

FINANCIAL PYRAMID SCHEME: IS IT A LIE OR REVENUE?

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Pyramid scheme (financial scheme or investment scheme) is a way of ensuring revenue for participants of the structure at the expense of a constant entrance of money.

In the most countries, such as Australia, Japan, U.S.A., Germany, France, UK and others, this kind of financial activity is forbidden, because it is cheating. In this article we will discuss

- how a pyramid scheme was founded
- how it works; paradoxes which financial pyramids cause
- why this kind of activity is not forbidden in Russia
- why people believe in this scheme and why they become members of this system.

The first pyramid scheme was founded in 1919. Italian businessman Charles Ponzi decided to create his own business. But all of his approaches were not successful. After that Ponzi created his own scheme, which became known by his name. He created own firm and said, that he has taken deposits at 45% in a quarter. People became to give their money for business of Ponzi and take their revenue. In the way, other people learned about it and started giving their money too. Number of investors increased. But payments stopped within a year. After that people learned, that their money is not involved in any project of Charles Ponzi's business. And payments were made at the expense of new investors.

Pyramid ceased to exist in summer 1920, when one of investors sued and demanded 50% of Ponzi's company.

Charles Ponzi had followers. For example, famous swindler Bernard Madoff created own pyramid scheme "Madoff Securities" and followed the scheme of Ponzi.

Scheme of Ponzi is only prototype of the pyramid scheme. And these systems are not the same. In scheme of Charles Ponzi one central person gets his revenue. In pyramid scheme group of investors involve new participants with their money and get certain percent for this activity.

The existence of a financial pyramid sometimes causes paradoxes. Very often people think, that concepts "pyramid scheme" and "cheating" are the same. In fact it is not always true. For example, a businessman has created a long-term project and made a mistake while forecasting. In this case, pyramid scheme is a result of the mistake. The businessman wants to correct his mistake and decided to take additional credit. But the money goes to payment the first investors.

The first similar pyramid scheme in Russia was in Russian Empire. It was organization of action on buying bikes by collecting money at the expense of correspondence.

In Russia this kind of activities is not forbidden. But sometimes the same activity may be considered as cheating and illegal enterprise in Russian law. So pyramid scheme in Russia has been around from 1992. It works today too. The most famous is "MMM". The name of this financial pyramid are the first letters of its creators. They are Sergey Mavrodi, Vyacheslav Mavrodi and Olga Melnikova. "MMM" was founded in 1989 as a firm, which sold imported office goods (computers, printers, shredders and others). In 1993 they issued shares to the market. After that creators wanted to issue shares again, but Ministry of Finance banned do it. Then brothers Mavrodi and Olga Melnikova decided to introduce "cards of «MMM»". Formally "cards of «MMM»" are not secure, but they have some degree of protection – watermarks.

A lot of people suffered from fraud of “MMM” company. It is believed, that victims were about 10 thousand people. But experts believed that victims were more than 10 billion people.

In spite of this when Sergey Mavrodi was arrested defrauded investors came to White House and demanded the release of the creator this pyramid scheme.

But the first pyramid scheme in New Russia was “Russkii dom Selenga”. It was founded in 1992. For the period of existence the firm contracted 2,5 billion people. Company worked as a financial pyramid and in 1997 declared itself to be bankrupt. Billions people suffered from activity of “Russkii dom Selenga”. Today the creators of “Russkii dom Selenga” pay compensations to defrauded investors.

In 2014 we have working pyramid schemes such as “MMM”, “Super Babki”, “Aid Cash”, “Rostok” and others.

Pyramid schemes works at the expense of investors only. These investors are people, who do not deal with the economy and do not know nuances of the financial sphere. And after termination one of the financial pyramid defrauded investors give their money for the same activity. Why?

First, people believe that not all pyramid schemes were founded for cheating. Second, here there is a psychological factor. It is a passion. Investors think, that they have time and they come out from this system before its destruction. And finally, people watch an advertisement and believe it. Besides, a lot of unknown and strange words are used in this advertisement. For example, Forex, futures and trading.

In conclusion, I would like to note, that you can earn money from a financial pyramid, if you are a creator of it or if you are a part of this system, so you know economy and nuances of this scheme very well.

Generally, financial pyramids are much more often risk, losses and lie than revenue and wellbeing.