

# Text of 2 Memos on I.R.S.

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Following are two memorandums on how the White House could use the Internal Revenue Service for political advantages, submitted to the Watergate committee today by John W. Dean 3d, former White House counsel. Mr. Dean told the committee that the memos were prepared at the request of H. R. Halderman, former White House chief of staff, for the Secretary of the Treasury. Since the memo is undated, it is unclear whether they were prepared for David Kennedy or John Connally, both former Treasury Secretaries. Mr. Dean said he prepared the first memo and that John Caulfield prepared the second memo.

## A. The Bureaucracy:

I.R.S. is a monstrous bureaucracy, which is dominated and controlled by Democrats. The I.R.S. bureaucracy has been unresponsive and insensitive to both the White House and Treasury in many areas.

In brief, the lack of key Republican bureaucrats at high levels precludes the initiation of policies which would be proper and politically advantageous. Practically every effort to proceed in sensitive areas is met with resistance, delay and the threat of derogatory exposure.

## B. Administration Appointees

Randolph Thrower became a total captive of the Democratic assistant commissioners. In the end, he was actively fighting both Treasury and the White House.

Johnnie Walters has not yet exercised leadership. Unevaluated reports assert he has been either reluctant or unwilling to do so.

Walters has appointed as his deputy William Loeb, career Democrat from Georgia. Loeb has asserted his Democratic credentials in staff meetings, according to reliable sources.

Walters appears oversensitive in his concern that I.R.S. might be labeled "political" if he moves in sensitive areas (e. g. audits, tax exemptions).

During the Democrat Administrations, I.R.S. was used discreetly for political purposes, but this has been unavailable during this Admin-

istration.

## Suggestions:

Walters should be told to make the changes in personnel and policy which will give the Administration semblance of control over the hostile bureaucracy of I.R.S. Malek should supply recommendations.

Walters must be made to know that discreet political actions and investigations on behalf of the Administration are a firm requirement and responsibility on his part.

We should have direct access, to Walters for action in the sensitive areas and should not have to clear them with Treasury.

Dean should have access

and assurance that Walters will get the job done—properly!

## Caulfield Memo

A knowledgeable source at I.R.S. was contacted and given a hypothetical situation in which the White House made a request for an I.R.S. audit of a group of specific individuals who have the same occupation. This source advised that I.R.S. procedures would require that such request be handled by Assistant Commissioned Donald Bacon.

It is known that Bacon is a liberal Democrat holdover who has been continually identified with anti-Nixon in-

trigues at I.R.S. within the past two years.

The source suggested that a priority target be established within the group with preference given to one residing in the New York area. He further stated such target could discreetly be made subject to I.R.S. audit without the clear hazard for a leak traceable to the White House as postured above.

## A. To Accomplish:

Make I.R.S. politically responsive. Democrat Administrations have discreetly used I.R.S. most effectively. We have been unable.

## B. The Problem:

Lack of guts and effort. The Republican appointees appear afraid and unwilling to do anything with I.R.S. that could be politically helpful. For example:

—We have been unable to crack down on the multitude of tax-exempt foundations that feed left-wing political causes.

—We have been unable to obtain information in the possession of I.R.S. regarding our political enemies.

—We have been unable to stimulate audits of persons who should be audited.

—We have been unsuccessful in placing R.N. [Nixon] supporters in the I.R.S. bureaucracy.

## C. H.R.H. [Halderman] Should Tell the Sec:

Walters must be more responsive, in two key areas: personnel and political actions.

First, Walters should make personnel changes to make I.R.S. responsive to the President. Walters should work with Fred Malek immediately to accomplish this goal. (Note: There will be an opening for a general counsel of I.R.S. in the near future—this should be a first test of Walters's cooperation).

Second, Walters should be told that discreet political action and investigations are a firm requirement and responsibility on his part. John Dean should have direct access to Walters, without Treasury clearance, for purposes of the White House. Walters should understand that when a request comes to him, it is his responsibility to accomplish it—without the White House having to tell him how to do it!