

CURRENT DEVELOPMENTS IN THE BATTLE
AGAINST ORGANIZED CRIME

Address

by

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ENCLOSURE

CURRENT DEVELOPMENTS IN
THE BATTLE AGAINST ORGANIZED CRIME

When your President and my old friend, Harold W. Kennedy, County Counsel of the great County of Los Angeles, invited me to this conference he asked me to speak to you on the subject of current developments in the battle against organized crime. Before turning to my assigned subject, however, I want to express my great personal pleasure in this meeting. Although for the past two years my personal responsibilities have related to law enforcement at the federal level of government, my more than twenty year experience with law enforcement as a county and state official has left me with an abiding interest in the problems of county and prosecuting attorneys. It has also left me with a realization, which has only been reenforced by my federal experience, that the battle against organized crime can only be fought and won by the police, the sheriffs and the prosecuting officers of the states. In this battle the federal government can and should be the ally, and a powerful ally, to the forces of decent local law enforcement. But you all know, and I want you to know that I know, that the real fight against organized crime is being carried on by the agencies of our cities and our counties. If progress has been or is being made in the struggle it is due primarily to your efforts and the efforts of local law enforcement collectively. The agencies of the federal government, no matter how efficient, can never be a substitute for the proper, energetic and courageous enforcement of the state laws. It is from this point of view that I speak and if in my remarks I spend considerable time on the activities of the federal government it is only to acquaint you with the activities and plans of your ally. It is not from any failure to realize that the real burden of the battle rests upon you.

It seems to me that the best way to estimate our current position in the long fight with organized crime is to begin with a brief glance backward. It used to be a problem to bring our people and even our law enforcement officers and ourselves to recognize the fact that well-organized criminal syndicates of wide geographical scope and multifarious activities actually do exist. But that is the case no longer. Today people are aware as never before of these things.

The reasons for this awakening are not hard to find. In recent years the spotlight of publicity has been fastened on organized crime. There have been many agencies both public and private that have contributed to this result but no agency has done more than the investigating committee of the United States Senate presided over by Senator Estes Kefauver of Tennessee. Regardless of party affiliation I am sure all of us who labor in this field recognize the tremendous public service performed by Senator Kefauver's committee. The Committee's hearings brought home to the American people for the first time a true picture of organized crime. It has changed the climate of law enforcement. The public has seen and appreciated as never before the looming menace of communities whose agencies of local government have been undermined or captured by exploiters of vice and by professional criminals. There is a better understanding of the relationship between apparently petty offenses and highly undesirable criminal conditions. There is a better understanding of the fact that toleration of commercialized vice in any community stands as an open invitation to gangsters to organize the operation in order to establish a monopoly and to seize the profits, and that the process of organization necessarily involves the corruption of public officials and the commission of terroristic acts. These revelations

have had a tremendous impact upon our people. They have resulted in a changed attitude toward the laws and toward the officials who enforce them

We now have an aroused intelligent public opinion on the subject of organized crime. One that is prepared, I believe, to accept and follow the leadership of our law enforcement officials in any well thoughtout program to combat organized crime.

Your organization was founded to provide that leadership, at least in part. The increasing membership and the growing influence of your association is a most encouraging development. Your organization could and should be spear-head of the attack upon organized crime. The prosecuting attorney, because of his relations with the police and investigating agencies on the one hand, and with courts and the judiciary on the other, is strategically placed. He is better able than any other public official to estimate the local situation and to provide the leadership for whatever should be done. A national organization of prosecuting attorneys with substantial membership could strengthen local law enforcement everywhere and give improved leadership and direction to the battle against organized crime.

Some of you may recall that I have addressed your association on the subject of organized crime before. This occasion was in August 1953 at your Third Annual Conference in Denver, Colorado. At that time I had no more than gotten my feet under my desk at the Department of Justice. In the remarks which I made at that time I expressed the conviction, which is still with me, that the plain solution to the problem of organized crime is the enforcement of the existing laws fairly and impartially, vigorously and relentlessly. I said that the contribution of the Department of Justice

on our common problem would be a more intensified and efficient enforcement of criminal laws in federal jurisdiction relating to organized crime and racketeering. Of necessity, I spoke at that time only in terms of what the Department of Justice was going to do and not of what it had done or was doing. Now I want to follow through on this line and tell you something of what we have done in the meantime and something of the results.

We have organized for the first time in the Criminal Division of the Department of Justice a section whose function is criminal intelligence, study and planning. It is called the Section on Organized Crime and Racketeering. It deals with the great mass of information concerning crime and criminals which passes every day through the legal divisions of the Department of Justice as a matter of routine. Probably you are aware that there are more than eighteen separate police and investigative agencies in the federal government each of which has the enforcement of a limited, specific segment of the federal criminal law as its jurisdiction. However, all of the criminal cases that develop from the activities of these several agencies are presented in court only by the Department of Justice, the United States Attorneys, being a part of that Department. The investigative reports in all these cases that go to court necessarily go to one division or another of the Department of Justice, and excepting for the tax cases, nearly all of them funnel through the Criminal Division. The total amount of current information about crime and criminals in the United States that passes through the Department of Justice in a year's time is obviously very great. But up to the time of the organization of our new section no effort had been made to correlate, study and use this information. In the war against organized crime, as in any other kind of war, there is a need for

strategy and tactics. It is necessary to know the enemy, to learn and study his weak spots, to cultivate allies and to plan an attack suitable to the means at hand. That is what the Section on Organized Crime and Racketeering does. It performs the staff function of intelligence for the Criminal Division.

It is already possible to point to some accomplishments. Two years ago there were many indications that the country was faced with what appeared to be a new phase in the problem of organized crime. After intruding themselves into the labor world with violence and corruption the molesters were using their power for extortion on an increasing scale against business industry and the United States Government itself. There had been virtual no prosecutions for this type of labor racketeering for many years until the Criminal Division undertook its campaign two years ago. In 1953 there were returned a total of 19 labor racketeering indictments involving 44 defendants. In 1954 the figure rose to 37 indictments for the year involving 65 defendants. 28 defendants were convicted in 1954 with more since the end of the year.

The defendants convicted have included racketeers of the first importance. An example is Evan Dale convicted of numerous counts of extortion in violation of the Anti-Racketeering Statute in the District Court in the Southern District of Illinois. Dale ruled his construction workers' union with an iron hand. He shook down construction companies and contractors all over southern Illinois. When the government undertook to have built a large power plant at Joppa, Illinois, for the use of the Atomic Energy Commission Dale and his associate James Bateman, demanded \$1,030,000 in cash for

themselves as the price of labor peace for the government contractors. When their demand was refused they embarked on a campaign of sabotage, and terrorism that is estimated to have cost the United States Government more than \$51,000,000. Dale and Bateman were convicted by verdict of a jury and were recently sentenced to 15 years in prison and the maximum fine.

Across the river in St. Louis, Missouri, Paul H. Hulahan, a labor racketeer of comparable importance and ruthlessness was recently convicted a number of violations of the Hobbs Anti-Racketeering Statute. He and his associates were sentenced by District Judge George H. Moore to twenty years in prison with large fines in addition.

In Springfield, Illinois, Harry Meisenhelter was convicted of extorting from the builders of a pipe line and on January 21, 1955, was sentenced to five years in prison and a \$10,000 fine. Meisenhelter was the business agent for the Common Laborer's Union in spite of a prior conviction for bombing pipe line.

In Philadelphia, Pennsylvania, three of the principal officers of the I. L. A. were convicted of extorting \$28,000 from the American Sugar Refining Company and on January 31, 1955, each of them was sentenced to five years imprisonment.

In New York City, Joe Ryan, for years President of the I. L. A. and President-Emeritus, was convicted by a jury of taking a \$2,500 bribe in violation of the Taft-Hartley Act. On February 1, 1955, he was sentenced to 6 months imprisonment and a \$2,500 fine.

In Danville, Illinois, Orall B. Soucie, head of the Operating Engineer's Union, and Orville Rhode and Henry Highfill, both officers of Soucie's union, are awaiting sentence having pled guilty to attempted

extortion in violation of the Anti-Racketeering Act. Soucie's power in southern Indiana has been almost feudal and he is well nicknamed "The Duke of Indiana."

Whereas there were almost no federal prosecutions two years ago for this type of crime, there are today approximately 50 investigations of extortion or bribery being initiated every month under the Labor Management Relations Act and the Hobbs Anti-Racketeering Statute.

Of course the federal law does not reach every case of labor racketeer. It is only when some aspect of interstate commerce is involved that we have jurisdiction. But within the limits of our jurisdiction the Department of Justice is determined to make this kind of racketeering as unsafe and as unprofitable as possible. It is with great satisfaction that I can report that our prosecution of these extortioners and bribe takers has received encouragement and support from organized labor all over the country.

A second area where the Department of Justice has been concentrating its efforts against racketeers has been in the field of home improvement. As early as April, 1953, my attention had been attracted by a number of routine reports from the FBI indicating fraud in several different parts of the country in connection with FHA financed home improvements. Racketeers appeared to be exploiting the FHA home improvement program. At this time, by virtue of an agreement made by our predecessors in the Department of Justice with the FHA, the FHA had the full responsibility for policing its own operations, by-passing the FBI. Although because of this agreement, I could not ask the FBI to investigate the frauds in FHA, I could ask the FBI to make a general survey of the activities of the racketeers in this field. I made such a request on July 10, 1953. In August when I attended

the convention of this Association in Denver, I was struck by the number of prosecuting attorneys who mentioned that gangs of fraudulent salesmen had been selling home improvements in their counties. In September the FBI turned over to the Criminal Division the results of the survey made from Bureau field offices throughout the country. It was astonishing and confirmed our worst suspicions. The survey contained a raw mass of names, cases and criminal records, and the exact pattern of the Title I, FHA abuses. It showed that crews of 100 to 500 dynamiters would move into a community like a cloud of locusts, fleece it and quickly move on to another area.

In a typical case a fast-talking confidence man, displaying impressive looking FHA forms, would talk a gullible homeowner into an improvement (the FHA then was insuring everything from fire alarm systems to barbecue pits), persuade him to sign a negotiable note, perhaps promising a discount and then disappear. The improvement might never be installed, or it might be a quick and shoddy piece of work. But if the lending institution that bought the note from the racketeer could not force the bilked and angry homeowner to make good on the full amount, it collected on the note from the FHA leaving the FHA to call upon the machinery of the Department of Justice to collect from the householder.

This kind of survey was long overdue. When the dynamiters were lighting the most fuses, in the period 1949 - 1952, FHA had actually investigated only 9 out of 163 reports of Title I criminal violations forwarded by the FBI, and had swallowed up hundreds of complaints from other sources. Of course this condition demanded drastic and far-reaching action. It got it. One of the things done was to restore to the FBI the authority to investigate FHA fraud

This resulted immediately in such a volume of cases that it was necessary to set up a special unit of 9 lawyers in the Criminal Division just to process them. Since April, 1954, there have been 81 persons convicted of FHA frauds and 191 more have been indicted. There are more than 1,000 such cases pending in varying stages of development at the present time.

I wish I could say with confidence that the net result of this activity has been to drive the racketeers out of the home improvement business for good. Frankly, I doubt it. The racketeers do seem to have abandoned roofing, siding, and plastic paints where they ran riot before, but we believe we see signs of the same hot salesmen reappearing selling electric kitchens and similar home appliances by the same old fraudulent methods. But this time the Department is on the alert. We should be able to detect and arrest such activity if it is FHA financed before the swindlers have gotten very far.

At this point I want to describe the very interesting and effective manner in which the FBI during the past two years has tackled the problem posed by organized gangs of automobile thieves. Of course the mere theft of an automobile is not a federal offense. But the transportation of a stolen car in interstate commerce is, and it is a crime within the FBI's investigative jurisdiction. The FBI has additional reason for concern with organized auto theft. The experience of the Bureau has conclusively demonstrated that the criminal gangs which spread terror in the past, such as the Dillinger, Barker-Karpis, and Brady-Shaffer-Dalhover gangs, invariably started out stealing cars, robbing box cars, hijacking trucks and robbing banks. For this reason the FBI has been particularly concerned about crime involving the interstate transportation of automobiles and of materials

and goods. As a means of curbing this type of crime, the FBI has just concluded a series of 277 law enforcement conferences. These were attended by 18,844 persons representing 9,729 law enforcement agencies.

The program has resulted in more vigorous and effective enforcement measures by city, county and state law enforcement agencies with a significant decline in auto thefts in 1954. This decline has special meaning when it is considered against the rising rate of crime in other categories. In summary of this I quote from Mr. J. Edgar Hoover, the Director of the FBI.

"Law enforcement generally," Mr. Hoover reports, "continued to make progress in 1954. The cooperation among law enforcement agencies is visibly improved as are the techniques of law enforcement. There has been a reawakening on the part of law-abiding citizens to the necessity of aiding their local law enforcement agencies. With this continued support, the character of law enforcement will continue to improve."

All of us are aware that the federal government possesses one very effective weapon against the bloated racketeer that is not available to state and local law enforcement agencies. I am referring, of course, to income tax prosecution. In this area also the federal government has been increasingly active against the racketeer and those who profit from criminal activity. Assistant Attorney General H. Brian Holland, head of the Tax Division of the Department of Justice, has reported that, as between the year 1952 and the year 1954, the number of persons convicted after trial on charges of income tax fraud more than doubled and the number convicted by plea of guilty increased by more than one half. The names of the major racketeers who have recently been convicted of tax charges makes a long and impressive list. Frank Costello and Frank Erickson of New York; Benny Bir

gangster and gambler of Texas and Nevada; Tommy Banks, Minneapolis racketeer; Bones Remmer and Gombo Georgetti, California gamblers; Emmett Warring and Sam Beard, big-time gamblers from Washington, D. C., are typical of the names on the list of those convicted. More are under indictment awaiting trial, such as Jack Dragna, Los Angeles gangster; Hyman Klein, New York black market whiskey dealer, and even Virginia Hill Hauser, the gangster's moll who put on an almost incredible performance at the Kefauver Committee hearings in New York. Full credit for initiating and developing these cases must go to the Internal Revenue Service and the Treasury Department. The long list of hoodlums and gangsters convicted of income tax evasion shows that the Internal Revenue Service has been making a strenuous and effective effort to enforce the income tax laws against those who profit from organized crime.

After current developments in the battle against organized crime, such as those I have been describing, I come to the question: Is organized crime on the increase? Are we holding our own? Is it on the decrease? No man in the United States can answer that question with any pretense at accuracy. The fact is that we simply do not have any statistics or sound factual information that alone can make an accurate answer to such a question possible. Our Uniform Crime Reports, (which even as to the limited field they cover have been described as probably the poorest and least accurate criminal statistics kept by any civilized country in the world) do not touch upon the categories of crime in which racketeering and organized crime flourish. There is no index kept by either federal or state government from which the amount or even the trends of racketeering and organized crime can be determined. The progress of the battle is not to be learned from any official report. Our

only way of gauging our advance or retreat is by our own individual and collective experience, and who is there with so broad an experience in this field that he feels certain in his opinions? N

Yet there are straws in the wind. It has been many a long year since any thoughtful observer of the American scene has ventured the opinion that organized crime was on the decline. But magazine writer Daniel Bell in an article in the February, 1955, number of Fortune magazine has expressed exactly this view. Mr. Bell says flatly that "Organized racketeering in America is in eclipse." Mr. Bell argues that gambling, in the last decade the major source of illegal revenue, has petered out. He says that somewhat before the decline of organized gambling, that organized prostitution practically disappeared from the United States, that is, prostitution organized as a chain operation with protection. He writes, "In the last year there has been increasing talk of 'labor rackets', yet the picture is pale if one compares labor racketeering with that of two or three decades ago. * * * The decline in organized racketeering in the United States is itself an index of the greater sophistication and maturity of American social and economic life. Organized crime, Mr. Bell concludes, has practically disappeared. These interesting conclusions are based on Mr. Bell's observations in such cities as New York, St. Louis, Chicago, New Orleans, Miami, Cincinnati, Detroit and San Francisco.

How we should all like to believe this and yet I doubt if there is a prosecutor in this room who is willing to accept Mr. Bell's conclusion. Although we have no statistics that really refute these opinions, I do not believe that Mr. Bell's observations are consistent with the observations and personal experiences of those of us engaged in active law enforcement.

Nevertheless it seems to me that there is something significant for us in the mere publication of such an article in a serious magazine at this time. Three years ago assertions such as Mr. Bell's would have been generally considered preposterous. Today, whether we accept them or not, they are obviously not regarded as absurd. This of itself seems to me to be some indication that enough progress in the control of organized crime must have been made to at least be noticeable to a considerable part of the public, and from this we can take some encouragement.

And now I want to bring forward a proposal for the future. It is a proposal to make the federal law more effective in taking the profit out of commercialized crime. At the outset I must emphasize that in this matter I am expressing purely personal views. I have no authority to speak on this subject for the Department of Justice and still less for the Treasury. This is strictly a personal and unofficial suggestion.

It has long seemed to me that a very slight and completely equitable change in the federal income tax law could effectively eliminate the motive for most large-scale organized crime. The motive for organized crime is invariably large profits. When the possibility of profit is removed, organized crime inevitably disappears. I suggest that the federal income tax law should be changed as it presently applies to an illegal business. The Internal Revenue Code provides for a tax upon income, but in arriving at net income, Section 162(a) provides, "There shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business * * * ." This provision ought not to be applied as it presently is, for the benefit of a criminal enterprise. In the first place, an organized criminal venture is a criminal conspiracy, an

it is anomolous to consider it to be a trade or business for tax purpose. In the second place, no item of expense paid to further a crime can be considered a "necessary" expense in any proper sense. To allow the deduction of such items for tax purposes puts a most unjust and inequitable premium on criminality.

There is an obvious difference between a legitimate business and a criminal racket, and it is illogical not to recognize this difference in the application of the income tax laws. Business expenditures, such as the cost of labor, transportation, etc., are essential to our economic life and promote the general economic welfare, and it is proper and fair to allow their deduction from gross receipts before taxing income; but the expenditures incurred in the operation of a criminal enterprise are opposed to public policy and to the law itself, and it is improper and unfair to honest taxpayers to allow their deduction for tax purposes for the benefit of the criminal. The law should be changed so as to disallow as an ordinary and necessary business expense under Section 162(a) the costs incurred in conducting a criminal enterprise.

The effect of so simple and constitutional a change upon organized crime would, I believe, be very far-reaching. There are, I venture to say, few any racketeers so bloated and so lush that they can stand an income tax at present rates based on gross receipts. No racketeer could get rich or stay rich in the face of so confiscatory a tax.

I am offering this suggestion for the serious consideration of this association. Its adoption would be a knock-out blow to the rackets. It would be the fitting culmination of the principle and policy of "Organized Law Enforcement Against Organized Crime."