

Most of us are content to have our children carry on our names. The legacy of Charles Ponzi, however, was not a lot of little Ponzies, but a swindle so wondrous in scope that its modus operandi bears his name today: the Ponzi scheme.



sands were pressing money into his hands. He set up offices in a Boston storefront, happily paying the relatively few who chose not to reinvest with money from the many who did.

Ponzi schemes have been separating people from their money ever since Charles Ponzi, in the waning years of World War 1, first heard about international postal coupons. These coupons were used to cover postage for letters of reply from foreign countries. What first attracted Ponzi, then a clerk in a Boston investment firm--was the fact that one could buy a coupon in an economically depressed country for, say, a penny, and redeem it at any bank or post office in the United States for 5 cents. To the young Italian immigrant, the vision of America as a land of opportunity was even brighter.

Ponzi soon discovered, however, that governments issuing such coupons had anticipated him. They seldom issued more than \$75,000 worth of coupons in a year.

Creative thinking

Ponzi reasoned that while he, as an employee of a firm that did international business, might know about postal coupons-and more important, their restrictions-it was probable that other people had never heard of them. Ponzi was delighted to find that of the dozens of neighbors in east Boston whom he asked, none knew of their existence. That convinced him that while he might not get rich buying and

The Ponzi legacy

*An ingenious scheme made Ponzi rich.
Then he tried to muscle
in on the Boston establishment.*

BY NAT HOWARD

redeeming coupons, he might achieve that goal by convincing others that *they* could.

All they had to do was bring cash to Ponzi, a trusted fellow immigrant. He would send the money to his man in Europe, who would buy coupons at low rates for redemption at higher rates in the United States. Give me \$50, said Ponzi, and in 90 days I will give you back \$75. And give they did.

Of course, there was no man in Europe. The only coupons Ponzi ever bought were to convince skeptics that they indeed

existed and could be sold at high profit. What he did was pay the first investor with the money he obtained from the second, pay the second with cash from the third, and so on.

The genius of it was that Ponzi, who understood greed better than most, would convince the investors that while he was more than happy to pay them the big return, they'd do well to consider how much more they would make by reinvesting everything with him.

Ponzi's credibility grew with every payoff, and soon thou-

How it fell apart

His big mistake was not to cut and run before the bubble inevitably burst. Apparently convinced that it could all go on forever, Ponzi took a portion of his wealth and bought controlling interest in the Hanover Trust Co., wearing the title of president like a badge of legitimacy from the Wizard of Oz.

That shook up the conservative Boston financial and legal establishment, and caught the full attention of the Boston *Post*. In a series of tough investigative reports, the *Post* blew Ponzi and his scheme wide open. The newspaper showed, for example, that while Ponzi had allegedly bought and redeemed millions in postal coupons, the sum total of coupons issued in 1919 was, in fact, a paltry \$58,000.

The *Post* also discovered that before coming to Boston, Ponzi, under the name Bianchi, had served three years in jail for his part in an operation that accepted money from Italian immigrants in Montreal to send to relatives in Italy--money that never got there.

After serving sentences in both federal and state prisons, Ponzi was deported to Italy. Down but not yet out, in time he was able to connect with no less a figure than Benito Mussolini, who evidently liked Ponzi's style enough to make him business manager of one of his pet projects, Latin Airlines in Rio de Janeiro. But when Mussolini fell so did Ponzi. He began drinking heavily, suffered a stroke and died in 1949, flat broke.

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