

PRESIDENTIAL MISCONDUCT

FROM
GEORGE WASHINGTON
TO TODAY

EDITED BY
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RONALD REAGAN

1981–1989

Jeremi Suri

Ronald Reagan defined his presidency as an antidote to what he called “big government.” His argument was persuasive because it was moralistic: “Man is not free unless government is limited.”¹ Limited government for Reagan did not mean fewer services for citizens: government spending on Social Security and other programs increased during his presidency. Limited government meant less regulation and oversight of economic activities. During Reagan’s presidency, the federal government reduced its efforts to reverse inequality, the dominance of large corporations, and greed.

A modest man in his habits and attitudes, Reagan did not succumb to greed himself. In fact, he conducted himself in a remarkably simple, often abstemious, manner as President. Reagan did not profit from the presidency, and he sought—with the notable exception of the illegal Iran-Contra maneuvers—to act within the constitutional expectations of a public servant accountable to the other branches of government and, ultimately, to the American people.

Reagan’s dislike of government regulation, however, enabled a pervasive diversion from strict ethical rules of conduct within his administration. There were fewer daily checks from the Oval Office on self-interested behavior among various aides. The President trusted his loyalists, and he empowered them to act with little oversight. Although he followed a strong personal ethical code, Reagan did not articulate one for those who worked around him. Administration employees received little guidance from the President and suffered few immediate consequences for misbehavior. When legal and ethical concerns about

the executive branch came to his attention, Reagan largely avoided discussing the topic with his advisers. He was averse to personal conflict, and he preferred to avoid the appearance of presidential interference. Enforcing ethics in government, according to Chief of Staff James A. Baker III, was not a "big thing" for Reagan. "I don't think it was something in the big picture."²

Reagan's negligence in promoting ethics among his subordinates made his administration the most scandal-ridden since Watergate. At times, it appeared to replay some of that same history, with televised congressional investigatory hearings and serious talk of impeachment. In contrast to Nixon, however, Reagan was generally a law-abiding president. Yet he did not punish (and he sometimes rewarded) those around him who flagrantly broke the law. As a result, numerous prominent Reagan administration officials were convicted of crimes, some went to jail, and many ended their careers in disrepute. Independent Counsel investigations and prosecutions multiplied throughout his term in office.

The gravest irony of the Reagan administration was that its aversion to big government swelled the coffers of those privileged officials who controlled government. Managerial negligence and deregulation encouraged corruption and lawbreaking. Anti-communist zealotry empowered unconstitutional militarism. The government did not diminish in size during Reagan's presidency, but instead grew larger than before. And it became less tethered to the law.

Corruption at the Environmental Protection Agency

Created by President Nixon in 1970, the Environmental Protection Agency (EPA) was a priority target for the Reagan administration's efforts to shrink government. Speaking to the nation on February 5, 1981, the President explained, "Regulations of every kind, on shopkeepers, farmers, and major industries, add \$100 billion or more to the cost of the goods and services we buy."³ Too many of these regulations, he believed, emanated from EPA rules to protect clean water and air. Large oil and chemical companies, in particular, resented EPA constraints on their production, distribution, and disposal of key ingredients.

Reagan appointed two leaders of the EPA who promised to cut back on the agency's regulatory work. Anne M. Gorsuch—a strong advocate

of deregulation and a former Colorado state legislator—became the administrator of the agency. Rita M. Lavelle, a California Republican Party activist, former assistant to then Governor Reagan, and lobbyist for large chemical companies, became the EPA's assistant administrator.

Immediately, Gorsuch and Lavelle curtailed EPA actions against companies and cut personnel to the point of reducing the agency's budget by 25 percent. The EPA had on its books \$700 million in outstanding fines due from businesses that violated environmental laws, but under Gorsuch and Lavelle the agency collected only \$40 million. EPA leaders began meeting frequently, often in secret, with industry leaders, and they sought to use the agency to facilitate company activities, not hold them accountable to environmental laws. In many cases, the EPA intentionally neglected law enforcement that would be costly to corporate allies. This was an obvious and extreme case of "regulatory capture"—the use of government resources for profit, not public protection. It was clearly illegal.⁴

As evidence of the EPA's collusion with industry spread, the leaders of the agency attacked whistle-blowers, which was also illegal. Hugh Kaufman, a longtime EPA employee who revealed some of the illegal meetings, was followed to a hotel where agency investigators alleged he was having an affair with a woman. In fact, the woman at the hotel was his wife. "They thought they could squeeze me by checking out my sex life," Kaufman recounted.⁵

Gorsuch went further in her cover-up efforts. Even when subpoenaed, she refused to share documents on industry meetings and environmental cleanup efforts with Congress. Reagan initially backed Gorsuch, claiming "executive privilege" over the documents. Members of both parties in Congress, however, rejected this claim as an abuse of executive power. On December 16, 1982, the House of Representatives voted overwhelmingly (204 Democrats and 55 Republicans in favor) to cite Gorsuch for contempt of Congress. She was the first Cabinet-level official ever held in contempt.⁶

The political costs of Gorsuch's scandalous behavior had now grown too high for the President. With the encouragement of the White House, she resigned in March 1983. The EPA also turned over the subpoenaed documents to Congress, which brought further attention to the agency's illegal behavior. President Reagan brought back William D. Ruckelshaus,

the founding administrator of the EPA in 1970, to restore the agency to its mission of public service.

Reagan had also fired Rita Lavelle in February 1983, a rare move by a President who avoided personnel conflicts. Six different congressional committees had begun investigations of her alleged negligence in administering EPA "superfunds" for toxic waste cleanups as well as her favoritism to chemical industry leaders. Less than a year later, Lavelle became the first convicted Reagan administration felon. A federal judge sentenced her to six months in prison and a \$10,000 fine for lying to Congress. Lavelle also received a sentence of five years' probation and mandatory community service for obstructing a congressional investigation. The judge spoke for many observers when she demanded that Lavelle and other Reagan appointees at the EPA recognize the "injury you have caused to the Federal Government, to yourself, and to all of us as citizens."⁷

Grant Rigging at the Department of Housing and Urban Development

A similar assessment applied to the officials Reagan appointed at the Department of Housing and Urban Development (HUD). In 1989, an Inspector General's report revealed that HUD's Section 8 Moderate Rehabilitation Program, budgeted at more than \$350 million each year during the Reagan presidency, had been captured by developers and politicians, who used the government's resources to enrich themselves and support their chosen candidates, not the needs of those living in poor housing conditions. The Inspector General documented how seventeen well-connected individuals in the Republican Party had received direct payments for their assistance in procuring HUD contracts for real estate developers. More than \$2 billion of taxpayer money had been diverted from housing assistance to corrupt purposes.⁸

Samuel R. Pierce, Jr.—a prominent attorney, longtime Republican official, and the only African American in Reagan's Cabinet—served as Secretary of Housing and Urban Development during both presidential terms. His leadership came under close scrutiny from Congress, the Justice Department, and the Inspector General. Despite his evident negligence, Pierce escaped prosecution. Seventeen others—including Pierce's executive assistant, Deborah Gore Dean—were convicted of fraud,

bribery, and perjury. In 1990 the House Government Operations Committee concluded, "At best, Secretary Pierce was less than honest and misled the subcommittee about his involvement in abuses and favoritism in HUD funding decisions. At worst, Secretary Pierce knowingly lied and committed perjury during his testimony." An Independent Counsel investigation reported that Pierce "created an atmosphere at HUD that allowed influence-peddling to go on."⁹

The most prominent Reagan administration adviser convicted in the HUD scandals was Interior Secretary James G. Watt. An outspoken critic of environmentalists, Watt was a controversial Reagan Cabinet appointment; strongly opposed by Democrats, he had firm support from Western Republicans who sought fewer restrictions on land usage. Watt resigned from the Reagan administration on October 9, 1983, after two stormy years at the Department of the Interior, following a particularly offensive remark about how he populated government commissions: "We have every kind of mixture you can have. . . . I have a black, I have a woman, two Jews and a cripple. And we have talent." Watt resigned before the likely passage of a Senate resolution calling for his removal.¹⁰

Watt was not deterred from his continued aggressive and self-serving behavior. Immediately after leaving the Department of the Interior, and against federal prohibitions, he worked as a high-paid lobbyist for real estate developers seeking contracts from HUD. When investigated, he lied about his activities and sought to hide subpoenaed documents. Watt was indicted on twenty-five felony counts, and he ultimately pleaded guilty to a single misdemeanor. He was sentenced to five years' probation, a \$5,000 fine, and 500 hours of mandatory community service. The punishment was light, but few doubted his active participation in HUD corruption.¹¹

Illegal Lobbying by Reagan Confidants

Federal regulations prohibit government officials and those who have recently left office from using their positions to enrich themselves, their families, and their associates. Violation of these regulations by Reagan's close advisers was a systemic problem, and it was an area in which the President's ethical reticence encouraged corrupt behavior. Chief of Staff

Baker was the notable exception. He was one of the few people around the Oval Office who escaped prosecution.

The same could not be said for Michael K. Deaver. He had worked with Reagan since his governorship in California and, serving officially as Deputy Chief of Staff, had done more than anyone else to manage the President's image. Deaver left the White House in 1985, the beginning of Reagan's second term, to form his own lobbying firm. He used his personal connections with the White House to arrange meetings for wealthy clients from South Korea, Puerto Rico, and the United States. When questioned by Congress and a grand jury, Deaver lied and withheld information. When prosecuted, Deaver's only defense was alcoholism. He received a three-year suspended prison sentence, was placed on probation, and fined \$100,000. Another close associate of Reagan and Deaver, Lyn C. Nofziger, received a similar punishment for illegal lobbying, including ninety days in prison and a \$30,000 fine.¹²

Edwin Meese III went even further in his abuse of government influence for private gain. He had also worked for Reagan since 1967, and he became Counselor to the President with cabinet rank in 1981. During Reagan's second term, beginning in 1985, he served as Attorney General. In both these roles, Meese was continually surrounded by scandals of his own making.

In April 1988, Deputy Attorney General Arnold I. Burns and Assistant Attorney General William F. Weld (later Governor of Massachusetts) advised Reagan that Meese was so corrupt that he should be fired and prosecuted immediately. A report by the Justice Department's Office of Professional Responsibility concurred, explaining that Meese had pursued "conduct which should not be tolerated of any government employee, especially not the attorney general." Reagan inexplicably allowed Meese's illegal conduct to continue, and he never fired him. Meese resigned in July 1988, following a fourteen-month criminal investigation of his activities that did not result in prosecution but revealed extensive evidence of misdeeds.¹³ Meese's illegal activities included failure to report reimbursements on more than thirty trips as White House Counselor, and, even more suspicious, failure to report personal loans he received from individuals (John R. McKean and Edwin W. Thomas) whom he helped appoint to government positions.

Meese also repeatedly used his White House influence to promote businesses in which he had a personal financial interest. Meese helped a small New York manufacturer, Wedtech, obtain a number of no-bid defense contracts. This was bad enough, but Meese once again failed to report important information: his personal \$60,000 investment with one of Wedtech's principals.¹⁴

In 1985 Meese, then Attorney General, intervened in complex negotiations between Israel, Iraq, Jordan, and the Bechtel Corporation in California to build an oil pipeline through the Middle East. Meese lobbied National Security Adviser Robert C. McFarlane as well as Israeli Prime Minister Shimon Peres on behalf of business associates at Bechtel, from whom he personally profited. Meese may have been the least ethical of Reagan's closest advisers; he relied on the President's continuing willingness to excuse his behavior.¹⁵

Pentagon Bribes and Kickbacks

Reagan's tolerance of Meese and other unethical figures in the White House contributed to a wider culture of illegality throughout the administration, particularly in the Pentagon. Reagan's military buildup meant that the Department of Defense received a quick and enormous infusion of money for procurement of weapons and related technologies. This was especially true in the U.S. Navy, where the President pledged to build the largest force ever—one of 600 ships. Vast ambitions, massive funding, and limited ethical enforcement created many predictable temptations to corruption.

Melvyn R. Paisley, Reagan's Assistant Secretary of the Navy with primary responsibility for procurement, exploited the circumstances. Colluding with an arms sales consultant, William M. Galvin, Paisley received secret kickbacks on large contracts offered to industry giants, including Unisys, Loral, Martin Marietta, United Technologies, and Paisley's former employer Boeing. Millions of dollars flowed through a shell company, Sapphire Systems, which Paisley and Galvin had created. In addition to these illegal kickbacks, Paisley demanded direct bribes in cash and in kind for his influence in awarding an ever-growing list of Navy contracts. This corrupt process raised costs for the Pentagon, and it limited innovation and quality. The Reagan buildup became a

boondoggle for military contractors, consultants like Galvin, and corrupt officials, especially Paisley.¹⁶

The Federal Bureau of Investigation (FBI) and the Naval Investigative Service (NIS) received information about Paisley's activities in 1986. Working secretly with defense contractors and Pentagon employees, as well as with partners in the Air Force and Internal Revenue Service, the FBI and NIS oversaw the largest and most successful investigation of Pentagon fraud in U.S. history. Code-named "Operation Illwind," the investigation led to more than sixty prosecutions of contractors, consultants, industry leaders, and Pentagon officials. The investigation also yielded \$622 million in fines, recoveries, restitutions, and forfeitures. It led to the passage of stricter oversight measures for federal procurements and new limits on lobbying activities. Paisley received a four-year prison sentence and a \$50,000 fine.¹⁷

Savings and Loan Crisis

The Pentagon scandal had an even more costly and corrupt analogue in banking. Ronald Reagan was one of many Americans who revered the image of the local savings bank that paid a modest interest rate to small depositors and invested generously in families buying their first homes. Since 1933, when President Franklin D. Roosevelt created federal insurance for these banks, they had fueled the rise in family home ownership across the United States. With stable interest rates through the mid-twentieth century, savings banks continued to attract depositors who provided the capital for family mortgages, with additional subsidies to them from federal programs like the G.I. Bill and the Federal National Mortgage Association (FNMA, commonly known as Fannie Mae).

The high inflation and market volatility of the 1970s undermined this system. Depositors began to place their money in alternative investments, where they could receive higher rates of return. Long-term mortgages held by savings banks with low interest rates no longer covered the cost of acquiring capital for new mortgages at much higher rates. As part of its commitment to deregulation, the Reagan administration worked with a Democratic Congress to make savings banks

more competitive. The consequence was that they became less secure and more open to corruption.

Donald T. Regan led the administration's efforts. The former CEO of Merrill Lynch, one of the largest investment firms in the United States, Regan served as Secretary of the Treasury in Reagan's first term then the President's Chief of Staff from February 1985 to February 1987. Regan saw obvious value in a more freewheeling banking system, and he had faith in the wisdom of bank leaders. At the same time, he wanted the federal government to continue to insure against risk.

Regan worked with Congress in the early 1980s to reduce the capital reserve requirements for banks, permit savings banks to make riskier (and thus potentially more rewarding) investments, and allow wealthy individuals to run savings banks—the result being less anchoring in local communities and less public transparency. These freer banking activities received additional government protection when Congress raised the federal insurance for each depositor from \$40,000 to \$100,000. Troubled savings banks could now pursue more income with less government interference since the government did more to guarantee against risk.

The new laws created what economists call “moral hazard”—when risk taking is incentivized but the risk takers do not bear the costs. Moral hazard in banking encourages bubbles, the situations in which investors are tempted to pursue ever-higher returns beyond reasonable valuations for real estate and other commodities. Numerous officials within the Reagan administration—including Edwin J. Gray (Chairman of the Federal Home Loan Bank Board) and L. William Seidman (Chairman of the Federal Deposit Insurance Corporation)—warned of this imminent problem, but Regan and his allies ignored them, condemning cautious voices as “re-regulators.”¹⁸

One of the reasons administration officials ignored warnings was because they had personal interests of their own in the growth of a free-wheeling savings and loan industry. Regan had led a large investment bank and remained closely tied to it. Richard T. Pratt, the Chairman of the Federal Home Loan Bank Board before Gray, was also an investment banker who left the administration in 1983 to run Merrill Lynch's mortgage loan division. With the knowledge of the White House, savings

bank leaders used their new freedom to lobby members of Congress directly and to offer large campaign donations and other perquisites to Republicans and Democrats, who continued to support deregulation and cover up public risks.¹⁹

The cover-ups widened as savings banks were taken over by well-connected risk-seeking entrepreneurs, including Charles H. Keating, Jr., and Neil M. Bush (son of Vice President George H.W. Bush), who invested depositor money in overpriced real estate and other schemes doomed to failure. The banks had become what two journalists called "huge casinos," offering "cash for trash."²⁰ The new proprietors of these banks paid themselves large salaries with generous travel and housing benefits. They drove more than one thousand savings institutions to bankruptcy, and the federal government had to pick up the bill. Repaying depositors and recovering misused assets at the deregulated banks ultimately cost American taxpayers \$124 billion.²¹

The Reagan administration's deregulation efforts distorted the entire savings and loan industry by encouraging irresponsible risk-taking, institutional corruption, influence peddling, waste, and lawbreaking. Men close to Reagan and numerous members of Congress from both parties personally benefited from this financial plundering, and taxpayers paid the bill. This was a bipartisan scandal.

The Iran-Contra Affair

The biggest scandal of the Reagan years, and the most significant constitutional crisis since Watergate, was the Iran-Contra affair. In the spring and summer of 1987, millions of Americans watched forty-one days of televised joint hearings from the House Select Committee to Investigate Covert Arms Transactions with Iran and from the Senate Select Committee on Secret Military Assistance to Iran and the Nicaraguan Opposition. The "Iran-Contra Hearings," as they were called, had all the elements of made-for-television drama: powerful elected representatives, eloquent defenders of constitutional checks and balances, zealous anti-communists, and attractive supporting actors. The tangled web of illegal activities that connected Washington, Israel, Saudi Arabia, Iran, Panama, Honduras, Nicaragua, and other countries was often hard to follow, but the plotline was evident: high-level figures in the Reagan

administration, perhaps including the President, had broken numerous laws to pursue deeply held foreign policy goals. The key question was not whether they had acted illegally, but who should be punished and how.

From its first days in office, the Reagan administration prioritized reversing perceived advances by communist regimes, supported by the Soviet Union and Cuba, in Central America. William J. Casey, Reagan's former campaign manager and Director of Central Intelligence, focused immediately on Nicaragua—a small, strategically located country on the Central American isthmus with a pro-Cuban and pro-Soviet government (under the Sandinista Liberation Front) that came to power in 1979 following the overthrow of longtime pro-American dictator Anastasio Somoza. Casey and others in the U.S. government were alarmed by the spread of communist influence, which they ascribed to President Carter's weak policies, and they believed that a Nicaraguan counterrevolutionary paramilitary force, the "Contras," could lead a region-wide reversal, beginning in this small country.²²

In 1981 the Central Intelligence Agency (CIA) began secretly channeling weapons and money to the Contras. When Casey reluctantly shared this information with Congress a year later, the House of Representatives placed restrictions on U.S. aid. Representative Edward P. Boland, a Massachusetts Democrat, authored the first of a series of amendments to federal appropriations, which prohibited the use of covert resources to overthrow the Sandinista government in Nicaragua. The amendment passed the House (unanimously) and the Senate and President Reagan signed it into law.²³

Despite these restrictions, the CIA and the U.S. military increased their support for the Contras, claiming dishonestly that the aid was not designed to overthrow the Sandinista regime. In 1983, CIA-supplied aircraft bombed the Sandino Airport near Nicaragua's capital. In 1984, the CIA helped the Contras mine the main harbors of Nicaragua—a violation of international law for which the International Court of Justice ruled against the United States.²⁴ These escalatory actions, combined with news coverage of human rights atrocities committed by the Contras and their supporters in neighboring Honduras, motivated Congress to write still more restrictive legislation. A new Boland amendment, passed by the House and Senate in late 1984 and signed by President

Reagan that December, prohibited all military assistance to the Contras or other groups in and around Nicaragua. The Reagan administration had defied congressional intent since 1982; after 1984 continued aid to the Contras was clearly illegal.

The center for U.S. strategy toward the Contras was the National Security Council (NSC), located in the White House, staffed by Robert C. McFarlane, Admiral John M. Poindexter, and Lieutenant Colonel Oliver L. North, among others. These men believed that President Reagan wished to continue funding the Contras despite congressional prohibition. McFarlane also responded to Reagan's personal demand to help secure the release of American hostages held in the Middle East despite a stated U.S. policy of not negotiating with terrorists. These two priorities—continued support for the Contras and the negotiated return of American hostages—merged in the NSC as a secret illegal plan for arms sales to Iran (the sponsor of many hostage-taking groups in the Middle East) and diversion of the revenue from the Iranian arms sales to the Contras.²⁵

Diverting weapons and cash across two continents required a long chain of secret deals with shady arms dealers, mercenaries, money changers, drug runners, and terrorists. The White House worked with all of these groups as it lied to Congress and the American people. American anti-tank and anti-aircraft missiles, originally sent to Israel, made their way to Iran, and cash for the diversion of those missiles made its way to dictators in Panama and Honduras. These figures in turn skimmed off their share of the funds before sending what was left to the Contras. The U.S. military then, at White House request, replenished the weapons Israel had diverted. This was American-sponsored organized crime.

The scheme revealed the self-defeating consequences of covert White House zealotry. Iranian-supported groups released some American hostages, but then they took more. If they could ransom hostages for weapons, why not increase their leverage? And the diverted cash to the Contras had little positive effect. Most of the money was stolen before it reached its target, and it encouraged the most corrupt elements of the Contra leadership. Since the money was secret, the recipients were not held accountable for how they used it.

These criminal maneuvers involved White House thievery of weapons and money from American taxpayers, as well as the premeditated

violation of congressional legislation. The Reagan administration intentionally and flagrantly broke the law. The revelation of these facts by enterprising journalists led to the joint congressional Iran-Contra hearings, preceded by a special review board (the "Tower Commission," named after its chairman, Texas Republican Senator John G. Tower), whose findings were preliminary and based on limited investigation. In December 1986 a panel of three judges from the U.S. Court of Appeals for the Federal Circuit—empaneled as a Watergate-era check on executive abuses—appointed an Independent Counsel, Lawrence E. Walsh.²⁶

Walsh was a lifelong Republican who had served with distinction under numerous presidents. He had been a prosecutor in the New York District Attorney's office (serving under Thomas E. Dewey), a federal judge (appointed by President Dwight D. Eisenhower), and a Deputy Attorney General (serving under William P. Rogers, later Nixon's Secretary of State). Walsh was known as an honest and dogged pursuer of justice. He lived up to that reputation.²⁷

Over more than six years, he and his team of lawyers unraveled the lurid details of hidden NSC conversations, exotic CIA meetings, and repeated cover-ups rising to the level of the President himself. Reagan knew about the arms sales to Iran, which, at the very least, violated the Arms Export Control Act. Reagan also knew that his staff was continuing to support the Contras despite the Boland amendments—although it is not clear that the President understood how money from the Iranian arms sales was making its way to Nicaragua.²⁸ Like many of his closest advisers, Reagan lied to Congress and the American people when he falsely claimed he was unaware of nearly everything. Walsh's final report concluded: "President Reagan created the conditions which made possible the crimes committed by others by his secret deviations from announced national policy as to Iran and hostages and by his open determination to keep the contras together 'body and soul' despite a statutory ban on contra aid. . . . [T]he crimes committed in Iran/contra were motivated by the desire of persons in high office to pursue controversial policies and goals even when the pursuit of those policies and goals was inhibited or restricted by executive orders, statutes or the constitutional system of checks and balances."²⁹

Walsh chose not to prosecute the President, especially in light of Reagan's declining health after he left office.³⁰ He also chose not to prosecute

Vice President George H.W. Bush, who became President after Reagan. Walsh charged fourteen high-level officials with criminal behavior, including McFarlane, Poindexter, North, Defense Secretary Caspar W. Weinberger, and Assistant Secretary of State Elliott Abrams. In a move that echoed President Gerald Ford's pardon of Richard Nixon, President Bush pardoned Weinberger, Abrams, and three others on Christmas Eve 1992—just before the end of his presidency.

The Iran-Contra Affair embodied the profound and systemic ethical lapses at the heart of the Reagan administration. The President did not benefit personally from the lawbreaking around him, but he did almost nothing to stop it. Out of greed and zealotry, his closest advisers repeatedly broke the law, lied to Congress, and stole government funds. More than one hundred high-level Reagan administration officials faced prosecution, and more than \$130 billion was embezzled. Reagan's commitment to deregulation, aggressive military spending, and diminished oversight created a cocktail of corruption that was, in many ways, worse than Watergate.³¹

NOTES

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