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“The real problem for sure is the US' insistence on an over-bloated and unarmed diplomatic-civilian presence in a war zone. Blackwater & other such enterprises were needed to protect them. With what the US and Iraq have agreed now, Pres Obama had best reduce dramatically the size of this defenseless contingent. The whole situation is ridiculous.

— Posted by [HassanAliAl-Hadoodi](#), [Blackwater Charges Forthcoming](#)

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The First Ponzi Scheme

POSTED: 11:07 AM ET, 12/17/2008 by The Editors

By now, everyone knows about the "Ponzi scheme" at the heart of the \$50 billion scam engineered by esrtwhile Wall Street wizard **Bernard L. Madoff**. What most people don't know is that investigative reporters were instrumental in bringing down the original fraudster whose name everafter has been linked to the genre of financial scandals that promise great returns while robbing Peter to pay Paul. The newspaper's work resulted in one of the earliest Pulitzer Prizes for investigative reporting.

Charles Ponzi was a 38-year-old dapper Italian immigrant who showed up in Boston in 1920 and promised investors a 50 percent return on their money in 45 days. Ponzi's scheme revolved around trading in guarantees that fixed values for international postage stamps at a time when currencies around the globe were fluctuating wildly in the wake of World War I.

At first the local newspapers helped promote Ponzi's idea as a stroke of financial genius, as [Roy J. Harris Jr.](#) relates in his book, [Pulitzer's Gold: Behind the Prize for Public Service Journalism](#). The [Boston Traveler](#) published a news story with the credulous all-caps headline: "WE GUARANTEE YOU 50 PERCENT PROFIT IN 45 DAYS." The story quoted a postal inspector who seemed to sign off on what Ponzi was doing. "We haven't figured out how they make their enormous profit, but they seem confident of their ability to do so." (You might recall that this was before the existence of the Securities and Exchange Commission.)

The rival [Boston Post](#) also did positive stories on Ponzi, noting that he was worth \$8.5 million and was buying up estates and cars, before finally pointing out that he was under federal investigation. The publicity merely brought a mad rush of new investors to Ponzi's door.

The story was broken wide open when Ponzi's own public relations man, a former Boston Post reporter named William McMasters, turned on his boss. McMasters hunted around Ponzi's office, found incriminating documents and sold them to the editor of the Post for \$5,000, a fact that was not disclosed at the time. (Mainstream newspapers no longer pay for information.) The Post ended up publishing an article under McMasters' byline reporting that Ponzi's investments had been a bust and he was \$2 million in debt.

It turned out, of course, that Ponzi was simply using the money from new investors to pay off his promise to his old investors.

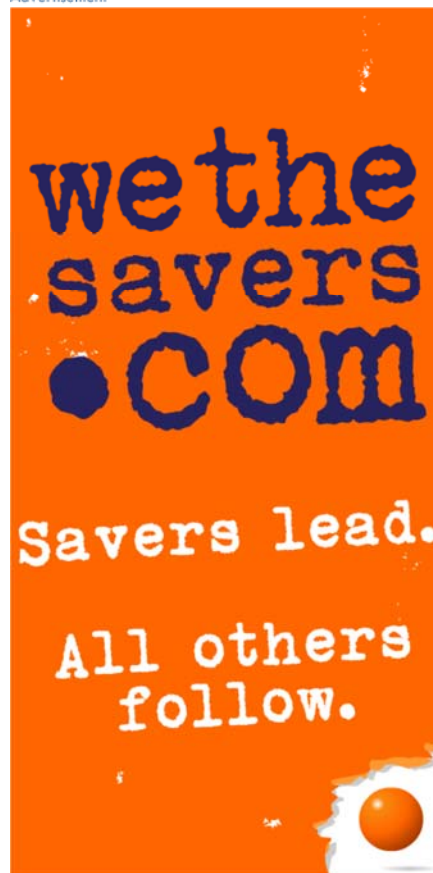
McMasters also provided an immortal quote explaining his motivation:

"As a publicity man," he wrote, "my first duty is to the public."

The Post did another story pointing out that Ponzi had a criminal record for forgery in Montreal under the name Charles Ponsi. The Post nailed down a tip about Ponzi's criminal record with a deft but simple piece of shoe-leather work: reporter Herbert Baldwin was dispatched to Montreal with a picture of Ponzi.

The scoop--"Canadian 'Ponsi' Served Jail Term"--brought a threat from the litigious Ponzi: "You are going to get the presses ripped out of your building." But the story instead burst Ponzi/Ponsi's bubble, and in a little more than a month after the Post first wrote about him, Ponzi was finished. He was eventually tried, convicted and sentenced.

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"You did a fine job on me," Ponzi told Baldwin. And Ponzi later said of his scheme, "My business was simple. It was the old game of robbing Peter to pay Paul."

For exposing Ponzi, the Boston Post received the 1921 Pulitzer Prize Gold Medal for Meritorious Public Service.

Those wanting to read more about Ponzi's incredible tale should consult **Mitchell Zuckoff's Ponzi's Scheme**, for the full story.

Among the interesting tidbits: Ponzi wasn't the first to come up with the scheme that bears his name. As Zuckoff points out, "Get Rich Quick" stock schemes proliferated at the end of the 19th Century, including one in which a Baptist minister named Jernegan proclaimed that a heavenly vision had given him the secret of extracting gold from seawater.

No matter how many Ponzis are caught, each generation spawns its own Ponzi schemes. People will always be vulnerable to the promise of an easy way to gather gold.

By The Editors | December 17, 2008; 11:07 AM ET

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Comments

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This is no Ponzi scheme this is outright treason.

What amazes me that all fraudsters from Ian Boskey and Michael Milliken of 80s to Madoff who have skimmed billions from Americans in last few decades have been Jews.

I am a Jew and play the market, the basic rule of the market is that money simply does not vanish in thin air, whenever someone loses some other person gains. In case of these frauds funds were transferred to their own fake companies.

There are no babies out in the market, who do not know what is happening. I believe that the Regulators in Treasury, SEC and Federal Reserve are all partners in crime.

The beauty of all these heist is that these fraudsters deposit the loot mostly in European and Israeli Banks. The bankruptcies are declared and the babies in Regulatory Depts express their innocence.

Can we investigate this through a Grand Jury ?.

Posted by: kanoongoo | December 18, 2008 7:25 AM

Attached is an article I wrote regarding the US tax implications of risk management transactions of hedge fund managers. Some of the tax analysis could apply to Madoff and his foreign investors as well.

Selva Ozelli, Esq, CPA

<http://www.hedgeweek.com/download/259124>

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Posted by: SOZELLI | December 18, 2008 10:58 AM

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