

The Great Boston Pyramid

Pity poor Parma, a small, classically beautiful city in northern Italy. As reported in a recent edition of the Globe, the proud residents have watched over the past few weeks as scandal has wracked Parmalat, one of the world's biggest dairy companies and the town's namesake. With Parmalat's president and ten others arrested and dozens more under investigation, thousands of investors face the loss of their life savings, and the people of Parma bear the shame of being associated, by their city's name, with the scandal.

This is not the first time that Parma has been connected with fiscal infamy. In 1919 a Parma native named Charles Ponzi offered Bostonians a 40% return on their investments in his new business on School Street with the impressive - and ultimately ironic - title of Securities Exchange Company (S.E.C.) The dapper young man was never specific, but claimed to have found a loophole in the sale and redemption of International Reply Coupons, which were a popular way to send return postage to a foreign correspondent. After the first brave investor, (who had given Ponzi \$50 in December 1919,) received his \$70 in February, word spread, and soon a line of customers snaked its way out of his office onto School Street. In March, 1920 Ponzi upped the return to an incredible 100% in just 90 days and the public went wild, jamming School Street daily with thousands of eager investors.

It's amusing to note that Ponzi's S.E.C. office was not only next to Boston's City Hall, but also around the corner from Washington Street, then so crowded with newspaper city rooms that it was called Newspaper Row. Even though many of those paper's reporters quite literally had to fight their way down School Street to reach their offices, not one had seen fit to write a single column-inch on the phenomenon. In fact, the only official interest was from the local postal inspector who concluded his brief interview with Ponzi with the purchase of \$100 worth of Ponzi's stock.

Ponzi's dirty little secret was that postal coupons had nothing to do with the high yields of the S.E.C. The whole thing was a classic pyramid scheme, in which old investors were being paid off with cash deposited by new investors. The math was frighteningly simple. With two million dollars in certificates sold by the end of June, Ponzi had to make four million in new sales by September to pay them off. Those September sales would, in another 90 days, require eight million dollars in newer sales... and on it would go until Ponzi would literally run out of people to whom he hadn't already sold.

The lid was blown off the scam after a \$1 million nuisance suit was filed against Ponzi by a disgruntled creditor who had, in fact, been paid back in full months earlier. \$1 million was a lot of money back then, and the reporters on Newspaper Row finally woke up and began writing about Mr. Ponzi. The next business day a mob surged the S.E.C. as panicked investors sought to cut their losses. This and subsequent mobs (made up, in part, of people who wanted to invest even more money – “after all,” as one man said, “only a rich man could be sued for a million dollars!”) arose the interest of Governor Calvin Coolidge, who had proved during the recent police strike that he had no patience for mobs, and he ordered an audit of the S.E.C.'s books. Ponzi desperately tried to plug the \$5 million shortfall in his books, but he lost his race with the auditor on August 13, 1920, and surrendered to the local U.S. Marshall with the famous words, "I guess I am your prisoner."

Charles Ponzi was convicted in federal court of using the mails to defraud, and upon his release from prison in 1934 was deported back to Italy, where he drifted from one menial job to another, eventually dying penniless in a Sao Paolo, Brazil charity ward in 1949.

Charles Ponzi captured the spirit of the decade that would come to be known as the "Roaring Twenties," and with the same brashness and bravado displayed by aviators and bootleggers alike, he dared the world to figure out how an immigrant with no training in economics could so ably manipulate the complicated world of international finance for such staggering returns. And, like the decade he came to presage, Ponzi's collapse was just as devastating, taking with it a great many fortunes. Today, Parma's Charles Ponzi lives, if only as a description for one of the world's oldest scams. And now his home town may suffer again as the headquarters for Europe's own Enron.

David Kruh has written a screenplay with Arnie Reisman on the life of Charles Ponzi.