



# Department of Justice

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ADDRESS BY

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BEFORE  
THE AMERICAN BANKERS ASSOCIATION

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Mr. President, Ladies and Gentlemen:

I was highly honored by your invitation to address this distinguished Association, and when I say that, I understate the case.

As you may know, during my years of private practice, it was my privilege to know and to work with a great many of you. I deeply appreciate this opportunity to greet so many old and valued friends.

Of course, the sense of nostalgia which I feel this morning is heightened by the fact that we are in Miami Beach, a city which I shall always recall for two very special reasons.

First, I shall never forget that this is the city where Richard Nixon was nominated for President of the United States.

Nor shall I forget--hard as I try--that this is also the city where he told the world that his first action would be to appoint a new Attorney General. Ironically, in my innocence, I eagerly applauded that famous pledge.

This morning, in considering what my message to you might be, I would remind you that the new candidate also made this promise, and I quote:

"I pledge to you that our new Attorney General will be directed by the President of the United States to launch a war against organized crime in this country."

Ladies and gentlemen in addressing bankers, it is customary to talk about business. That is what I want to do this morning. My subject is organized crime, a business whose sinister dimensions should concern every American and certainly every banker and his customers. Let me start with an example that will illustrate what I am talking about.

A few years ago the Murray Packing Company got into financial difficulties and used up its credit at the banks. It borrowed \$8,500 from loan shark racketeers at an exorbitant rate of interest. When the payment came due, Murray couldn't raise the money. The gangsters then extorted a one-third interest in Murray stock and the privilege of signing Murray checks. They then proceeded to buy a large amount of products from 85 different suppliers. They resold the items quickly at below cost and pocketed the money. These activities bankrupted Murray Packing Company, leaving \$1,300,000 in unpaid bills.

I think you'll agree this was a pretty big haul for an \$8,500 investment. It was typical of the way an organized criminal syndicate infiltrates legitimate business. It is also typical of the way organized crime proceeds to milk a legitimate business for all it's worth, leaving nothing but wreckage. The only thing not typical about this job is that the mobsters were caught. They had broken too many laws -- usury, bankruptcy fraud, income tax evasion, and others. They were indicted on eight counts and convicted on all eight.

The problem is that by far the majority of such activities have gone unprosecuted. It is conservatively estimated that the annual illegal

profits from loan sharking alone are in the neighborhood of \$350 million. Annual profit by organized syndicates from the narcotics traffic has been estimated at another \$350 million; from prostitution, \$225 million; from untaxed liquor, \$150 million; and from illegal gambling, six to seven billion dollars.

The total volume of illegal gambling controlled by organized crime has been conservatively estimated at \$20 billion. This is more than two percent of the gross national product. That's a fairly large tribute to pay to an element in our society that contributes nothing but misery and destruction.

As far as the Nixon Administration is concerned, any tribute to organized crime is too much to pay. We are dedicated to rooting out this parasite that saps the economic and moral strength of our society.

It affects the banking business in two major ways:

Directly, in the financial losses from bad credit, lost investments, stolen securities, counterfeiting, and theft by employees caught in the web of the underworld.

Indirectly, by the injury to the entire credit system--the erosion of its efficiency and of the public confidence that is its essential foundation. This loss is only partly measurable in such terms as higher insurance rates, more elaborate credit investigations, higher prices due to the bad risk factor, and greater costs of security and law enforcement.

First, let's define organized crime. It is the continuous conduct of criminal activities for profit by a group that disciplines its associates by

its own extralegal code and attempts to insulate itself from the law by corrupting public officials.

While it may move from one business to another, the organization considers itself in permanent operation.

The stereotype of the gaudily dressed gangster using clumsy grammar and carrying a tommy gun in a violin case is passé. The typical organized crime leader can look and act like a businessman, can carry on a legitimate firm as a front, is well versed in business practice, and calls on the services of lawyers, accountants and other professionals.

This doesn't mean that gangland violence is gone. Violence or the threat of it, including torture and murder, is used to discipline members of the syndicate and to intimidate those who have become enmeshed in a criminal scheme. But this is generally assigned to specialists, and the real leaders who call the shots may be completely isolated from the dirty work.

In contrast to the bootlegging racket of the Prohibition Era, today's organized crime is more sophisticated -- more aware of the fine points of making a fast buck in a broader variety of fields.

The term "organized crime" can refer to a confederation of some 24 so-called "families" of up to several hundred persons each, which dominate the crime-for-profit activities in a number of cities across the country. Its net worth has been estimated at \$150 billion. One investigation showed that in a single large midwestern city, the organization

controlled or had large interests in 89 businesses with an annual revenue of more than \$900 million. Since little or no taxes are paid on this income, the U. S. Chamber of Commerce has concluded that the syndicate has a higher net income than any single legitimate industry.

Organized crime can also refer to other more localized organizations that may be at war with the main crime syndicate, or may cooperate with it.

One estimate puts the national membership in the dominant syndicate at 5,000. This does not include many hundreds or perhaps thousands of peripheral hangers-on and collaborators used by the organization.

Generally, organized crime may be said to prey on human weakness. It discovered during Prohibition that a large segment of the public is willing to pay for the opportunity to satisfy such illegal vices as bootleg alcohol. This has since been followed by others -- the off-the-track bet, prostitution and narcotics.

Moreover, it is virtually impossible for organized crime to operate extensively for any length of time in a given locality without the cover of official corruption.

In short, organized crime feeds on the bad side of mankind. The prevalence of racketeering is a barometer of public morals.

Organized crime -- at least in the definition I have given -- first showed itself in the United States late in the 19th Century. But it was at a meeting of gangland characters at Atlantic City in 1929 that the organization first became nationwide. At that conference modes of cooperation were agreed upon and operating territories were divided.

After Repeal, the racketeers shifted to other activities and sunk their tentacles deeper into the general environment. Many people didn't realize the growth of organized crime until the Kefauver Committee investigation in 1951 paraded one underworld character after another before the television cameras.

Today's organized crime gets most of its illegal profits from gambling -- principally bookmaking and the numbers racket. Funds from these activities are in turn used to bankroll others -- narcotics peddling, loan sharking, and so forth. Let me describe some of those that should be of most interest to you.

Bankruptcy fraud, otherwise known as scam. I described an example of this racket at the beginning of my remarks. It has been estimated that an average of 1200 scams are perpetrated annually--200 of them by the main syndicate. Each of these can victimize up to 250 creditors and make off with several hundred thousand dollars in goods.

If the company is newly founded it may try to establish credit with a financial statement that is unaudited and unverified. Often the company destined for bankruptcy will be given a name almost identical to one that is well-known and respected--perhaps with an address on the same street. Another gambit is to gain control of a highly regarded firm, and then use its credit rating to place large orders with suppliers to be victimized.

Often the goods ordered are unrelated to the scam company's line of business. In off-seasons it will place rush orders to tempt suppliers into grabbing for the business without a credit check.

Loan-sharking This practice is aimed at the person or firm in financial trouble whose credit is exhausted. Although some interest charged by loan sharks runs as low as one percent per week, the most common interest rate is expressed in the term "six for five" -- meaning 20 percent interest per week, or over 1000 percent per year.

Because such practice is illegal under the usury laws, this kind of operation generally keeps no books. One loan shark that we were aware of had a million dollars in outstanding loans to relatively small debtors and kept it all in his head.

**Equally** unorthodox are the methods of the loan shark's collection agents, who are known as "legbusters". When a borrower asked one loan shark why he didn't require collateral the shark replied, "Your body is your collateral." Murder of a defaulting debtor is not uncommon, for while this punishment is too final to aid gangsters in recovering any money, it serves as a pretty pointed example to other debtors.

Naturally the sharks would rather get some other satisfaction, and through the threat of murder they often get a debtor to become an accessory to a theft from the company that employs him.

Stolen and forged securities. Stock and bond certificates are, of course, highly vulnerable to theft and disposal because in relation to their value they are easily transported and concealed. It is estimated that \$40 million worth of stolen stocks and \$25 million worth of stolen or lost government bonds are currently outstanding.



The magnitude of such operations can be measured from one conspiracy to forge and cash stolen bonds and money orders. It spread over 27 states and the District of Columbia, included burglaries in more than 100 places, and resulted in the arrest of 35 defendants.

Allied to this activity is the stolen or counterfeit credit card racket, with an estimated annual "take" of some \$60 million. There has developed a sophisticated traffic in such credit cards, which are sold at from \$100 to \$800 apiece. Sometimes loan sharks acquire credit cards from a debtor who can't meet his cash payments.

Recently the more direct approach of counterfeiting U. S. currency has again been on the increase. In 1960 the U. S. Secret Service seized \$435,000 in counterfeit money; in 1969 the comparable figure was more than \$15 million. Last year 1,400 persons were arrested on counterfeit violations. The trend is away from the small individual printer toward the large counterfeit ring. In one raid alone last year \$4.4 million in counterfeit money was seized.

Infiltration of legitimate business. Organized crime infiltrates legitimate business to provide a front for income tax reporting purposes, to stage bankruptcy frauds, to gain high short-term profit through high-handed methods, or for other purposes. Of the more than 60 underworld leaders attending the famous Apalachin conference in 1957, at least 17 owned bars or restaurants, 16 were in the garment industry, 10 owned grocery stores, 9 were in the construction business, and others were in the food business, coin-operated machines, auto agencies, laundries, trucking, bakeries, coal companies,

funeral homes and others. The Internal Revenue Service has reported that of 113 selected major organized crime figures, 98 are involved in 159 businesses. One crime syndicate's real estate holdings have been estimated at \$300 million.

Once established in a legitimate business, the racketeer seeks to gain a monopoly by intimidating customers, destroying or stealing competitor's property, and bribing government officials who let contracts. He gains advantage over his honest competitors through all manner of ingenious and, of course, illegal practices. These include counterfeiting the products and packaging of reputable competitors, inflicting them with labor troubles, counterfeiting revenue or inspection stamps, bribing inspection officials and selling shoddy or worthless merchandise. The latter is especially effective in products whose inferiority is not readily apparent, such as pharmaceuticals.

Violence is also used to wreck a competitor's operations, to hijack his delivery trucks, and to frighten his customers away.

Once this monopoly is established, the criminals reap the results in extortionate prices and swollen profits.

The audacity of racketeers engaged in legitimate business lines may be gauged by just two examples that I will couch in general terms because convictions of participants have not been obtained.

Today the production and distribution of at least one type of food product is controlled in several northeastern states by organized crime figures. They also have connections with syndicate figures operating similar food companies in other states.

Today the cargo handling at one large eastern airport is monopolized by a combination of a crime controlled union and a crime controlled trucking association. At one time this powerful combination threatened to shut down the airport if its extortionate demands were not met, and no one acquainted with the situation will deny that it could have done so.

This is what I mean when I say that, despite some of our recent successes and the rise in indictments and convictions of racketeers, the organized crime syndicate is still flourishing.

Against this background, Richard Nixon promised in the 1968 campaign a renewed drive on organized crime, and within three months after he became President on January 20, 1969, he sent a special message to Congress requesting new legislation to provide anti-crime weapons for federal authorities. Eighteen months later, Congress finally passed the bill last Monday, and it will be signed by the President tomorrow.

In addition, President Nixon has established a National Council on Organized Crime. It is composed of the Attorney General (who is the chairman), Secretary of the Treasury, Secretary of Labor, Postmaster General, Chairman of the Securities and Exchange Commission, Assistant Attorney General for the Criminal Division, Assistant Attorney General for the Tax Division, Assistant Secretary of the Treasury for Enforcement and Operations, Assistant Secretary of the Treasury for Tax Policy, Administrator of the Law Enforcement Assistance Administration, Director of the Federal Bureau of Investigation, Director of the Bureau of Narcotics

and Dangerous Drugs, Director of the United States Secret Service, Commissioner of Customs, Commissioner of Immigration and Naturalization, Commissioner of Internal Revenue, Chief Counsel of the Internal Revenue Service, and Chief of the Organized Crime and Racketeering Section in the Criminal Division of the Department of Justice.

The responsibility of the Council, as President Nixon stated in his executive order, is "to formulate a national strategy for the elimination of organized crime." In its deliberations thus far the Council has focused on a number of successful modes of attack against organized crime, and has announced a goal of breaking up this national menace.

The Council is also responsible for authorizing permanent strike forces against organized crime in different cities. In the strike force concept, the various skills and enforcement jurisdictions of the appropriate federal agencies are marshaled in a team, which is located in a city afflicted with organized crime. Through this method, information from the various intelligence agencies is centralized in an efficient, inclusive system. It has been very successful in apprehending organized criminals, and we continue to extend the number of strike forces in cities around the country. As a result of strike force work, for example, the F. B. I. in fiscal 1970 conducted the two largest gambling raids in its history, with arrests totaling more than 115 persons.

Still another weapon has been court-authorized wiretapping, provided by Congress two years ago. I reported just a week ago on the results of our restrained use of wiretap in the past 20 months. An average of 80 percent of the phone messages intercepted with each wiretap were incriminating. We averaged approximately four arrests per wiretap. Yet not one complaint that we were interfering with privacy has been received.

With these and other approaches we are making clear headway. Bearing in mind that there are approximately 5,000 persons identified as being associated with the organized crime syndicate, it is significant that in the 1970 fiscal year the Department of Justice secured 1,012 indictments and 389 convictions of such persons. In the same period the heads of six of the 24 organized crime syndicate "families" were subjected to Federal prosecutive action. In addition, through a continuing program of exchanging information with other Federal, state and local agencies, the F.B.I. enabled them to conduct more than 750 raids during fiscal 1970 and arrest some 4,000 organized crime and gambling figures.

These statistics are for the period ended June 30, 1970, and I am pleased to report that monthly reports in the Justice Department since then show continuing progress in the arrest and prosecution of underworld figures.

We are by no means satisfied with this record, because we know that the organization continues to thrive. It has been so firmly entrenched in our society that some observers have thrown up their hands and despaired of ever rooting it out.

We do not feel that way. We believe the American people have both the will and the legal machinery to solve problems such as this. One of the principal means can be the long-delayed legislation embodied in the Organized Crime Control Act to which I previously referred. We believe we are hitting the organization with a three-pronged attack.

-- A larger, better organized and equipped enforcement team;

-- The use of court-authorized wiretapping to gain evidence; and

-- new legislative authorizations including better protection and immunity for witnesses, stiffer penalties for offenders, and the focusing of antitrust laws against racketeer takeovers of legitimate businesses.

It is our hope that with these three arrows to our quiver we can go a long way toward pinning the racketeers to the wall.

A good part of the job is, of course, up to the state and local governments, as well as legitimate business. As bankers you are aware of the threat of gambling by employees and the need for a strong policy against it. You are aware of the danger that stocks or bonds may be stolen from you or that stolen securities may be offered to you as collateral on a loan. You are careful about the credit rating of your loan customers.

Even so, a bank is not immune to the impact of racketeers. One of their principal devices in a bankruptcy fraud is to deposit what they call "nut" money in a bank in order to establish credit. Knowing your depositors as well as you know your debtors has become a part of good banking practice.

I also trust that if you have reason to believe you or your customers are the target of a racketeer, you will report it to the authorities. The best procedure is to consult your attorney as to which authority you should contact. He is aware of appropriate jurisdictions, and he might also know whether a given authority is clean or corrupt.

Going beyond your own precautions against racketeers, bankers are in a special position to influence other businessmen. You can be sure that words of advice from you on financial matters will be respected. I hope you will feel that you have not only an opportunity but an obligation to educate your business associates on the threat of organized crime. Let them know it is no myth, but an insidious poison for which vigilance is the antidote. Tell them that the syndicate is working their side of the street, and that they must be alert to the telltale signs we have discussed. You can have a unique role in calling upon all Americans to root out what President Nixon has called "a malignant growth on the body of American social and economic life."