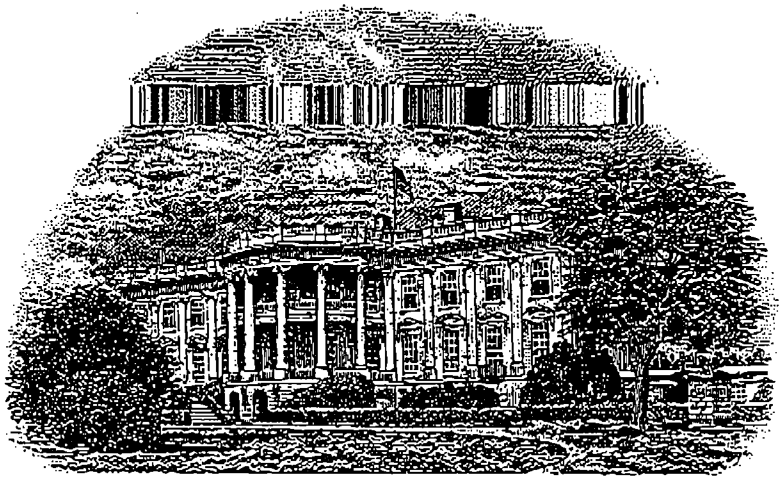

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Old Wine in New Bottles: Consumer Fraud in the 21st Century

A Report from the Attorney General

EXECUTIVE SUMMARY

Each and every year millions of hard working American consumers succumb to consumer fraud and lose untold billions of dollars. As a result, lives are ruined and lifetimes of savings are lost.

> [These con-artists] are stealing more than money – they're stealing people's hopes and dreams and their security. In far too many cases, victims are being robbed of saving they've spent a whole lifetime building up. Some have even lost their homes.[1]

In recent years the Department of Justice has become more proactive in responding to white-collar crime. The Department has encouraged joint and cooperative efforts between federal, state, and local agencies and partnerships with private organizations, to combat consumer fraud. Although the days of the traveling road show and the snake-oil salesman are gone, many of their schemes to defraud are being repackaged. Today's con-artists use telemarketing, slickly produced infomercials, and the broad reach of the Internet to quickly and easily deliver their fraudulent schemes to millions of potential victims.

Increasingly the Department of Justice is working with other Federal agencies and state and local authorities to combat consumer fraud. Through task forces, joint operations, and sweeps, each participant brings to bear its specialized skills. Additionally, federal criminal prosecutions have been coordinated with administrative or civil proceedings, to maximize the advantages of both types of proceedings in combating fraud. Although there is already a high degree of coordination of anti-fraud efforts among federal and state agencies, we can do more.

In addition to federal enforcement efforts the Department has formed educational partnerships with the private sector and consumer organizations which allows us to reach millions of consumers with our anti-fraud messages. Public-private partnerships with organizations like the American Association of Retired Persons and the Better Business Bureaus play an increasingly vital role in making our prevention efforts more effective. Enforcement and education complement each other and help prevent fraudulent schemes from succeeding. With continued cooperation among federal and state law enforcement authorities, regulatory agencies, and non-

[1] President William J. Clinton, Radio Address to the Nation (Nov. 6, 1999).

profit organizations, we will continue to build on existing projects and programs that will allow us to educate the public to protect itself from consumer fraud.

On November 6, 1999, President Clinton asked the Department to report back within six months with a plan (1) to better prevent consumer fraud activities and (2) to improve coordination among the Federal Government's consumer protection activities. In preparing this report, we benefitted from the views of a variety of federal and state agencies, as well as private organizations including, among others:

- Components of the Department of Justice and Federal Agencies, such as the Executive Office for United States Attorneys, the Federal Bureau of Investigation, the Criminal and Civil Divisions of the Department, the Postal Inspection Service, the Department of the Treasury, the Federal Trade Commission, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Food and Drug Administration;
- State and local groups, such as the National Association of Attorneys General, the National District Attorneys Association, the American Prosecutors Research Institute, the International Association of Chiefs of Police, and the National Sheriffs Association;
- Non-profit groups, such as the American Association of Retired Persons, the Council of Better Business Bureau Foundation, the National White Collar Crime Center and the North American Securities Administrators Association; and
- National consumer organizations, such as the National Consumers League and the Consumer Federation of America.

To better prevent consumer fraud activities and to coordinate the government's efforts to fight these crimes, the Report first sought to determine the types of fraud the agencies and organizations are seeing and how these fraud schemes may be changing in the computer age. Two conclusions that shape this Report emerged from this effort and from the comments the Department received. First, while criminals have modified the fraudulent pitches to take advantage of advancing technology, they have kept many of the classic frauds schemes alive. For example, the Ponzi investment scheme, in which early investors are paid bogus "profits" from the money paid by later investors, who receive nothing, has migrated from word-of-mouth and mail into telemarketing fraud, and more recently onto the Internet. As a result, this Report is organized around the fraudulent pitch more than the medium in which the pitch is made.

The second conclusion shaping this Report is that what works in combating one kind of fraud will commonly work against other types of fraud as well. For example, many agencies in quite different contexts describe successes achieved through consumer education campaigns that accompanied law enforcement efforts. Consequently, this Report does not repeat every success described by each agency. Instead, it attempts to distill the common wisdom reflected in all the submissions, and highlight unique successes that may be emulated in new anti-fraud initiatives. This Report recommends:

- increased use of centralized complaint centers whose data are compatible and accessible by civil, criminal, and regulatory agencies;

- the continuation and expansion of specialized joint training programs for regulatory enforcement personnel, prosecutors, and investigators;

- encouragement of projects targeting creative efforts to stop the exploitation of vulnerable groups such as elderly or ethnic minorities through funding from the Department's Bureau of Justice Assistance (BJA) and other sources;

- increased use of public outreach programs in conjunction with other agencies and with private consumer organizations focused on specific types of consumer fraud or specific groups of victims;

- increased coordination of targeted civil, regulatory, and criminal enforcement actions;

- the continued and expanded use of multi-agency task forces as part of our enforcement actions against specific consumer frauds;

- the establishment of a core group of prosecution "experts" to track and prosecute Internet fraud, and to meet periodically with similar experts within other agencies to discuss developing trends;

- continued and expanded efforts to share information internationally and to develop methods to promote the availability of evidence and to identify and aid the victims of fraud wherever they may be.