the Agency in 2003.<sup>1</sup>*

"I first saw Budapest in the summer of 1946. I came as a covert agent, a member of an American intelligence organization—there then being no CIA—which has since ceased to exist." With this sentence in *A Short Course in the Secret War*, foreign service officer James McCargar began to describe his brief career as a case

officer in Hungary. He had a secret second job with an espionage organization known to the few who knew of it at all as "The Pond."<sup>2</sup>

Sadly, most of the Pond's 13-year history is lost. This obscurity was intentional. When the Pond was created in early 1942, the United States had very little experience with intelligence, and the notion of a spy agency which would be not only officially unacknowledged, but actually unknown, appealed to some people in Washington. These people were repelled by the larger-than-life publicity hound William Donovan and his "Oh So Social" intelligence agency. For a precedent they looked instead to foreign intelligence services such as the British MI-6, which they thought was more discreet and whose chief was never named in the press.

In accordance with this philosophy, the Pond spent most of its existence not as a government agency, but as a private sector organization, operating within real companies with names such

<sup>1</sup> The author thanks Professor Christopher Simpson (American University), James McCargar, Michael Warner, and Hayden Peake for their kind assistance and encouragement in this project. Professor Simpson shared many documents from his file on Grombach.

<sup>2</sup> Christopher Felix, (pseud. for James McCargar), *A Short Course in the Secret War* (Lanham, MD: Madison Books, 2001), 156. The book was first published in 1963. McCargar added footnotes in a 1987 edition, giving identifying information, although highly incomplete, about the intelligence organization in which he served.

as the Universal Service Corporation.<sup>3</sup> This practice contributed substantially to obscurity and security. However, three successive government agencies found that having such an independent intelligence operation—and, worse yet, one run by a pugnacious, conspiratorial ideologue—was more trouble than it was worth, and the notion of having a truly secret intelligence organization never did catch on in the United States.

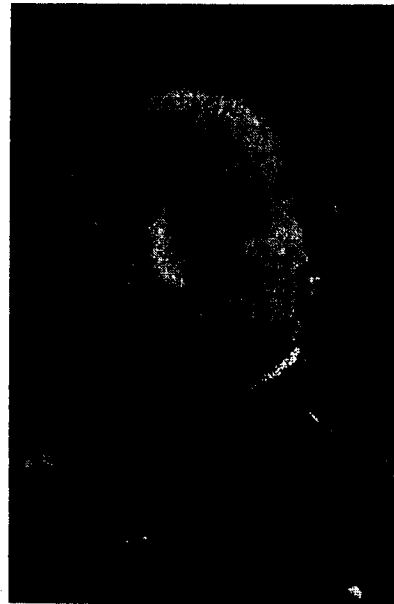
### A Perpetual, A Far-Seeing Service

The true believer who headed the Pond for its entire existence was born in 1901, a Frenchman, the son of the French consul in New Orleans. At the age of 18, the young John (or Jean) Grombach renounced his claim to French citizenship and became an American when he went to West Point. There he was an athletic star, but the day before graduation it was found that he had eight more demerits than allowed. The authorities decided to give him a B.S. degree but deprive him of a commission.<sup>4</sup> Nonetheless, not long after graduation he wangled a commission

anyway and spent five years on active duty as a military police officer, including time in the Panama Canal Zone, where he was assistant provost marshal and assistant G-2, his first involvement with intelligence.<sup>5</sup>

Grombach left the regular army in 1928 and joined the New York National Guard. In 1929 he went to work for a subsidiary of CBS and Paramount Publix, where he was so successful that he was able to start several radio program production companies of his own.<sup>6</sup> Grombach kept his hand in the intelligence business, however, with a “highly confidential secret” project in 1937 for the State Department, and in 1940 he authored an article in *Infantry Journal* which discussed the role of radio in warfare and, in particular, described how innocuous-sounding broadcasts could be used to convey secret messages.<sup>7</sup>

In 1941, with war looming, Grombach was inducted back into the Army as a captain.<sup>8</sup> On the eve of war, he was the morale officer of the 27th Infantry Division, which had been formed from the New York National Guard. After Pearl Harbor, friends recommended him to the



Grombach as a West Point cadet.  
US Military Academy Photograph

Army's G-2, and as a result Grombach soon was ordered to Washington.<sup>9</sup>

For the first six months of 1942, Grombach was on part-time loan to the Coordinator of Information (COI), Col. William Donovan's organization, which would soon be renamed the Office of Strategic Services (OSS). During this time the War Department was getting a new intelligence effort off the ground, one tailor-made for Grombach's secre-

<sup>3</sup> Julius Mader, *Who's Who in CIA* (Berlin, DRG: Julius Mader, 1968); Grombach Diaries, 1947 frontispiece, and 19 February 1947, Grombach Papers, USMA Library, Manuscript Collection. The 1946–55 diaries are in boxes 3 and 4.

<sup>4</sup> “Outline of (Jean) John V. Grombach,” Charles G. Stevenson Papers, Box 6, Folder “Grombach,” US Military Academy (USMA) Library, Manuscript Collection (hereafter Stevenson Papers).

<sup>5</sup> Memorandum AcoS G-2, Governors Island, New York, Subject “Grombach, John V.” 23 September 1958, Stevenson Papers.

<sup>6</sup> “Outline of (Jean) John V. Grombach.”

<sup>7</sup> Grombach to Brigadier General Stephen Fuqua, 19 November 1973, courtesy of Christopher Simpson (hereafter Simpson file); “Grombach, Captain John V., ‘The Invisible Weapon,’” *Infantry Journal*, July–August 1940: 340–44.

<sup>8</sup> “Outline of (Jean) John V. Grombach.”

<sup>9</sup> LaVarre to Miles, 8 December 1941 and Grombach to “Bill” (LaVarre), 31 January 1977; George S. Smith memorandum to Personnel Officer, G-2, Subject: “Officer Personnel,” 24 January 1942. Grombach's assignment was made official in Ralph C. Smith memorandum to Adjutant General, Subject: “Detail of Major John V. Grombach,” 16 February 1942, Simpson file.

tive tendencies. The concerned agencies had earlier agreed that "secret intelligence" (what we today call clandestine intelligence collection), would be the purview of COI. However, in early 1942, the jealousies and complaints of various agencies coalesced into a serious move to dismember Donovan's group. In early March, the Joint Chiefs of Staff adopted as their position a proposal to abolish the COI and distribute most of its parts among the JCS and the services. Under this proposal, the fate of the secret intelligence function would be decided in consultations between the chiefs and the State Department.<sup>10</sup>

The Army's G-2, Maj. Gen. George Strong, was one of those most committed to disestablishing the COI while he attempted to move in on Donovan's turf by creating his own secret intelligence service. More discreet than the COI, it was to operate cooperatively with the State Department and undercut the rationale for a COI clandestine collection unit. In the spring of 1942, as the fate of COI hung in the balance, Brig. Gen. Hayes Kroner, the head of the War Department's Military Intelligence Service, was given "official approval and direction," almost certainly by his immediate superior, Gen. Strong, to establish a secret intelligence organization. By October the OSS had a new

<sup>10</sup> Bradley F. Smith, *The Shadow Warriors: OSS and the Origins of the CIA* (New York: Basic Books, 1983), 117-19.

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lease on life and was around for the long haul. That month, Kroner's guidance was expanded: he was now to establish "a perpetual, a far-seeing, a far-distant, continuing secret intelligence service."<sup>11</sup> In other words, Kroner was to establish a long-term, albeit secret rival to Donovan's agency.

Kroner selected Grombach to head this new organization "particularly because [he] could take such instructions, that all of this should be done under the terms of the highest secrecy."<sup>12</sup> With an initial allocation from the War Department of \$150,000 for 1942, Grombach set to work establishing the organization and soon had in place a structure that would continue largely

<sup>11</sup> *National Security Act of 1947*, Hearing before the Committee on Expenditures in the Executive Departments, 80th Congress, First Session, on H.R. 2319, 27 June 1947 (Washington, DC: US Government Printing Office, 1982) (hereafter *National Security Act*), 54. The transcript of these closed hearings was lost until a copy was found many years later in CIA files. It was declassified and published by the House Permanent Select Committee on Intelligence.

<sup>12</sup> *National Security Act*, 54.

unchanged for nearly 13 years.<sup>13</sup> It started out under the "real cover" of the Coverage and Indocination Branch, to which Grombach had already been assigned. By the end of the war it had become the Special Service Branch. At some point, certainly by 1946, "the Pond" became the name generally used by the few who knew anything at all about the group. Grombach probably selected this name as a diminutive form of "Lake" which was the cover term he used for the G-2.<sup>14</sup>

From the very beginning, Grombach split his time between Washington and the Pond's offices in New York City. After the war Grombach would establish the Universal Service Corporation in New York, but it is not clear if the Pond's wartime offices there were under commercial or official cover. In any event, the various security measures worked well in the United States. Gen. Kroner testified after the war that "when I left the direction of that office at the beginning of 1944, only those in the War Department and the State and the President's office, the President himself, who had to know by virtue of approving certain operations, knew it existed."<sup>15</sup> In Washington, the Pond's day-to-day connection with the department was through the Division of Foreign

<sup>13</sup> Grombach Diaries, 9 August 1949.

<sup>14</sup> When CIA was formed, Grombach referred to it as "Bay," another body of water with which his little Pond later became affiliated.

<sup>15</sup> *National Security Act*, 54.

Activity Correlation (FC), which, during the war, fell under the authority of Assistant Secretary Adolf Berle, the department's intelligence coordinator. The director of naval intelligence later said that the Army never told the Navy about the Pond either.

*We found out about it only by accident and against the wishes of the Army.... They never offered the Navy the services, never offered to make it available to meet our needs ...not one single bit of information that was obtained by that Army agency ever came to the Navy.<sup>16</sup>*

A few people at FBI headquarters were also in on the secret, as the Pond produced some reports pertaining to domestic security. In early 1947, an FBI informer happened to be in a Pond office in New York and saw people typing what looked like intelligence reports. The FBI's assistant special agent in charge was suspicious and ordered further inquiry, unaware that the whole thing was well known to Mickey Ladd, chief of the FBI's Domestic Intelligence Division, an ally of Grombach.<sup>17</sup>

Overseas, the Pond had case officers under various types of cover.<sup>18</sup> The Pond set itself apart from the OSS by reaching an agreement with the State

<sup>16</sup> *National Security Act*, 68.

<sup>17</sup> Mumford (FBI) memorandum to Ladd, 23 April 1947, obtained through FOIA.

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Department which allowed foreign service officers (FSOs) to serve as case officers. These FSOs had their own sources of funds and did not have to tell the chief of mission what they were doing, although some did. They had remarkably little training and a great deal of independence. James McCargar describes his arrival in 1946 at the legation in Budapest, where a college friend was serving. Soon the friend was given a new posting and asked McCargar if he would like to become the Pond's officer in Budapest. McCargar accepted, and, without any special training, he inherited a network of Hungarian assets.<sup>19</sup>

Despite the close relations with the State Department, Grombach, ever secretive, placed

<sup>18</sup> For a reference to commercial cover generically, see Callison (OSS) memorandum to Andrews, 28 November, 1944, National Archives and Records Administration (NARA), RG 263, Troy Papers, Box 10, Folder 1. See also Anthony Leviero, "Army's World Intelligence Ring Reported Halted by New Agency," *New York Times*, 21 May 1947: 1.

<sup>19</sup> James McCargar, oral history interview, Foreign Affairs Oral History Collection, Georgetown University Library, 1995 (hereafter McCargar OH), 113; Grombach Diaries, 27 June 1946.

particular emphasis on commercial cover. Several companies provided cover for the Pond, but the only identifiable one is N.V. Philips Gloeilampenfabrieken. A Dutch company, Philips helped fund the Pond and otherwise assisted its operations.<sup>20</sup> After Pearl Harbor, the company had approached the OSS and the War Department G-2 offering its help. It worked with both until, on 31 October 1942, Gen. Strong wrote to Donovan demanding that the OSS cease all contact with Philips, leaving them exclusively to G-2, that is to say, to Grombach. Despite the unhappiness of his subordinates, Donovan acquiesced. Philips was a good partner for the Pond and worth fighting for because it had subsidiaries all over the world, including in occupied countries. In short, Philips offered access to interesting places.<sup>21</sup>

### Fighting in the War Department

From his first months in the War Department, Grombach was constantly on the lookout for communist subversion, a propensity that repeatedly created friction with others. In 1942, with Alexander Barmine, a Soviet military intelligence officer who had defected in 1937, he identified a "list of Soviet agents working in the OSS." But

<sup>20</sup> Grombach to Murphy, 17 February 1956, Simpson file.

<sup>21</sup> Various documents in NARA RG 226, Entry 210, Box 359, folder 1.

1942 was a desperate time, and the accusations of a mid-ranking Army ideologue did not cut much ice in Washington. The accusations brought only a reminder that the Soviet Union was now America's ally.<sup>22</sup>

Grombach stayed on the trail of subversion, however. As the war progressed and the Pond began to collect intelligence from overseas, Grombach found, to his dismay, that 80 percent or more of his reports about the Soviet Union and communism were being "eliminated"—not used in intelligence analyses and not passed to consumers.<sup>23</sup> This was ideologically offensive to Grombach and ran contrary to his philosophy of intelligence. As he wrote later, while in the midst of a similar dispute with the CIA:

*Intelligence is the gathering of data on selected subjects without regard to correctness. Nor can intelligence be limited to the subjects indicated for investigation but odds and ends of sometimes unrelated data provide the cement that binds the mosaic. It is therefore impossible to eliminate any material, no matter how far-fetched it may*

<sup>22</sup> Grombach to Sokolsky, 28 May 1953, George E. Sokolsky Papers, Box 57, Folder "Grombach, John," Hoover Institution Archives (hereafter Sokolsky papers).

<sup>23</sup> Grombach to Yeaton, 10 February 1977, Ivan D. Yeaton Papers, Box 5, Folder "Grombach," Hoover Institution Archives (hereafter Yeaton Papers); LaVarre to Patrick J. Hurley, 12/8/45, Patrick J. Hurley Papers, Box 98, Folder 6, University of Oklahoma, Western History Collection.

*appear to be at a given moment. How one can eliminate anything within a few days after its receipt is difficult to understand.*<sup>24</sup>

The culprit in these "eliminations" was Col. Alfred McCormack, the G-2's "Director of Intelligence"—in charge of what we today call all-source intelligence analysis, with whom Grombach would feud throughout the war.<sup>25</sup> Grombach "pulled a fast one" and was able to track McCormack's alleged misdeeds by striking a deal with a sergeant who ran McCormack's incinerator. This deal allowed Grombach to collect all the eliminated reports and see the comments that McCormack and his staff had written on them.<sup>26</sup>

McCormack earned great respect from Secretary of War Stimson and Army Chief of Staff Marshal, but it is hard to imagine a man more certain to draw Grombach's disdain. McCormack had been a partner in a prominent New York law firm alongside John McCloy, who would become assistant secretary of war. Shortly after Pearl Harbor,

<sup>24</sup> Blind memorandum, October 14, 1952, Sokolsky Papers. The author of this memo is not identified, but it is quite clearly written in Grombach's style.

<sup>25</sup> SRH 185, "War Experience of Alfred McCormack," excerpt in James L. Gilbert and John P. Finnegan, *U.S. Army Signals Intelligence in World War II: A Documentary History* (Washington, DC: Center of Military History, US Army, 1993), 118-9 and 126-7.

<sup>26</sup> Grombach to Yeaton, 10 February 1977, Yeaton Papers.

McCloy asked McCormack to review the US signals intelligence system. The result so impressed McCloy that he had McCormack commissioned in 1942 as a colonel and got him assigned to the G-2. That McCormack did not share Grombach's view of communists would have been enough to antagonize the head of the Pond, but McCormack's appointment to colonel would also have been irksome to Grombach, who by 1942 had labored 19 years on active duty and in the National Guard without achieving that rank.<sup>27</sup>

Late in the war, Grombach began to work "Project 1641," a study of communist subversion in the US government. The resulting monographs included a "detailed list" of reports eliminated by McCormack and his subordinates. It also named numerous alleged communists, including two working for McCormack. Grombach turned the names over to the FBI, which investigated them in 1945. Other people named as communists in Project 1641 were Alger Hiss, Carl Marzani (a communist in the OSS who, shortly after being transferred to the State Department in late 1945 would be convicted of having denied this fact under oath), and John Stewart Service (a China hand later forced out of the State

<sup>27</sup> McCormack, Winthrop Laflin, "The State Department Loses the Lead in National Intelligence, 1945-46: A Case Study of Decision-Making and Influence in the Federal Government," unpublished manuscript, March 1967, CIA Historical Intelligence Collection.

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Department under pressure from Senator Joseph McCarthy). Finally, the monographs called on the inspector general to investigate McCormack.<sup>28</sup> In the wake of this incendiary project, Grombach was called before his superiors on 15 June 1945 and accused of discrediting an officer of the Military Intelligence Service to outsiders and of unauthorized disclosures of classified information. He denied both allegations. No investigation took place and that seemed to be the end of the matter.

It was not the end of the matter. That fall, President Truman abolished the OSS and sent its Research and Analysis Branch to the State Department. He intended having the State Department form the center of the nation's post-war intelligence establishment. Secretary of State Byrnes named Alfred McCormack to head up the department's "Interim Research and Intelligence Service." Grombach passed to the House Committee on Military Affairs the names of 15 G-2 officers who had followed McCormack to the State Department and whom he suspected of disloyalty. The committee talked with Grombach

and investigated his allegations. In March 1946, just as McCormack was facing enormous opposition from the old guard of the Foreign Service, which opposed creation of an intelligence office independent of the regional offices, the committee made public Grombach's charges, though without mentioning his name. McCormack entered a very public feud with the committee's chairman and resigned the next month.<sup>29</sup>

### Pond Operations

Most of the available information on Pond operations during World War II comes from Grombach's writings many years later, particularly his book, *The Great Liquidator*, published in 1980. The book recounts the story of Marcel Petiot, a Parisian doctor who was a Pond source—and also a serial killer, who was tried, convicted, and guillotined in 1946. Petiot passed on gossip obtained from his patients and contacts in Paris, who included German

Abwehr officers posted in Paris and refugees from the east. In the book, Grombach made a variety of interesting claims about the nature of Petiot's information. In 1942, for example, Petiot reported a story he had heard from a Polish patient that the Soviet NKVD had massacred 18,000 Polish officers in the Katyn Forest. The Pond reported this to War Department headquarters, where McCormack suppressed it, in Grombach's view, because it showed the Soviet Union in a negative light. Petiot also reportedly identified a number of Abwehr agents who had been sent to the US, allowing the FBI to turn some of them.<sup>30</sup>

According to Grombach, in May 1942, Petiot reported that the Germans were producing missiles at Peenemunde; the information, he asserted, allowed other Pond assets to photograph the site from Norwegian fishing boats. During the war, information gleaned by the Pond's networks in Norway and Sweden was brought to the United States in the diplomatic pouch from Stockholm via London. On the Stockholm to London leg, British couriers carried the pouches. Grombach somehow began to suspect the British were opening the pouches. He arranged to have an unopened pouch sent to the FBI for analysis. The Bureau confirmed that it had been expertly opened and resealed.

<sup>28</sup> Memo G-2 Personnel Security Branch, G-2, Subject: "Grombach, John Valentine," 1 June 1955, declassified, courtesy of Christopher Simpson; Memo Collins to Assistant Chief of Staff for Intelligence, Subject: "Grombach, John Valentine," 30 September 1958; LaVarre to Patrick J. Hurley, 12/8/45; John V. Grombach, *The Great Liquidator* (New York: Zebra Books, 1980), 108-9.

<sup>29</sup> Grombach Diaries, notes for a letter to "Bill" on the pages for 20-25 April 1946; "House Group to Drop 'Pro-Soviet' Hearings," *New York Times*, 26 March 1946: 24; "Denies Bureau Aides Have Pro-Soviet Bias," *New York Times*, 21 March 1946: 12. "House Group to Drop 'Pro-Soviet' Hearings," *New York Times*, 26 March 1946: 24.

<sup>30</sup> Grombach, *The Great Liquidator*, 107-8 and 116-7.

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Thereafter American couriers carried the pouches.<sup>31</sup>

Hungary was a major target of Pond operations both during and after the war. During the war the Pond had a network of sources in the Hungarian government and Hungarian army intelligence providing information from places such as Berlin, Warsaw, and Budapest, including order of battle information provided by Hungarian military attachés and Hungarian observers with the Wehrmacht. The Hungarian reporting flowed through Lisbon, a key hub of Pond activity. An FSO working with the Pond in Lisbon, Edward S. Crocker, served as a conduit between Admiral Horthy, the leader of Hungary, and US officials in Washington on the progress of Horthy’s attempts to extricate his country from the war. Grombach believed that several Pond operations out of Lisbon were “seriously sabotaged” by Col. Solborg, the controversial OSS representative there, who later was military attaché. Indeed, Grombach thought he had “very good reason to believe [that Solborg] was a deep buried foreign secret agent.” As a result, the Pond moved some of its operations out of Lisbon to Madrid and Berne.<sup>32</sup>

After the war, in early 1946, McCargar became a Pond case officer in Hungary. He inherited

<sup>31</sup> Grombach, *The Great Liquidator*, 116; Grombach to Yeaton, February 25, 1977, Yeaton Papers.

a network of assets, but it was heavily weighted toward the Hungarian aristocracy. With the leftists firmly in control and supported by the occupying Soviet army, this was not satisfactory.<sup>33</sup> McCargar set out to expand the network, which he was able to do by the fall of 1946. These sources reported on the infighting among the parties of the left and on the communists’ slow and inexorable takeover. They were even able to provide transcripts of Hungarian cabinet meetings.<sup>34</sup>

Some of McCargar’s sources were eager for tangible US support in their struggles against the communists. One, a Socialist member of the communist-dominated Trade Union Council, believed

<sup>32</sup> Grombach to Fuqua, 19 November 1973, Simpson file; “Paraphrase of State Department Cable” 842 Lisbon to Secretary of State, Washington, 18 March 1944, NARA, RG 319, Entry 58, 270/7/26/06-7 Box 36, Folder 1; compare with Nicholas Horthy, *Admiral Nicholas Horthy: Memoirs, Annotated by Andrew L. Simon* (Safety Harbor, FL: Simon Publications, 2000), 253–7, at [www.net.hu/corvinus/lib/horthy/horthy.pdf](http://www.net.hu/corvinus/lib/horthy/horthy.pdf).

<sup>33</sup> Felix, 170–75; also, McCargar OH, 113–4.  
<sup>34</sup> “Their Man in Budapest: James McCargar and the 1947 Road to Freedom,” *Hungarian Quarterly*, XLII, No. 161 (Spring 2001), published on <http://www.hungary.com/hungq/no161/038.html>; Felix, 195–200.

that a total communist takeover was inevitable, and he wanted to create an underground network that would operate in a communist Hungary. He sought radios to keep in contact with the West when the time came. In May 1947, McCargar returned to Washington for consultations, first with the head of Foreign Activity Correlation Division, then with Grombach himself. Grombach vetoed the provision of radios but was willing to entertain other forms of support. He felt, however, that he lacked the authority to approve such activities, and he allowed McCargar to brief Charles E. Bohlen, counselor at the department. Bohlen nixed the idea, but he said he would consider allowing McCargar to exfiltrate Hungarian political leaders who had lost the battle against communism and some of McCargar’s sources. When the communists finally consolidated their power later that year, McCargar, working with a Central Intelligence Group officer posted in Vienna, brought out 75 Hungarians.<sup>35</sup>

### Move to the State Department

Pursuant to the Pond’s charter that it should be a “a perpetual, a far-seeing, a far-distant, continuing secret intelligence service,” in December 1943, Charles Stevenson, Grombach’s executive officer, had already laid out a plan of

<sup>35</sup> Felix, xii, 220, 262; author’s interview with McCargar, 19 January 2003, Washington, DC.

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action for the post-war period. In a paper titled “Post-War Intelligence Aims,” he argued that the Pond should live on. Stevenson believed that G-2 would have to pay close attention to Germany and Japan to prevent them from again trying to “conquer the world.” He did not mention the Soviet Union, but he clearly had it in mind when he argued that the intelligence system should also be on the lookout for other nations that may seek “world domination” through “revolution or conquest.”

In order to do all this, it would be necessary to maintain a “secret, independent, and exclusive” system for the clandestine collection of intelligence. This system should not be the OSS, Stevenson thought, though he admitted that the Pond was “infinitesimal” by comparison, and its work had proceeded slowly, not just because of the lack of resources, but also because “an efficient secret intelligence system cannot be built overnight.” However, this methodical approach was now beginning to show results and hopefully these results would allow G-2 to be chosen as the post-war secret intelligence agency. Significantly, Stevenson suggested that if G-2 were not allowed to do this, then State Department should receive the nod.<sup>36</sup>

<sup>36</sup> Lt. Col. C. G. Stevenson memorandum, “Post-War Intelligence Aims,” NARA RG 59, Entry 1491, Box 1, Folder “Post War Intelligence Plans.”

Shortly after the war ended, Stevenson’s plan, indeed the Pond’s very existence, was challenged. In 1946, Director of Central Intelligence Hoyt Vandenberg started to consolidate power in the CIG. He consulted the secretary of war and convinced him that the CIG should be a more robust organization and in particular that clandestine collection should be centralized there. Confident now that the National Intelligence Authority (NIA)—the real decision making authority—would do the right thing, Vandenberg took the matter to the Intelligence Advisory Board (IAB), which consisted of the intelligence chiefs of the services, the State Department, and the FBI. The G-2, Gen. Chamberlin, opposed centralization of clandestine collection, but, with the secretary of war holding the opposite view, he had no room to maneuver. In late June, the IAB unanimously agreed that centralization should take place, and the next month the NIA agreed.<sup>37</sup>

<sup>37</sup> *National Security Act*, 6 and 46; C. Thomas Thorne Jr., et al., eds., *Foreign Relations of the United States, 1945-1950: Emergence of the Intelligence Establishment*, (Washington, DC: United States Government Printing Office, 1996), 369-92.

Before any attempt was made to close the Pond, however, its “group chiefs” came to Vandenberg and said they would like to work for the CIG. Vandenberg took this under advisement, though it is doubtful that he considered it very seriously. Not long thereafter, a CIG “operative” was in a bar, apparently in France, and overheard several people talking about intelligence operations. After they left, the CIG operative approached the bartender, who provided the names and addresses of the Pond officers. The incident was reported to Vandenberg. Given this horrible lack of discretion, Vandenberg told Congress, he was certainly not able to incorporate the Pond into the CIG.<sup>38</sup>

By early 1947, the Pond was under serious pressure. Grombach wrote in his diary in February “[CIG] on tail—out to get me.”<sup>39</sup> He was right. In April Vandenberg and Adm. Roscoe Hillenkoetter (Vandenberg’s soon-to-be successor) signed a joint letter to the G-2 that its secret intelligence operations “should be discontinued with the least practicable delay.”<sup>40</sup> The Pond was so desperate that for the first time it publicly revealed its existence, leaking word to the *New York Times* that the NIA had “compelled the War Department to liquidate its world-wide secret intelligence network.”

<sup>38</sup> *National Security Act*, 8.

<sup>39</sup> Grombach Diaries, 19 February 1947.

<sup>40</sup> NARA RG 263, Entry “DCI Documents,” Box 6, Folder 500 “Regarding Diary Rear Admiral R.H. Hillenkoetter.”



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**By the fall of 1950, the bloom was definitely off the rose in Grombach's relationship with the State Department.**

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Despite its “important contribution,” the Pond was being “supplant[ed]” by the new CIG. Its dissolution was said to be “difficult and expensive.”<sup>41</sup>

In the end Grombach and his allies lost the battle, and the CIG's exclusive authority over clandestine operations, which it had not yet really exercised, was transferred to the new CIA, which had every intention of exercising it. Nonetheless, in late 1947 or early 1948 the Pond somehow found a new sponsor, the State Department, which secretly funded the organization, though at only \$100,000 per year, a pittance compared with the \$600,000 the War Department had pumped into the project in its last year there.<sup>42</sup>

The Pond was controversial at the State Department, at least among the few people who knew about it. According to McCargar it was the “subject of some burning discussions at the top levels of the Department,” which was rumored to be having trouble hiding the Pond's budget within its own. Christian Ravndal, the director general of the foreign service, at one point asked McCargar to brief a skeptical Norman Armour, assistant secretary for political affairs, on the merits of the Pond.<sup>43</sup>

By the fall of 1950, the bloom was definitely off the rose in

Grombach's relationship with the State Department. Despite a brief hope during the summer that the department might increase its annual funding to half a million dollars, Grombach had a serious dispute with the R Area, as INR was called at the time.<sup>44</sup> In September 1950, he entered a diatribe into his diary that he had been accused of some sort of malfeasance; he railed at what he described as a hoax, frame-up, or communist plot, and he warned the R Area against “starting [the] whole business without proper proof or evidence.” He told his diary that he would “deny everything,” and he laid out two possible outcomes: that the Pond would wrap up its operations over a six-month period and that the CIA would be informed, apparently of the Pond's continued existence. In the latter case, however, he warned that “we cannot be responsible for blown fuses, arrests, compromise, serious embarrassments to [the] State [Department] nor any means or necessary actions we may have to take to protect ourselves [and] our people.”<sup>45</sup>

That same month, Grombach approached the G-2 noting that a

“certain government agency” had been funding its operations, but the money was drying up. He offered to work for the Army again, for \$20,000 a month, adding that if the Army wasn't interested, perhaps it could recommend to DCI Walter Bedell Smith, that CIA pick up the contract. The Army took Grombach's offer seriously but in January backed off after consulting with J. Raymond Ylitalo, assistant chief of the department's Security Division, which by this time had inherited the Pond liaison role. Asked to evaluate the Pond's material Ylitalo responded that “in all frankness [he] could describe it in only one word, ‘crap.’”<sup>46</sup>

### The CIA Takes Over

Though it is not clear whether the Army recommended Grombach to DCI Walter Bedell Smith or not, Grombach was soon propositioning the CIA, and State was soon preparing to hand off the Pond to a new sponsor, one from whom it had until recently been hiding the Pond's very existence. Smith asked his deputy, Allen Dulles, to consider the Pond's work and make a recommendation. Dulles turned the task over to Lyman Kirkpatrick, who ultimately recommended hiring the group, a recommendation he would later regret.<sup>47</sup> The two

<sup>41</sup> Leviero.

<sup>42</sup> Grombach Diaries, 29 June 1948 and 9 August 1949.

<sup>43</sup> McCargar OH, 152-3.

<sup>44</sup> Grombach Diaries, 9 July 1950.

<sup>45</sup> Grombach Diaries, 8 September 1950.

<sup>46</sup> Director, Plans, Programs and Security memorandum to Assistant Chief of Staff for Intelligence (US Army), 5 September 1958, Simpson file.

sides turned to Adolf Berle, who by then had left the State Department to practice law.<sup>48</sup> In late March 1951, Dulles, Kirkpatrick, Grombach, his deputy, and a State Department officer initialed an agreement in Berle's office.<sup>49</sup>

Grombach's relationship with CIA was rocky from the start. It must have been difficult for Grombach to subordinate himself to someone he found as loathsome as Allen Dulles, who in 1947 had testified before Congress in favor of centralizing clandestine collection in the CIA, directly opposing Grombach's testimony at the same hearing. Grombach, while admitting that Dulles had significant intelligence experience, thought the Gestapo had "covered him like a tent" when he was the OSS man in Switzerland.<sup>50</sup> In private correspondence Grombach complained bitterly about the "egomania of a really very stupid and morally dishonest tho [sic] allegedly religious family:" the Dulles'.<sup>51</sup>

Grombach again was angered by the wholesale "elimination" of many Pond reports, the same concern he had had about Alfred McCormack during World War II.

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In fact, the first CIA liaison officer with the Pond was a former McCormack subordinate.<sup>52</sup> For example, Grombach clashed with the CIA over the ideological reliability of Otto John, the head of Germany's internal security service. With grim satisfaction Grombach later noted that John defected (apparently—the circumstances remain murky to this day) to East Germany shortly after meeting in Washington with Allen Dulles.<sup>53</sup>

A similar case involved Pond collection from South America. In September 1951, the Pond started a collection effort in Uruguay and Argentina centered on a "tested reliable European diplomat" with extensive intelligence experience whom Grombach called "DAHL." To Grombach's annoyance CIA "eliminated" much of the reporting from DAHL's network. Particularly irksome was the Agency's rejection

of a stream of reporting indicating that a particular Uruguayan official was a communist. CIA sent back comments such as "conjecture based on source's evident bias against [the official] who, according to the weight of evidence here, is definitely anti-Communist." Ultimately, CIA instructed the Pond to "stop [these] reports until source sends some proof." Grombach saw this as not only more CIA incompetence and softness but also protection of a man he believed to be a recruited CIA asset. In Grombach's telling, the man was later publicly revealed to be a communist.<sup>54</sup>

Grombach was also irked that the CIA repeatedly urged him to name the Pond's sources. Lyman Kirkpatrick later wrote that the Pond tended to change source descriptions on "the rather paranoid grounds that we would be able to discover the real source if they provided identical descriptions on each report from that source." This behavior only increased the Agency's desire to find out who they really were.<sup>55</sup> From the Pond's point of view this was an unacceptable demand. Not only would it "break faith" with their sources, but it "would also destroy the organization's usefulness as a secret intelligence collecting agency and independent check." Moreover, "even if sources were divulged,

<sup>47</sup> Lyman B. Kirkpatrick, *The Real CIA* (New York: The Macmillan Company, 1968), 150.

<sup>48</sup> Adolf Berle Diaries, 28 September 1948, University of Maryland Library.

<sup>49</sup> Berle Diaries, 22 March 1951.

<sup>50</sup> Grombach to Sokolsky, 22 July 1954, Sokolsky Papers.

<sup>51</sup> Grombach to Sokolsky, 6 November 1956, Sokolsky Papers.

<sup>52</sup> "The Otto John Case," Unpublished manuscript, Simpson file. This undated, unsigned manuscript was clearly written by Grombach or a close associate; internal evidence puts it at late 1954; McCormack to May, 16 March 1946, NARA, RG 59, Entry 1561, 250/62/04/03, Folder "Col. McCormack vs. Congressman A. May."

<sup>53</sup> "The Otto John Case," including Appendices A and B.

<sup>54</sup> "Memorandum Concerning Handling of Our Counter-Intelligence Reports from Uruguay," 11 August 1952, appended to "The Otto John Case."

<sup>55</sup> Kirkpatrick, 150.

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CIA's concept and approach are so violently monopolistic and competitive that it uses dishonest, unethical, and ridiculous means to eliminate reports, discover and sabotage operations and attempt to discover and take over systems, nets and source in the field.<sup>56</sup>

The fear of Grombach and his associates that CIA sought to “discover and take over” their sources was not as “paranoid” as Kirkpatrick suggested. From the end of World War II to the early 1950s, the CIA and other Western intelligence agencies faced a major problem with “paper mills.” These were small private intelligence organizations that sold reports from unnamed but “well-placed” sources behind the Iron Curtain. The CIA had to exercise some quality control, and it found that rather than investigating the substance of each report it was often more fruitful to investigate the operational mechanism which had produced it. The Agency's *modus operandi* was to buy a few reports from the middleman and if the material seemed interesting, to try to identify his sources so their *bona fides* and access could be assessed directly. This would entail extensive investigation, perhaps even wiretaps and physical surveillance.<sup>57</sup> By the time CIA ended its relationship with Grombach it had deter-

mined that one of the Pond's networks was feeding directed information and that many of the Pond's other sources were “paper mills.”<sup>58</sup> It may have been a CIA investigation of DAHL that led to the end of that operation; by the fall of 1953 Grombach was complaining to his diary about “falsehoods” about DAHL and blaming the CIA station chief for the fact that DAHL could never be sent back to Montevideo because he was “irrevocabl[y] absolutely burned.”<sup>59</sup>

Grombach also clashed with the CIA over the Pond's relationship with the FBI. Since 1942, the Pond had given the FBI copies of all of its reports that dealt with counterintelligence. The CIA reaffirmed this practice in 1951, when it signed its contract with Grombach. However, in April 1952, the Pond sent to CIA and FBI a report about a French official who had recently met in Washington with senior Americans. This official had been spreading around Paris the details of his conversations, including DCI Smith's frank comments about the US Intelligence Community. Angered by this indiscretion, CIA ordered the

Pond to stop forwarding its reports to the Bureau. Grombach did not comply, arguing privately that “this was not a case of turning over [to the FBI] government classified information—but of giving information reaching us, as a private organization from our private sources in the field, to the organization responsible for the internal security of the United States.” Accordingly, in April 1953 behind CIA's back, the Pond sent a memorandum to the FBI warning it of an impending CIA-sponsored visit by Otto John to Washington in order that action might be taken to prevent him from seeing US classified information.<sup>60</sup>

By January 1953 Grombach feared that the Agency might not renew its annual contract, which was up in August. His inclination was to appeal to DCI Smith, with whom he had a generally positive relationship. However, Smith's health was failing, and Grombach decided to wait until a successor was named and try to work with a new, more vigorous DCI.<sup>61</sup> A new DCI did take over on 26 February 1953. Unfortunately for Grombach, it was Allen Dulles, who continued to be concerned about the quality of the Pond's reporting and the identity of its sources. Grombach, for his part, continued his annoying habit of reporting derogatory information on CIA personnel or

<sup>56</sup> “The Otto John Case.”

<sup>57</sup> Richard Helms, *A Look Over My Shoulder* (New York: Random House, 2003), 92–99.

<sup>58</sup> Kirkpatrick, 153.

<sup>59</sup> Grombach Diaries, 14 September 1953 and 14 October 1953.

<sup>60</sup> “The Otto John Case,” including Annexes G and J.

<sup>61</sup> Grombach to Sokolsky, 20 January 1953, Sokolsky Papers.

on foreigners he suspected were CIA assets.

Grombach knew his situation was untenable, and he did not enjoy working for Dulles. So he turned to a like-minded individual on Capitol Hill, Senator Joseph McCarthy. Though Grombach's appointment books show that he had regular direct contact with a few members of Congress and sporadic contacts with several others, there is no evidence that McCarthy was one of them, at least until 1954. What Grombach did have were connections to McCarthy associates, including a close relationship—featuring frequent leaks of Pond materials—with columnist George Sokolsky, a confidant of both McCarthy and his right-hand man, Roy Cohn.<sup>62</sup> In January 1953, Grombach wrote to Sokolsky: "If my contract as consultant in my extracurricular field winds up as of August 15, 1953, I would like to place my experience, contacts and abilities, and perhaps my organization, at the disposal of Congress...Perhaps you can very cautiously and delicately discuss the availability of 'an anonymous party'...being available on a part-time basis."<sup>63</sup>

These blandishments soon came to the attention of the CIA, which was very displeased.<sup>64</sup> The

<sup>62</sup> Grombach to Sokolsky, 13 August 1954, Sokolsky Papers, Box 57, Folder "Grombach, John."

<sup>63</sup> Grombach to Sokolsky, January 20, 1953, Sokolsky Papers, Box 57, Folder "Grombach, John."

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**The Agency had good reason to be angered, because that summer Senator McCarthy turned his sights on it.**

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Agency had good reason to be angered, because that summer Senator McCarthy turned his sights on it. In July, he called Allen Dulles to Capitol Hill and gave him a list of 12 alleged security risks working for the CIA. Dulles brought the list back to Headquarters and told Lyman Kirkpatrick to investigate. As Kirkpatrick studied McCarthy's list and the allegations made about the people on it, he experienced a sense of *déjà vu*. "We went back and checked the files and sure enough some of the phrases were identical to so-called 'dirty-linen' reports that the [Pond] had fed to us about our own people, and some of the names were identical with those that the [Pond] regarded as sinister."<sup>65</sup> Kirkpatrick concluded that Grombach was feeding McCarthy.

The precise truth remains murky, but the evidence suggests that McCarthy or his staff may have sought a face-to-face meeting with Grombach to which the latter was reluctant to agree. In mid-October 1953, Grombach wrote in his diary that some unspecified dispute "must be solved" because at stake were the Pond itself, his personal reputation, and the security of the CIA.

<sup>64</sup> Grombach Diaries, 10 May 1953.  
<sup>65</sup> Kirkpatrick, 151-2.

Strangely, however, he went on, "McCarthy['s] approach I have always turned down but if this goes in [I] will definitely do so [sic] to protect myself."<sup>66</sup> The indirect contacts went on, however. In December 1953, Grombach sent Sokolsky a memorandum containing a long list of complaints about wartime communist influence in the G-2, focusing particularly on Alfred McCormack and his subordinates. A Sokolsky assistant wrote on it "attached is a copy for Roy," a probable reference to Roy Cohn.<sup>67</sup> Four months later, Grombach discussed the president, the Pond, McCarthy, and Project 1641 with Jack Clements, editor of the conservative *American Mercury*. Project 1641 was potentially a hot topic at the time because the Army-McCarthy hearings were then underway.<sup>68</sup>

During the McCarthy-CIA fight, Dulles organized a group to keep tabs on McCarthy's activities and to feed the senator disinformation. James Angleton and James McCargar, who by this time was out of government, were lunching one day, when Angleton mentioned that he knew of the other's work with the Pond in Hungary. Angleton described his concerns about Grombach and asked McCargar to meet with Grombach from time to time and report back. But Angleton wanted something more. He

<sup>66</sup> Grombach Diaries, 14 October 1953.

<sup>67</sup> Blind memorandum, December 1953, Sokolsky Papers, Box 57, Folder "Grombach, John."

<sup>68</sup> Grombach Diaries, 23 April 1954.

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arranged to provide McCargar with false information, supposedly acquired in France, which would appear derogatory to CIA. Angleton hoped Grombach would pass the materials to McCarthy, who would use them. They could then be discredited, embarrassing the senator and hopefully throwing him off the CIA. In order to provide a pretext for giving this information to Grombach, McCargar was to hint that he wanted back in the intelligence game.

McCargar met several times with Grombach. As he related it years later, Grombach was “absolutely furious at the CIA” for a variety of reasons and he “kept threatening to go to McCarthy. And he did.” Two or three times McCargar successfully passed the phony reports. Between reporting on Grombach and misinforming Grombach, McCargar’s mission was deemed so successful that Angleton arranged a meeting with Dulles at Dulles’ home on Wisconsin Avenue. There, the DCI was extravagant in his praise, “you’ve saved the Republic,” he told McCargar.<sup>69</sup>

Finally, in 1954, the CIA decided that it had had enough of Grombach’s scheming and questionable products and would not renew the Pond contract when it ended on 15 August. Kirkpatrick decided to have it

<sup>69</sup> Author’s interview with McCargar and Burton Hersh, *The Old Boys: The American Elite and the Origins of the CIA* (New York: Charles Scribner’s Sons, 1992), 327.

out with Grombach. He confronted him about the contacts with McCarthy. “After a bit of blustering and blowing,” Grombach admitted that he had given information to McCarthy and that it was not only his right to do so, but also his responsibility. “He went on to say that he had proposed to Senator McCarthy that his entire organization work for the Senator in doing nothing but investigating employees of the United States government.”<sup>70</sup> Grombach’s diary indicates that shortly thereafter he met with McCarthy, but no help was forthcoming from the senator.<sup>71</sup>

Not long after, on New Year’s Day 1955, all Pond operations, came to an end, save two that CIA continued briefly. Grombach tried to find new sponsors and suggested that if the security and existence of the Pond were protected, it could be used as an emergency wartime intelligence system. He found no takers. The last two operations ended on 30 April and with them ended the Pond’s idiosyncratic existence.<sup>72</sup>

<sup>70</sup> Kirkpatrick, 152–3.

<sup>71</sup> Grombach Diaries, 27 July 1954.

### Assessing the Pond

The record of the Pond appears to be largely one of failure and impermanence. Grombach was a strong proponent of a truly secret, unacknowledged espionage organization and created the Pond along those lines. However, that strategy never caught on as the US Intelligence Community took shape. In 1946, at least one senior officer of the Strategic Services Unit (the only component to survive the dissolution of OSS after the war) proposed precisely such a set-up, but the suggestion was rejected. The Pond would not have been a good candidate to fill the role in any event.<sup>73</sup> Even in 1946 few in Washington knew of the existence of the group, which was still very small and with few or unknown successes and a leader who had created numerous enemies.

The story of the Pond demonstrates the importance of collection as an official function of the US government wherever possible. The Pond joins a long list of intelligence organizations over the past 60 years—the paper mills of the early Cold War, the Gehlen organization in its early years, and more recently the Iraqi National Congress are

<sup>72</sup> Grombach Diaries, frontispiece, 1955; John Bakeless, draft Grombach obituary, and “The Otto John Case,” Simpson file.

<sup>73</sup> Warner, Michael, “Prolonged Suspense: The Fortier Board and the Transformation of the Office of Strategic Services,” *The Journal of Intelligence History*, Summer 2002: 72.

all candidates for inclusion on this list—that have been able to peddle tainted intelligence because their operations were insufficiently transparent in Washington. As was the case with many of the others, the Pond's independence allowed it to play one American agency off against another, in this case particularly the FBI and the CIA. The Pond's exclusive ownership of its product meant that Grombach could disseminate to the FBI or other agencies information that the CIA might have been able to determine was bad.

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Such independent organizations would be justified, indeed would be indispensable, if they were the only ones capable of providing useful information or other intelligence benefits. Did the Pond meet that test? The words and actions of such men as Ray Yli-

talo, Lyman Kirkpatrick, and Allen Dulles suggest that the answer is no. However, the available record provides no real way of checking their assertions; almost no Pond reporting is available, and the file on Pond operations is comparably thin. It would be analytically dangerous to allow our assessment of the Pond to depend primarily on the assertions of its enemies. Accordingly, the question of the Pond's contributions to the history and development of US intelligence must remain open, just a crack.



In 1967, the superintendent of the US Military Academy (left) and the Commandant of Cadets from 1919-23 (second from left) awarded Grombach the diploma originally denied him. On the right stands Charles Stevenson, Grombach's executive officer during WWII. Grombach died in 1982.

US Military Academy photograph.