

WHY DO THEY DO IT?

CHARLES PONZI³²



In 2009, Bernard Lawrence “Bernie” Madoff pled guilty to multiple federal felonies involving his defrauding investors of almost \$50 billion. He was convicted of engaging in what has been termed a “Ponzi scheme.”³³ A Ponzi scheme is an investment fraud which involves the initial investors receiving payment of their returns from monies of subsequent investors. They often collapse since there are little or no legitimate earnings and maintaining these schemes requires a constant influx of money from new investors.

The Ponzi scheme was named after Carlo Pietro Giovanni Guglielmo Tebaldo Ponzi, often referred to as Charles Ponzi. In 1903, Charles Ponzi emigrated from Italy and eventually resided in Boston. He worked as a grocery clerk and dishwasher. Later, he worked in an Italian bank, Banco

Zarossi, in Montreal.³⁴ He was arrested for forging a signature on a check and was incarcerated in a Quebec prison for 20 months. Afterward, he returned to the United States and was convicted and incarcerated in an Atlanta prison for smuggling Italian immigrants into the country. Back in Boston, from 1919 to 1920, Ponzi swindled thousands of people by claiming that they could receive a 50% return on their investments in 90 days.³⁵ Ponzi’s scheme consisted of an elaborate transaction involving international postage stamp rates. In 1920, Ponzi collected \$5,000 from investors, but just five months later, he was taking in a million dollars a week.³⁶

THINK ABOUT IT:

1. If we wanted to apply social control theory to understand Charles Ponzi’s criminal behavior, we might ask, “Why would he want to obey the rules of society?” This is a key aspect of control theory—individuals conform because social controls prevent them from engaging in deviant and/or criminal behavior.
2. Does society view these types of offenses differently than violent offenses such as homicide?
3. What types of harm do victims of these offenses experience?