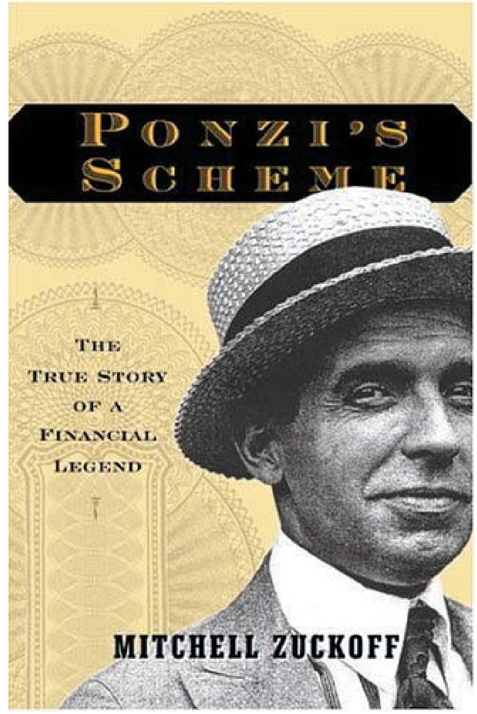
Ponzi's Scheme

The True Story of a Financial Legend

by Mitchell Zuckoff

Random House, 2005, 416 p.

Book Review by John Berlau



Many have heard of Charles Ponzi, the 1920s flim-flam man whose name is now synonymous with con artistry. The Oxford English Dictionary defines a "Ponzi scheme" as "a form of fraud in which belief in the success of a fictive enterprise is fostered by payment of quick returns to first investors from money invested by others."

Sound familiar? That phrase also happens to describe the structure of Social Security. Politicians can wax eloquent about the "guaranteed benefit" made possible by the program's "trust fund." Yet Social Security administrators recently mailed a statement to workers laying bare the facts: Today's Social Security checks "are funded by today's workers," and "in just 14 years we will begin paying more in benefits then we collect in taxes." After that, "there won't be enough younger people working to pay all of the benefits owed to those retiring." The promise of today's Social Security system working like a well-oiled machine into the far future is as illusory as Ponzi's famous rip-off ruse.

That is what makes Mitchell Zuckoff's new biography so timely. In *Ponzi's Scheme: The True Story of a Financial Legend*, the author, a journalism professor at Boston University, paints a fascinating portrait of America's most famous swindler, as well as the people he duped and those who brought him down. Zuckoff doesn't mention Social Security anywhere in his book—though he could well have written a compelling epilogue on Ponzi as the great uncle of today's Social Security crisis. But then again, many others already have made this link: A recent search of the Westlaw database reveals more than 1,300 articles published since 1985 that contain the terms "Social Security" and "Ponzi scheme."

For all the people who have heard of Ponzi, however, few can describe the exact nature of his hoaxes. Some aspects of it seemed quite plausible. He proposed a form of currency speculation in foreign postage stamps. When that didn't work, he put some of his customers' cash into other investments.

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Zuckoff portrays Ponzi as a complex character. Although he spent lavishly on himself and his wife, he never took the option of fleeing with the money he had received. He seemed to believe he could make his plans work if only he somehow got lucky with the right investments.

What made Ponzi's scheme a scam rather than a mere speculative venture was his guarantee to customers of a 50-percent return in 45 days. When he couldn't make these payments, he simply repaid old investors largely from the money contributed by new ones. That's exactly how Social Security operates, with young workers generating payroll taxes to subsidize the retirement of old folks.

Writers for *The Boston Post* and other publications eventually exposed Ponzi. Banks refused to extend him credit. He went bankrupt, served time in prison, and ultimately was deported to his native Italy. He died in a Brazilian charity hospital in 1949. Many of Ponzi's investors got back just a fraction of what they put in. Others lost everything.

As we listen to the debate over Social Security reform, we will do ourselves a favor to bear in mind the rise and fall of this notorious schemer—and the havoc he wreaked on many people's savings.

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