Pyramid Sales Are Now Chief Consumer Fraud Here

By GRACE LICHTENSTEIN

James Green is an energetic black civil servant in his 40's who signed on with a sales outfit called the P.R.I.C.E. Club in July, 1971. He had visions of finally making "big money." Today, James Green is $5,000 in debt and his life savings are gone. He is another victim of the pyramid sales scheme.

Pyramid sales — those get-rich-quick business propositions that work on the chain-letter principle, involving an everincreasing number of participants — are currently the number one consumer fraud in the metropolitan area.

Consumer protection officials in New York, New Jersey and Connecticut say that despite mounting adverse publicity in dozens of states, including a $3.5-million suit here against a company called Holiday Magic, the schemes are simply too alluring for hundreds of gullible investors to resist.

"We explain to people that it's a fraud, that they'll probably lose money, that they'll wind up cheating their friends, and when we get all through, they still say, 'I'm going to try it.'" says Howard J. Rubin, staff attorney for the New York City Consumers Affairs Department.

The department has identified at least 19 companies now allegedly involved in pyramiding here in the city. "There's a new name every week," declared Bruce C. Ratner, the department's law-enforcement chief. "Nearly a third of our staff is bogged down with this."

And in Connecticut and New Jersey, officials also report a growing pyramiding problem. Last month New Jersey obtained $696,700 in restitution for residents who lost money in Glen W. Turner's "Dare to Be Great" program, a motivational course. Mr. Turner also created Koscot Interplanetary, a cosmetics company like Holiday Magic.

Furthermore, the experts say that the pyramiding companies, having been hurt among white middle-class potential investors by bad publicity, are now concentrating with great success on blue-collar and white-collar blacks and Puerto Ricans.

In several of the operations, investigations have turned up alleged frauds-within-frauds, involving, among other things multiple bank loans and planned bankruptcies.

The story of the P.R.I.C.E. Club is, in some ways, typical of many unpublicized pyramiding companies.

The club was formed in Massachusetts in 1970 as a discount buying club, offering $10 yearly memberships that supposedly would entitle consumers to fat discounts on merchandise in selected stores.

Under this scheme, potential investors are told they can make huge sums of money for an initial investment of up to $5,000. They buy "distributorships"; to make back their investment, they must each sign up still lower-level distributors, and so on. At the bottom of this infinite pyramid are the salesmen selling membership cards in the club (or in the case of other pyramid schemes, cosmetics, gasoline additives, clothing, wigs, etc.).

The basic pyramid scheme has been labeled inherently fraudulent by almost every consumer protection official in the country. Virginia H. Knauer, the White House consumer adviser, explained why in a recent speech:

"The bubble bursts just like the old chain letter. The problem is that within a short period of time mathematically one runs out of people [to sign up]. Two [original distributors] carried to the 29th power equals the approximate population of the United States."

In Massachusetts, P.R.I.C.E. Club quickly came under surveillance by the Attorney General. But before any legal action could be taken, the club declared bankruptcy in March, 1971, and left the state.

That same summer, P.R.I.C.E. Club Inc., headed by a Long Island entrepreneur named Roy Jaeger, became active in New York, working in almost the same way as the Massachusetts club.

Potential investors like James Green were invited to "opportunity meetings" — sales sessions, usually held in respectable hotels, in which frantic pitchmen described the pot of gold awaiting distributors.

James Green (that is not his real name) said he was told he could make $4,000 in three months for an initial investment of $105 just for selling membership cards. Soon, he was lured into a bigger investment for a distributorship.

Mr. Green did not have the required $2,500 in his savings account. That was no problem, the club officers told him, because First National City Bank was writing personal loans for just such investments.

In fact, the August, 1971, club newsletter advertised such loans saying that "after thorough investigation" the bank had found the club to have "definite value." Citibank loan applications were prominently displayed at "o[pportunity] portunity meetings."

Mr. Green and at least 1 others got Citibank loan Last week, a bank spoke man said that the ban "didn't know" the club wa involved in pyramid sale "We did not know it was fraud. Should we investiga the proceeds of every loan? the spokesman asked. H added that the club had bee recommended to the bank a good outlet for loans b one of the bank's "good cu tomers."

With his loan, and subs quent loans, Mr. Green an other distributors enthusia tically went about lurin friends, relatives and co leagues into investmen They also tried to line up a ditional stores at which men bers could get discounts. Th were promised a cut of commissions paid by the sto to the club on member sale

According to Mr. Green an other distributors, all whom asked to remain ano ymous because of their em barrassing financial predic ment, a black man nam Arthur Moore, the club's sa manager, played a major r in lining up investors, ab 80 per cent of whom w black.

By January, 1972, the cl was having difficulties. Me bers complained that the d counts they were getti were tiny; distributors w not getting their commissio

In June, 1972, the club fi a Chapter XI petition in ba ruptcy court, a procedu that allows a debtor to ret possession of his compa By this time, according to John Snyder, a Brooklyn man who is president of the distributors' association, there were about 700 major and minor investors in the scheme.

At the same time, Mr. Jaeger's lawyer, William J. Henry, negotiated a deal turning over operations of the old club to a new, separate one, P.R.I.C.E. Club Ltd., headed by *William J. Peters.*

Thus, the new club was able to continue to solicit without paying renewals and collect commissions from stores without paying anything to the distributors, whose contracts were with the old club. The old club was finally adjudicated bankrupt last November.

The distributors attempted to get help from the bankruptcy referee, Edward J. Ryan, and from consumer agencies by charging in person and in letters that the bankruptcy had been planned all along, just as it had been in Massachusetts, that Mr. Jaeger and others had somehow made $600,000 in funds disappear, that the new P.R.I.C.E. Club was swindling them out of commissions and that the old club had used a false business address.

The letters to Mr. Ryan were never answered, according to Mr. Snyder.

Question of Jurisdiction

Consumer protection agencies offered the distributors little relief, saying they were not sure they had jurisdiction over the case. When the distributors complained to Attorney General Louis J. Lefkowitz, they were told to try District Attorney Frank S. Hogan. Mr. Hogan's office told them to try United States Attorney Whitney North Seymour Jr. Mr. Seymour's office told them to try the Federal Bureau of Investigation. The F.B.I. is now looking into the case.

The city's Consumer Affairs Department sent form-letter replies to two letters. Mr. Ratner, the law-enforcement chief, explained that the department felt it would have only a slim chance of getting refunds from a bankrupt company.

"Our strategy was to get the biggest [pyramider] and make an example of it," he said, referring to the city's suit against Holiday Magic.

Roy Jaeger, the old club's president, now lives in Florida. Attempts to find him there were unsuccessful and his lawyer, Mr. Henry, was unavailable.

The old club apparently did list a false address on its court papers—320 East 23d Street. Neither Mr. Jaeger nor the club is listed as a tenant in the modern high-rise apartment building now, and the managing agent, Goodstein Building Corporation, said the building has never had such tenants.

New Club's Stand

Mr. Peters, head of the new club, says multilevel distributorships are no longer being sold. He says the old club's distributors could start selling memberships again if they wanted to, but have instead made an attempt in the bankruptcy court to get their money back. The distributors say Mr. Peters will not honor their cards unless they sign a new agreement with him.

"I have no legal obligation to them," Mr. Peters said in a telephone interview.

Mr. Moore, the old club's sales manager, is now president and a major stockholder in a new discount buying outfit, the Diamond Club, that says it does not use multilevel sales. Mr. Moore says he personally lost $18,000 in the P.R.I.C.E. Club. But he added, "It's a tax loss." He has $60,000 invested in the Diamond Club.

As for James Green, there no longer seems a pot of gold at the end of the pyramid rainbow. "We thought it would work," he says now. "We were so naive. We were so gullible."

Alexander H. Rockmore, lawyer for the bankruptcy trustee, summed up the entire bankruptcy case by saying, "The whole thing smells."

Mr. Rockmore said that the bankruptcy court could have done hardly anything to help the distributors because, along with other creditors, "under the Bankruptcy Act, they're all equally stuck." The court "should have gone deeper" in investigating the deal that turned operations from the old club over to Mr. Peter's new club, he said.

Of the victims, Mr. Rockmore concluded sorrowfully: "Unfortunately, the world is full of saps."

City Studies Complaints

The New York City Department of Consumer Affairs is investigating complaints about the following companies allegedly using pryramid sales:

Action Industries (fuel additive), Alexander Taylor (clothes), Amperiprise (home cleaning products), Bestline (soap products), Bob Cummings Inc. (vitamins), Cash-chek (buying club), Computerex (buying club), Dare to Be Great (motivation course), Futuristic Foods, Galaxy Foods, Golden Products (household items), Guardiante (fire and burglar alarms), Holiday Magic (cosmetics), Koscot (cosmetics), P.R.I.C.E. Club (buying club), Princess Club of America (hosiery and cosmetics), Regency Ltd., Sta-Power (fuel additive and Steed (fuel additive).

According to the department, one parent company, U. S. Universal Inc., owns Holiday Magic, Ameriprise, Sta-Power, Alexander Taylor and Bob Cummings. Koscot and Dare to Be Great are both Glen W. Turner enterprises.