

Re: Ponzi or Pyramid Schemes

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From: tooly (rdh11_at_bellsouth.net)

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"Immortalist" <Reanimator_2000@yahoo.com> wrote in message
news:H5KdnTI_Pco-J4HfRVn-sg@adelphia.com...

> *Ponzi or Pyramid Scheme*

> *Charles Ponzi 1882-1949*

>

> *Charles Ponzi managed to accrue an estimated \$15 million in 1920, with a
> mansion in Lexington to go with it, by persuading 40,000 Bostonians that
> he had discovered the secret of making easy money. Psychology, charm, and
> an indefatigable hunger to be rich were his business assets.*

>

> *Sometimes called the Pyramid Scheme, or "borrowing from Peter to pay
> Paul," the game has many variations. In this case, Ponzi sold coupons that
> could be redeemed at a 50 percent profit in 90 days—and they were! As long
> as Ponzi could sell coupons to new investors to pay the previous group,
> the profits continued.*

>

> *Stories about Ponzi and his financial wizardry were newspaper headlines
> during the summer of 1920. When the scheme was revealed, Bostonians
> stormed his office by the thousands to retrieve their money. Ponzi went to
> jail, tried another quick-money scheme in Florida, and went to jail again.
> He died penniless in a charity ward in Brazil. His bravado, style, and
> tireless efforts at amassing wealth led to the bestowal of his name on
> this form of fraud.*

>

> <http://www.innovationodyssey.com/ponzi.htm>

> <http://www.mark-knutson.com/>

>

> *A pyramid scheme is a fraudulent system of making money which requires an
> endless stream of recruits for success. Recruits (a) give money to
> recruiters and (b) enlist fresh recruits to give them money.*

>

> *A pyramid scheme is called a pyramid scheme because of the shape of a
> pyramid: a three dimensional triangle. If a pyramid were started by a
> human being at the top with just 10 people beneath him, and 100 beneath
> them, and 1000 beneath them, etc., the pyramid would involve everyone on
> earth in just ten layers of people with one con man on top. The human
> pyramid would be about 60 feet high and the bottom layer would have more*

> *than 4.5 billion people!*

>

> *A diagram might help see this:*

>

> *1*

> *10*

> *100*

> *1,000*

> *10,000*

> *100,000*

> *1,000,000*

> *10,000,000*

> *100,000,000*

> *1,000,000,000*

> *10,000,000,000*

>

> *Thus, in very short order, 10 recruiting 10 and so on would reach 10*

> *billion, well in excess of the earth's population. If the entire*

> *population of earth were 5 billion and we all got involved in a pyramid*

> *scheme, the bottom layer would consist of about 90 percent of the planet,*

> *i.e., about 4.5 billion people. Thus, for 500 million people to be*

> *WINNERS, 4.5 billion must be LOSERS.*

>

> *In a straightforward pyramid scheme, a recruit is asked to give a sum of*

> *money, say \$100, to a recruiter. The new recruit then enlists, say, 10*

> *more recruits, to give up \$100 each. In the simplest example, the*

> *recruiter keeps all the money he gets from his recruits. In our example,*

> *each recruit gives up \$100 in exchange for \$900 (\$100 from each of his 10*

> *recruits minus the \$100 he gave his own recruiter). In order for no one to*

> *lose money, the recruiting must go on forever. On a planet with a limited*

> *number of people, even if the planet is as large as Earth and has almost 6*

> *billion potential recruits, one runs out of new recruits rather quickly.*

>

> *Thus, the result of all these schemes is inevitable: at best, a few people*

> *walk away with a lot of money, while most recruits lose whatever money*

> *they put into the scheme. In fact, the only way anybody can make money*

> *through a pyramid scheme or chain letter is if other people are defrauded*

> *into giving money upon a promise of getting something in return when it*

> *will be impossible for them to get anything at all in return. That is to*

> *say, in plain English, these schemes always constitute fraud. They use*

> *deception to get money. That is why they are illegal. They are not illegal*

> *because they involve recruiting people to recruit other people to recruit*

> *other people. That is perfectly legal and is done to some degree in many*

> *legitimate businesses. They are not illegal because they involve giving*

> *money to people. It is perfectly legal to give money to people. They are*

> *illegal because they involve deceiving people in order to get money from*

> *them: that is the legal meaning of fraud.*

>

> *In actual fact, however, no pyramid scheme will ever work this way because*

> *the scheme will never get the number of recruits we've been speculating*

> *about. All pyramid schemes will begin to die when the later recruits don't*

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- > *sign on in numbers large enough to pay off the earlier recruits. There will*
- > *always be enough people who will smell the scheme out. There will always*
- > *be too many people who will say "if it sounds too good to be true that's*
- > *probably because it is." There may even be a good number of people who*
- > *will realize that though one person recruiting ten doesn't sound like*
- > *much, it quickly adds up to unrealistic and improbable numbers. Also, all*
- > *it takes is one person to stop the whole thing, either by adamantly*
- > *persuading recruiters of their indecency, or by reporting them to the*
- > *police.*
- >
- > *greed and wishful thinking*
- >
- > *Pyramid schemes are popular because people are greedy and greed can do*
- > *wonders to a person's thinking. For a person desiring to make a lot of*
- > *money from a small investment in a short amount of time, wishful thinking*
- > *often takes over where critical thinking should step in. Wishes become*
- > *facts. Skeptics become idiots for not getting on board. Desires become*
- > *reality. Asking questions seems rude and unfriendly. Scam artists know how*
- > *greed works and all it takes is one con man to get the thing started.*
- >
- > *With the odds so stacked against a person, why would one gamble on a*
- > *pyramid scheme? Greed is only part of the answer. Most pyramid people*
- > *don't envision themselves anywhere near the bottom layer of the pyramid.*
- > *Even the most greedy person on the planet would probably see that if one*
- > *is near the bottom layer of recruits it will be very hard to get new*
- > *recruits. They have to see themselves near the top in order to envision*
- > *the immense wealth from minimal effort that is going to come their way.*
- >
- > *Furthermore, if I hope to get people involved in a pyramid scheme, the*
- > *first thing I must do is convince them they are not getting involved in a*
- > *pyramid scheme. They may know they are illegal. Or they may realize that*
- > *pyramid schemes are a losing proposition for at least 90 percent of those*
- > *who get involved. So, I tell them they are joining a club. I give the club*
- > *a nice name such as The Friendly Investors Club (FIC). I reassure them*
- > *that the FIC is approved by the IRS and run by a CPA with a Ph.D. who is*
- > *not an ASS. If I'm really good, my recruits will believe me and the police*
- > *officers, secretaries, teachers, ministers, etc. whom I recruit. These*
- > *well-respected, intelligent, honest people will pass on this line to*
- > *others. If I am really, really good, I will have convinced my recruits not*
- > *only that they are getting into a legitimate and lucrative Club, but that*
- > *any earnings are tax-free. I would indicate to recruits that as long as*
- > *their take in the scheme is less than \$10,000, it wouldn't be taxable*
- > *because gifts aren't taxable until they exceed \$10,000. I would convince*
- > *the recruits that, for legal purposes, they would be giving money away and*
- > *others would be giving money to them.*
- >
- > *even the police like pyramid schemes*
- >
- > *In 1995–96, at least 67 employees of the Sacramento Police Department,*
- > *including 45 officers, were investigated for their alleged involvement in*
- > *a pyramid scheme (Sacramento Bee 10/28/95, 11/1/95 and 11/15 & 16/96). The*

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- > *scheme was similar to five others that had been operating in southern*
- > *California, also involving police officers and support staff. The main*
- > *suspect in the Sacramento scheme was a police captain's wife. The chief of*
- > *police said that he would try to fire at least seven officers and*
- > *discipline 60 other police department employees. Nine officers were placed*
- > *on administrative leave and relieved of their guns and badges. According*
- > *to a prosecutor, the scheme involved more than 200 people. However, only*
- > *three of the accused faced criminal misdemeanor charges. Reportedly, some*
- > *in the scheme made tens of thousands of dollars. The minimum amount lost*
- > *by those who were on the bottom of the pyramid was \$500.*
- >
- > *The police pyramid schemes are called "investment clubs" and have*
- > *attractive names such as "The Friendship Investment Club" and "A Gift*
- > *Network." They're sold to investors with the assurance that they are*
- > *perfectly legal, approved by the IRS or a CPA, and that they definitely*
- > *are not a pyramid scheme.*
- >
- > *The Sacramento scheme was called The Freedom Club or something like that.*
- > *And it was hyped by a police officer as being legal because it required*
- > *people to sign a waiver claiming that they were making an unconditional*
- > *gift to the Freedom Club. A local news reporter, Mike Boyd, asked an IRS*
- > *agent if this waiver meant the Freedom Club wasn't a pyramid scheme. The*
- > *IRS agent said that since the people who were signing the waiver expected*
- > *to get back money for the money they were allegedly making a gift of, the*
- > *money wasn't really a gift. An attorney, also interviewed by Boyd, agreed*
- > *that just signing a paper saying you're making an unconditional gift*
- > *didn't make it so if your intention was not to make an unconditional gift.*
- > *(Receiving gifts, of course, is legal, and tax free.) The cops and their*
- > *recruits for the Freedom Club put in at least \$500 each and expected*
- > *something like \$4,000 in return for their phony gifts, according to Boyd.*
- > *The Bee reported that sources told them that some Police Department*
- > *personnel got more than \$10,000 out of the scheme. The WINNERS in the*
- > *scheme got their money from "gifts" to the Freedom Club from those who*
- > *later joined the Club. Such schemes continue, if the participants are not*
- > *caught, until there are not enough new recruits to pay off the old ones.*
- > *That is, they would continue until there were a good number of people who*
- > *had "given" away \$500 and got nothing in return because the scheme folded.*
- > *The scheme would have to fold eventually, because there can't be an*
- > *endless stream of recruits.*
- >
- > *The Sacramento Police Pyramid scheme involved what we might call "pyramid*
- > *pods". An organizer (Numero Uno) would start the pod by getting six others*
- > *to join as organizers. Presumably, the six would be ranked depending on*
- > *when they were recruited. The organizers pay nothing to join the pod but*
- > *together they must recruit enough people into the pod to buy eight spots*
- > *at the bottom of their pyramid. Each spot costs \$500. Numero Uno pockets*
- > *the \$4,000. The pod splits into two pods of seven people (or spots) each,*
- > *with a new Numero Uno in each pod (and a new number 2, 3, 4, 5, 6 and 7).*
- > *Each pyramid pod recruits more people at \$500 for each of eight spots in*
- > *the pyramid. The two new Numero Unos take their \$4,000 each and the two*
- > *pods split into 4 pods and those 4 into 16, ad infinitum. To make even*

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- > *more money, some joined more than one pod.*
- >
- > *How many in this scheme told the new recruits that 6.7% of those who join*
- > *will get a 700% return on their investment (\$3,500 on a \$500 investment)*
- > *as long as 93.3% get nothing? How many advised their recruits to "get in*
- > *early"?*
- >
- > *To have police involved adds a special dimension to this pyramid scheme*
- > *because (a) officers have ranks and can use their rank for recruiting*
- > *leverage over those beneath them; (b) officers and ex-officers have*
- > *positions of authority and trust which will influence potential recruits,*
- > *especially young people; and (c) police personnel are supposed to enforce*
- > *the law; when the law enforcers become lawbreakers and encourage others to*
- > *break the law for monetary gain, respect for law and law officers*
- > *diminishes.*
- >
- > *chain letters*
- >
- > *In the money chain letter, the recruiter sends the new recruits a letter*
- > *with a list of names on it, including the recruiter's name at the bottom*
- > *of the list. The recruits are asked to send money to the person whose name*
- > *is at the top of the list and to add his or her name to the bottom. Money*
- > *is made solely by getting new recruits to join the chain, adding their*
- > *names to the list and recruiting others to do the same. In theory,*
- > *eventually each recruit's name will be at the top of millions of lists and*
- > *receive millions of dollars. In practice, most people will receive*
- > *nothing. Anyone can break the chain, thus depriving all those on the list*
- > *of any possible "earnings." But, even if no one broke the chain, 95% of*
- > *those who sent money out will get nothing in return.*
- >
- > *If pyramid schemes are a bad investment, how about chain letters? The*
- > *principle is basically the same, except that with chain letters, you don't*
- > *have to deceive yourself as much as with pyramid schemes. You probably*
- > *know up front that the scheme depends on duping friends into giving money*
- > *to strangers in exchange for the promise of riches coming to you later on*
- > *from other strangers. You get a letter with a list of names on it. You are*
- > *told to send money to the name at the top, delete that name and add your*
- > *name to the bottom, and recruit 5 or 10 people to do the same by sending*
- > *them the letter with your name at the bottom.*
- >
- > *Ponzi schemes*
- >
- > *A Ponzi scheme, named after Charles Ponzi who defrauded people in the*
- > *1920s using the method, involves getting people to invest in something for*
- > *a guaranteed rate of return and using the money of later investors to pay*
- > *off the earlier ones. Who will make money from such a scheme? Those who*
- > *start it and those who get in early. Does anyone really make money from*
- > *these schemes. They must, or they would have died off long ago. How? If I*
- > *start the scheme, I just skim off the top and pay off enough people to*
- > *make it look like it's working, even if that means buying in again at the*
- > *bottom. I might even be stupid enough to think that I can keep the scheme*

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- > going when the recruiting has dried up. I can try to get money quickly by
- > some other scheme. For example, I can take a big chunk of money and go to
- > Las Vegas and hope to hit it big. This happened to a fellow I played
- > Little League Baseball with long before we both grew up. He took his
- > investors' money to the craps table where he "invested" their funds.
- > Unfortunately, his "investments" didn't pay off and he went to prison.
- >
- > I don't know how many people lost money "investing" in my Little League
- > buddy's scheme, but it could not have been as bad as what happened in
- > Romania in 1993 or what happened in Albania in 1997.* In both cases,
- > thousands of people with little opportunity for investment of capital were
- > swindled by pyramid scheme operators. Romania's newspapers claimed that
- > millions of Romanians lost their life savings in a scheme called Caritas.
- > Reports from Albania claim that hundreds of thousands of Albanians "have
- > invested their life savings or money they earned working abroad" in one of
- > several outlawed pyramid schemes. "The schemes offered very high interest
- > rates, with the first investors paid from later investors' deposits. They
- > eventually failed when no new investors came in" ("Investment—scam protest
- > turns violent in Albania," by Merita Dhimgjoka, *Sacramento Bee*, Feb. 6,
- > 1977). Any such scheme is doomed to fail because there cannot be an
- > endless

I think 'Hope' must be a rare commodity. Do people really want 'something' for 'nothing'? Or do they just want to escape suffering?