# The Line on School Street

*Charles Ponzi, Boston 1920*

THE MECHANISM, IN BRIEF

A real loophole too small to matter, and new money paying old. The best proof the scheme worked was the scheme itself. Every payout was an advertisement, paid for by the next lender.

## WHO IS NAMED, AND WHAT THE RECORD SAYS

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|---|---|
| **Charles Ponzi** | Convicted. [2] [15] [10] |
| **William Howard Taft** | Public official, named for his or her role in the public record. [2] |

## THE RECORD, STEP BY STEP

*Each line is a fact the video states, in our words, with the number of the public source it rests on.*

### 01 The line

1. In July 1920 lines of people stretched down School Street, Boston, to Ponzi's office. [1]
2. Ponzi said his profits came from international postal reply coupons. [2]
3. The offer as pitched: fifty percent in forty-five days. [2]
4. By July 1, 1920 he was taking in about a million dollars a week. [2]

### 02 Two dollars and fifty cents

1. Born Carlo Ponzi in Lugo, Italy; arrived in Boston in November 1903 with two dollars and fifty cents, having lost the rest to a card sharp on the voyage. [3]
2. He worked as a dishwasher and waiter and drifted between jobs and cities; he called himself Charles. [4]
3. By 1919 he was back in Boston, married, planning a trade publication, when a letter from Spain brought him a reply coupon. [4]

## 03 The coupon

1. An international reply coupon is bought in one country and exchanged abroad for a stamp to pay the reply. [5]
2. US first-class letter postage was two cents in 1920. [6]
3. A coupon costing about a penny in Spanish money could be exchanged in the US for six cents in stamps. [3]
4. His claim: coupons bought in some countries and sold in others at a hundred percent profit, because of postwar exchange rates. [2]
5. To profit you would have to buy coupons in enormous numbers and turn the stamps into cash; as far as the record shows he never tried. [5]
6. He made no investments; all his money came from lenders, so new money paid old. [2]

## 04 Fifty percent in forty-five days

1. In December 1919, with $150 of capital, he began borrowing on promissory notes (the Securities Exchange Company). [2]
2. The notes promised fifty percent in ninety days; he paid them in full at forty-five days. [2]
3. He paid his agents a ten percent commission. [2]
4. The first lenders were paid in full and on time, and others followed. [2]
5. In eight months he took in $9,582,000 and issued notes for $14,374,000. [2]
6. He took control of the Hanover Trust Company, a Boston bank. [7]

## 05 The arithmetic

1. After the Post's July 24 front page the crowds grew; within days the Post took his claims to Clarence Barron, who granted the trick could work in theory but for no more than a few thousand dollars. [8]
2. There were nowhere near enough reply coupons sold to support his claimed trade; postal inspectors reached that conclusion. [7]
3. About a million a week was coming in; a final audit of the company's assets found sixty-one dollars' worth of coupons. [9]
4. Every loan paid in full with profit cost him sixty percent: fifty to the lender, ten to the agent. [2]

## 06 The run

1. Because of an investigation by public authority he stopped selling notes on July 26, 1920. [2]
2. The investigation caused a run; withdrawals from July 19 to August 10 totalled $6,692,000. [2]
3. He concentrated his money from banks across Boston and New England in the Hanover Trust; $905,000 was withdrawn on July 28. [2]
4. A bank lends out deposits against borrowers who owe them back; Ponzi's money stood on no loans or investments. [2]
5. On August 2 the most widely circulated Boston paper declared him hopelessly insolvent, in an account written by a recent employee. [2]

6. August 2 brought a scramble and a race; an overdraft on August 9 ended it and the bankruptcy petition was filed. [2]
7. About five hundred people held his checks when the funds ran out. [2]

## 07 The record

1. He surrendered to federal authorities on August 12, 1920; the Hanover Trust was closed the day before. [4]
2. Indicted for mail fraud; that fall pleaded guilty to a single federal charge, sentenced to five years; later convicted of larceny by Massachusetts. [10]
3. About thirty thousand lenders; claims were paid at about thirty-seven and a half percent. [11]
4. In Cunningham v. Brown (1924) the trustees sued lenders paid in the final weeks; the Court, opinion by Taft, sided with the trustees; 'He was always insolvent...'. [2]
5. The Boston Post won the 1921 Pulitzer Prize for Public Service for the series that led to his arrest, the first Pulitzer for a Boston paper. [12]
6. He had never become a US citizen and was deported to Italy in 1934. [4]
7. He died in a charity ward in Rio de Janeiro in 1949 with about seventy-five dollars, barely enough for burial. [3]

## 08 The file from Montreal

1. On August 11, 1920 the Post published his Montreal criminal record. [13]
2. In 1907 he worked at a Montreal bank that paid six percent, twice the going rate. [14]
3. The bank paid that interest out of new deposits; when it failed its owner fled to Mexico. [4]
4. Imprisoned in Canada 1908-1910 for forging checks; then Atlanta federal prison 1910-1912 for bringing five Italians across the border. [15]

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