

The Victims of Pyramid Sales Schemes and Remedies in Japan

TATSUYA OTA

Recently, pyramid sales schemes have been proliferating once again in Japan. A pyramid sales scheme varies in structure and size, but can be generally characterised as a plan or scheme in which each participant expects to make a vast amount of profits from commissions and bonuses by recruiting additional distributors to sell goods, services or membership. It has the following common features (Takeuchi 1977): first, each participant is considered an independent merchant; second, a scheme operates on more than one level, in which a higher-ranking participant can obtain greater potential profits; third, each participant expects to earn a majority of their profits from recruitment bonuses rather than commissions on resale of goods.

The pyramid sales scheme grows in geometrical progression and may damage thousands of people before its eventual collapse. According to police statistics, 160 000 people were victimised in eight cases cleared by the police (National Police Agency 1994). The total amount of damage was approximately 30 billion yen (US\$300 million). Moreover, the victims of pyramid sales schemes suffer not only financial damage but also mental damage. Some victims lose their friends or families, others lose their jobs or their confidence in society. Many victims also suffer from secondary or tertiary victimisation. Thus, the negative impacts of the pyramid scheme on Japanese society are too serious to be ignored further.

The Problem (Unlawfulness) of the Pyramid Sales Scheme

A pyramid sales scheme is deceptive and unlawful per se. The main reason is that a pyramid sales scheme inevitably breaks down and the chance of success for every participant is virtually impossible. Participants who join the scheme by paying a membership fee and usually purchasing goods are expected to recruit new participants to earn commission and bonuses paid by them. However, it is almost impossible for every participant to continue to recruit additional members because the proliferation of the participants will eventually result in saturation of the market with participants (Takeuchi 1977). Assuming that each participant in the scheme established by one promoter recruits one new participant every month, 32 months later the number of the participants will reach about 4.3 billion, almost the total population of the world. This means that sooner or later the pyramid sales scheme will fall apart. This collapse is an inevitable result and most participants cannot even recover their membership fee, let alone achieve the promised profits. Moreover, recruitment activities in pyramid sales schemes injure or destroy human relations between recruiting participants and recruited participants because participants usually enrol their friends or acquaintances, resulting in feelings of resentment when the scheme collapses.

Victims and Victimization Process of Pyramid Sales Schemes

Data was collected from a non-random sample of 160 victims of a typical pyramid scheme case which occurred in the early 1990s. This is the case of a company which was engaged in the sale of water purifying devices through a pyramid sales scheme (*Asahi-shinbun*, evening edn, 30 June 1992, p. 15). The scheme was founded in 1990 and lasted about two years until some high-ranking participants were arrested by the police. For the two years about 10 000 persons were recruited to the scheme. There were four ranks of participants, namely, top-ranking distributors (0.3 per cent), high-ranking distributors (4 per cent), middle-ranking distributors (17 per cent) and low-ranking distributors (79 per cent). The financial damage amounted to about 3.3 billion yen (US\$33 million). The estimated damage to each victim is about 300 000 yen (US\$3000). The area distribution of victims ranged throughout the country although the main concentration was around Kyoto and Osaka. Participants joined the scheme by paying 15 000 yen (US\$150) in membership fees and purchasing one set of water-purifying devices costing 240 000 yen (US\$2400). They were then ranked as low-ranking distributors and could be 'promoted' to middle-ranking distributors by recruiting at least three new participants. Additional recruitment was one of the requirements to be promoted to higher-ranking distributors. The higher the ranking of the participant, the higher the commissions and recruitment bonuses. This promotional system attracted many participants and caused huge damage to the victims. The recruiting approach of pyramid sales schemes is fraudulent; the products sold are generally bad or low quality. The water-purifying device for home use in this case was low-quality. The estimated market price was about 20 000 yen (US\$200), one-twelfth of the sales price in this scheme.

Among the 160 victims of the pyramid sales scheme, 56.3 per cent were male and 39.4 per cent were female (4.4 per cent—unknown). The most common age group for victims was 20 to 30-years-old, a category into which 74.4 per cent of the victims fell. Most participants of pyramid schemes participated as a side business and according to the findings, 36.3 per cent of victims were invited or recruited by alumni of their school and 32.5 per cent were recruited by their colleagues in the workplace. However, the recruitment by family members of relatives was relatively rare (2.5 per cent).

The victims' motive for participation in the scheme was parallel to the representations used in recruitment, for instance, they 'expected much earnings' (44.4 per cent), were 'interested in goods or services' (41.9 per cent) or 'wanted to make dreams come true' (23.1 per cent). It is noteworthy here that 26.3 per cent of victims joined the scheme for their friendship (25.9 per cent). They reluctantly participated in the scheme because their friend asked them to join.

The mean amount of damage suffered by the victims was 296 000 yen (US\$3000), and 2.6 per cent of victims lost 500 000 yen (US\$5000) or more. These damages were composed of membership fee and price of goods purchased. To meet these expenses, half of the victims used their own money (48.1 per cent) but the other half (50 per cent) borrowed money from a credit company or loan shark. They have to clear their debts and the high interest even after secession from the scheme or collapse of the scheme.

Victims of pyramid schemes suffer not only financial losses but also various mental or social losses. Besides financial damage (55 per cent), 41.3 per cent of victims expressed regret in causing trouble for their friends. 17.5 per cent of victims acknowledged that their involvement with pyramid scheme discredited them and 20 per cent answered that they were disgusted with themselves. 14.4 per cent of victims were worried that they could not trust another person. Moreover, it is also important to point out that 4.4 per cent of victims lost their principal jobs and 3.1 per cent of victims fell ill because of the pyramid schemes.

Conclusion

Pyramid sales schemes may spread in other developing countries in the same way that they entered Japan from the United States. The countries experiencing fast economic development are vulnerable to new types of dishonest or fraudulent businesses including pyramid sales schemes. It is important to prevent this fraudulent business by sharing the information and experiences from countries which have experienced pyramid sales schemes.

References

- National Police Agency (ed) 1994, *White Paper on Police*, (annual), Police Association, Tokyo, Japan, p. 226.
Takeuchi, A. 1977, 'Multi-business and mouse scheme', *Jurist*, vol. 645, p. 39.

