

New Dimensions of Consumer Fraud

Consumer fraud continues to pervade the American marketplace. New developments are briefly examined in this paper, starting with Monroe Friedman's focus on problems and prospects for consumer fraud. Next, Pastor Herrera, Jr. looks at the immigrant experience with consumer fraud and how it is changing to reflect today's circumstances. Finally, Stephen Gurwitz provides an overview of the Federal Trade Commission's fight against Internet fraud.

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Problems and Prospects

As one addresses the topic of consumer fraud, a few observations almost immediately come to mind. One concerns the extraordinary variety of activities that are subsumed under the topic, ranging from pigeon drop scams to sweepstakes swindles. A second observation concerns the recent changes that have occurred in these activities, reflecting major developments in contemporary America on the human side (e.g., more immigrants), and the technological side (e.g., more complex devices in the home and marketplace). A third observation considers the absence of a national policy to deal with consumer fraud - a policy that would not only identify the consumer scams that are most in need of national attention, but also lay out a battle plan to combat them. This absence, in turn, reflects a fourth observation and that is the paucity of reliable research data on the various types of consumer fraud. Without such data, it is difficult, if not impossible, to formulate and implement a realistic plan of attack and to evaluate its effectiveness.

It would appear that consumer scams highest on the list needing national attention share three characteristics that might be referred to as the three C's of consumer fraud:

1. They are commonly committed,
2. They are costly, and
3. They are likely to be "conquerable," and at a not unreasonable cost to the individual and/or society.

How does one go about conducting research to identify scams satisfying the three C's of consumer fraud? Not surprisingly, the question is far easier to ask than to answer. And not surprisingly too, even when an answer is uncovered, it turns out to be tentative and ambiguous. For without solid data on incidence and costs, it is difficult to say much with certainty about consumer scams per se or about the impact of various corrective measures on these scams.

In light of the difficulties in establishing a rigorous research foundation to support a comprehensive consumer fraud policy, it is necessary to explore other approaches. What may be a viable alternative consists of a systematic but less rigorous research approach, one that is based on subjective estimates of our three C's made by teams of social scientists and consumer protection practitioners with knowledge and research experience in the individual areas of consumer fraud. By providing estimates of how common, costly and conquerable individual scams are in the marketplace, these teams may be able to provide useful inputs to policy makers charged with the responsibility for coping with the continuing threat of consumer fraud to individual Americans. Indeed, through such a systematic effort it may be possible to design a battle plan to guide a national campaign against consumer fraud.

The Immigrant Experience with Consumer Fraud

Immigrants, like the rest of the population, are consumers. However, many lack the most basic knowledge of the American marketplace. Additionally, many lack important consumer protection information that could help

them avoid becoming fraud victims. The experience of the Los Angeles County Department of Consumer Affairs, which serves over 500,000 consumers annually, indicates that the immigrant population is most susceptible to the following types of consumer fraud:

1. Paralegal/Immigration Consultant Services - Many immigrants are misinformed about the services these firms provide to legalize immigrant status in this country. Many immigrants pay these "fly-by-night" consultants from \$2,000 to \$12,000 for these services.
2. Used Car Sales/Auto Leases - In many communities an automobile is not a luxury but a necessity. It is needed to find a job, get to work, and take the children to school. Since many immigrants do not speak or understand English, a high pressure salesperson will take advantage of them and misrepresent the terms of the contract and the type of document that the consumer is signing.
3. Vocational Schools - Immigrants know that in order to advance at their jobs and progress in this country, they need to learn English. However, many cannot attend day or evening community adult schools. Therefore, they sign up for classes at private vocational schools which may misrepresent the teaching method and the length of time that they need to learn English.
4. Door to Door Sales - As a result of a telephone call and the promise of a free gift, many immigrants are pressured into signing contracts for pots and pans (total cost: \$1,500), water filters (\$2,500 to \$5,000), computers for school-aged children (\$2,500), vacuum cleaners (\$2,500), and music lessons (\$1,200).
5. Private Employment Agencies - Bogus listings of job opportunities often cost immigrants \$50 to \$150. Many of the "agencies" are "fly-by-night" operators.
6. Credit Repair/Credit Offers - Immigrant consumers need to establish credit for many reasons: purchase an auto, rent an apartment, or find employment. Many pay up to \$600 to someone promising to obtain credit for them.
7. Health Products - Sales are common of herbal products and "medications" for the cure of cancer, arthritis, diabetes, HIV, etc.
8. Money Wiring Services - Many immigrants support their families in their native countries and need to wire money to them. Many are victims of exorbitant fees and commissions, as well as unfair exchange rates.

These are just a few of the immigrant problems that face consumer professionals in research and practice. The consumer educational needs of this ethnically diverse population should be addressed with materials that are sensitive to cultural background factors. Research needs to be undertaken to study consumer behavior of immigrants in the marketplace and to develop effective consumer education materials for this population. Movement in these directions should help assure that immigrants are less likely to be victimized by consumer fraud.

The Federal Trade Commission's Fight Against Consumer Fraud on the Internet

The FTC is the federal government's primary consumer protection agency. While most federal agencies have jurisdiction over a specific market sector, the Commission's jurisdiction extends over nearly the entire economy, including business and consumer transactions on the Internet.

Fraud on the Internet is an enormous concern for the Commission, and it has prompted a vigorous response using all the tools at the Commission's disposal, including law enforcement and education, the development of a fraud database, Consumer Sentinel, and the creation of a toll-free consumer helpline. The Commission faces a host of novel challenges in its efforts to combat fraud and deception online. As an entirely new medium, the Internet demands new methods of investigation. Because it is both global in its reach and instantaneous, the Internet lends itself well not only to adaptations of traditional scams - such as pyramid schemes and false efficacy claims - but also to new hi-tech scams that were not possible before the development of the Internet. In addition, because the Internet enables con artists to cloak themselves in anonymity, law enforcement authorities must act much more quickly to stop newly-emerging deceptive schemes before the perpetrators disappear. And because the Internet transcends national boundaries, law enforcement authorities must be more creative and cooperative in their efforts to combat online fraud.

To date, the Commission's commitment of resources to combating fraud and deception on the Internet has produced many impressive results. The Commission has targeted a wide array of consumer protection problems, and has done so with effectiveness and efficiency. From 1994 through 1999, the Commission brought over 100 Internet-related cases against over 300 defendants. It obtained injunctions stopping the illegal schemes, collected

over \$20 million in redress for victims, and obtained orders freezing another \$65 million in cases that are still in litigation. Its federal district court actions alone have stopped consumer injury from Internet schemes with estimated annual sales of over \$250 million.

Law enforcement alone cannot stop the tide of fraudulent activity on the Internet. Meaningful consumer protection depends on education and information as well. Consumers must be given the tools they need to spot potentially fraudulent promotions, and businesses must be advised about how to comply with the law. The Commission uses print publications and the Internet to reach many people with creative anti-fraud educational and informational messages, messages that are delivered quickly, simply and at low cost. Finally, as more consumers and businesses come online, Commission use of the Internet to disseminate helpful information will grow.

Endnotes

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