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“Hey Girlie, Want to Sell Your Soul?” How the U.S. Can Counteract Predatory Cult Activities Through the Lens of Fraudulent Business Schemes

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“Hey Girlie, Want to Sell Your Soul?” How the U.S. Can Counteract Predatory Cult Activities Through the Lens of Fraudulent Business Schemes

GEORGIA BRONSON

ABSTRACT

This paper investigates the parallels between predatory New Religious Movements (NRMs) and fraudulent business schemes such as pyramid and Ponzi schemes. By examining their recruitment tactics, psychological manipulation, and exploitation of economic vulnerabilities, this paper reveals how these organizations target socially and economically unstable populations for financial gain. The study proposes two strategic interventions: first, using the Social Vulnerability Index to develop proactive government responses, including targeted public service announcements and law enforcement education; and second, creating an IRS database requiring detailed financial reporting from tax-exempt organizations. The goal is to address systemic vulnerabilities through data-driven policy, increased transparency, and preemptive protective measures against these predatory organizations.

TABLE OF CONTENTS

ABSTRACT.....	401
TABLE OF CONTENTS.....	402
I. INTRODUCTION.....	403
II. “CLIMBING” THE STAIRS OF SUCCESS: PYRAMID/PONZI SCHEMES	406
<i>A. Catching the Con Artist</i>	406
i. Federal Law and Fraudulent Business Schemes.....	407
ii. Criminal and Civil Punishments: State vs. Federal	408
<i>B. Girl Boss, Gaslight, Gatekeep</i>	410
i. The “Girl Boss”.....	410
ii. The “Gaslighter”	411
iii. The “Gatekeeper”.....	412
iv. The Probability of Success.....	413
v. Mathematically Impossible = Legally Liable	414
vi. Factors of Susceptibility	416
III. “CLIMBING” THE STAIRWAY TO HEAVEN: NEW RELIGIOUS MOVEMENTS	417
<i>A. Becoming God</i>	418
<i>B. Cults, the First Amendment, and the IRS</i>	419
<i>C. Godhood, Gaslight, Gatekeep</i>	420
i. Godhood.....	420
i. Gaslight.....	421
ii. Gatekeep	423
<i>D. Your Favorite Smoothie Shops is Probably a Cult</i>	425
i. Pyramid Schemes vs. NRMs.....	427
IV. KILLING TWO BIRDS WITH ONE STONE: FIXING THE SYSTEM	429
<i>A. Follow the Data</i>	430
<i>B. The IRS Safety Net</i>	432
V. CONCLUSION	433

I. INTRODUCTION

Imagine, you open your favorite social media app to a direct message from an old classmate. The first line of the message states, "Hey girlie!!!" Uh oh—you know exactly what this means. Another one of your friends has fallen prey to the newest pyramid/Ponzi scheme on the market. Whether its knives,¹ skincare,² or diet tea,³ it is inevitable that someone will be persuaded by a "get rich quick" scheme that ends up costing them more than they will ever see.

Pyramid schemes and Ponzi schemes are technically different, but the terms fall under the same umbrella of fraudulent business practices.⁴ Many people confuse the two terms because of how similar the two business models are.⁵ Pyramid schemes are an illegal business model that scam individuals through top-down recruitment.⁶ Ponzi schemes are also an illegal business model that scams individuals through a top-down recruitment.⁷ The main difference is that pyramid schemes require individuals to invest money into a product or membership under the guise that they are an employee who "sells" products.⁸ Ponzi schemes, on the other hand, require individuals to invest into their business with a promise of high return rates with low risks, and "it relies on word-of-mouth, as new investors hear about the big returns earned by early investors."⁹ The key difference is how the scams are continuing their steady

1. David Lazarus, *Beware of this "important opportunity" for job-seeking students*, LOS ANGELES TIMES (June 23, 2020), <https://www.latimes.com/business/story/2020-06-23/cutco-knives-job-letter>.

2. Elizabeth S. Mitchell, *Is Rodan And Fields An MLM?*, THE LIST (Jan. 26, 2022), <https://www.thelist.com/747324/is-rodan-and-fields-an-mlm>.

3. Amy McCarthy, *The Truth About Herbalife, the Company Behind America's Latest Tea Obsession*, EATER (2022), <https://www.eater.com/22958985/loaded-teas-herbalife-mlm-silver-lining-lessons-dupes-nutrition-clubs> (Mar. 3, 2024).

4. Eric Harvey, *Ponzi Schemes*, FINDLAW, <https://www.findlaw.com/criminal/criminal-charges/ponzi-schemes.html> (Apr. 22, 2024).

5. *Id.*

6. *Multi-Level Marketing Businesses and Pyramid Schemes*, CONSUMER ADVICE (2022), <https://consumer.ftc.gov/articles/multi-level-marketing-businesses-pyramid-schemes> (Mar. 3, 2024).

7. *Ponzi Schemes*, INVESTOR.GOV, <https://www.investor.gov/introduction-investing/investing-basics/glossary/ponzi-schemes> (Mar. 3, 2024).

8. *Multi-Level Marketing Businesses and Pyramid Schemes*, *supra* note 6.

9. James Chen, *Ponzi Schemes: Definition, Examples, and Orgins*, INVEST-OPEDIA (June 10, 2024), <https://www.investopedia.com/terms/p/ponzi-scheme.asp>.

flow of cash.¹⁰ Ponzi schemes milk their investors, and pyramid schemes milk their “employees.”¹¹ Due to the incredible similarities between the two business models, this paper will use the terms “pyramid scheme” and “Ponzi scheme” interchangeably to refer to all fraudulent investment activities. There will be instances where this paper refers to a specific pyramid scheme or Ponzi scheme as an example of their effect on the legal system. All that matters is that these schemes operate using the same tactics, fall under the same FTC regulations, and produce the same end result.

These “businesses” use manipulative tactics to secure funds, recruit individuals, and avoid the Internal Revenue Services (IRS).¹² The United States has taken a rather broad approach to pyramid schemes, leaving it up to state courts to determine the prongs and punishment associated with this fraudulent activity through “iron-clad definitions.”¹³ While the Federal Trade Commission (“FTC”) bans this commercial con, victims rely heavily on state law for civil restitution.¹⁴

Pyramid schemes have been around since the 1920s,¹⁵ and their longevity within the United States’ economy is a testament to their success—leading to numerous studies regarding their viability.¹⁶ Certain social indexes, such as average poverty and education levels, determine the likelihood that a pyramid scheme will emerge in any given county within the United States.¹⁷ Moreover, economists have studied the likelihood a pyramid scheme will succeed, with the success rate determined by the probability of recruitment.¹⁸

Now imagine, a friend of yours has been telling you about this new group they recently became involved with. Over time, they provide literature, ask you deep and personal questions, and ultimately invite you to their meetings. The only thing they need in return, for now, is a membership fee. So, *what is the difference between the initial scenario and this one?* From what it sounds like, these are the tactics used by pyramid scheme recruiters to retain more victims. The second hypothetical, however, refers to New Religious

10. Harvey, *supra* note 4.

11. *Id.*

12. Paul Kim, *Understanding How Pyramid Schemes Work and 3 Ways to Detect Them*, BUS. INSIDER, (Apr. 8, 2022), <https://www.businessinsider.com/personal-finance/pyramid-scheme> (Mar. 3, 2024).

13. *Id.*

14. *Id.*

15. Chen, *supra* note 9.

16. Sarah J. Greenman et al., *County Trajectories of Pyramid Scheme Victimization*, 79 CRIME L. SOC. CHANGE 291 (2023).

17. *Id.*

18. J. L. Gastwirth & P. K. Bhattacharya, *Two Probability Models of Pyramid or Chain Letter Schemes Demonstrating That Their Promotional Claims Are Unreliable*, 32 OPER. RES. 527 (1984).

Movements ("NRMs")—more commonly known as cults.¹⁹ Although there are around 10,000 different cults within the United States, the larger, well-known NRMs are household names—known for their unconventional practices and likely deceitful behavior.²⁰ Since the "satanic panic" of the 1980s, cults have become an American fascination.²¹ Their taboo practices has led to popular documentaries that captivate audience around the globe.²² These documentaries, however, should serve as a warning rather than a wanting. With the recent pandemic and rise in inflation, NRMs are on the rise, but that is not the only predatory organization taking advantage of the instability.²³

Ponzi/pyramid schemes are often compared to cults due to their persistent recruiting techniques.²⁴ Like fraudulent business schemes, individuals who escaped predatory NRMs report to be in extreme debt due to the manipulative tactics used by higher-ups in the organization.²⁵ Unlike pyramid schemes, however, NRMs are automatically protected under the First Amendment of the United States Constitution because of their status as a religious organization.²⁶ While NRMs are allowed to practice their religion freely, it does not abrogate them from all laws. Unfortunately, the likelihood of the U.S. catching NRM fraudulent activity is severely diminished due to the lax tax policies surrounding religious organizations²⁷—that and many

19. For all intents and purposes of this article, the term NRM and cult will be used interchangeably because they are the same term. After speaking with an expert in the religious field, the term NRM is highly regarded in academia whereas the term "cult" is used more in pop-culture.

20. Yara Simón, *7 Cults in America: A History of Infamy*, HOWSTUFFWORKS, <https://people.howstuffworks.com/cults-in-america.htm> (Mar. 29, 2024).

21. Alan Yugas, *It's Time to Revisit the Satanic Panic*, N.Y. TIMES, <https://www.nytimes.com/2021/03/31/us/satanic-panic.html> (Mar. 29, 2024).

22. Jackie Bryant, *Why Are We Obsessed with Cults Right Now?*, PACIFIC SAN DIEGO (2020), <https://www.pacificsandiego.com/arts-culture/tv/story/2020-05-28/waco-wild-wild-country-cult-tv-shows> (Apr. 25, 2024).

23. Maria Konnikova, *The Next Wave of Extremist Cults Will Make QAnon Look Tame*, WIRED, <https://www.wired.com/story/extremist-cults-qanon> (Apr. 25, 2024).

24. MaryClare StFrancis, *Cults, Pyramid Schemes, and Organized Crime*, MEDIUM: AGE OF EMPATHY (Mar. 3, 2023), <https://medium.com/age-of-empathy/cults-pyramid-schemes-and-organized-crime-50ae68d29d5d>.

25. Joel Sappell & Robert W. Welkos, *6 Ex-Scientologists File \$1-Billion Suit Over Funds, Secrets*, L.A. TIMES (Jan. 1, 1987), <https://www.latimes.com/archives/la-xpm-1987-01-01-me-1942-story.html>.

26. *Are Cults Legal?*, HG.ORG, <https://www.hg.org/legal-articles/are-cults-legal-35055> (Mar. 29, 2024).

27. *Churches, Integrated Auxiliaries, and Conventions or Associations of Churches*, INTERNAL REVENUE SERVICE, <https://www.irs.gov/charities-non-profits/churches-integrated-auxiliaries-and-conventions-or-associations-of-churches> (Mar. 29, 2024).

investigations rely upon word-of-mouth reports from former members or individuals weary of a local group's activities.²⁸

This paper will first examine fraudulent business schemes through a legal, psychological, and statistical analysis. Then, this paper will explore the legality of Ponzi/pyramid schemes, and the legal remedies provided. Next, Ponzi/pyramid schemes will be dissected by asking the question: *why join them?* From there, this paper will explore the mathematical likelihood of success along with factors of susceptibility.

Second, this paper will explore the topic of NRMs. Similarly, it will be examined through the legal and psychological analysis parallel to the previous sections. Following, cults and fraudulent business practices will be compared against each other. Finally, this article will look at potential solutions government entities can implement to curtail both fraudulent business conduct and predatory cult activities.

II. "CLIMBING" THE STAIRS OF SUCCESS: PYRAMID/PONZI SCHEMES

Since the original "Ponzi Scheme," fraudulent business schemes come in all shapes and sizes, but the uniting factor is that they operate under the same umbrella of federal and state laws.²⁹ The different names, pyramid and Ponzi, are used to indicate which type of fraud is being committed.³⁰ Overall, these schemes are a type of business that operates through a top-down process where the "top" person(s) controls the wealth by promising the "bottom" individuals to see a return on their investments so long as they continue to recruit individuals and sell their products, most of which are a sham.³¹

A. *Catching the Con Artist*

These capitalist cons all operate through a top-down process. The person at the top of the pyramid makes the most money, and individuals at the bottom are expected to bring in more members in hopes of seeing a return on their

28. L. Zilliox, Jr. & L. Kahaner, *How To Investigate Destructive Cults and Underground Groups: An Investigator's Manual*, OFFICE OF JUST. PROGRAMS (1991), <https://www.ojp.gov/ncjrs/virtual-library/abstracts/how-investigate-destructive-cults-and-underground-groups> (Mar. 29, 2024).

29. Ponzi Schemes, *supra* note 7.

30. Arthur Pinkasovitch, *Ponzi Scheme vs. Pyramid Scheme: What's the Difference?* INVESTOPEDIA, <https://www.investopedia.com/ask/answers/09/ponzi-vs-pyramid.asp> (May 6, 2024). (Ponzi schemes refers to general fraudulent investments whereas pyramid schemes are fraudulent product investments. Both are illegal, but Ponzi schemes are easier to catch than pyramid schemes).

31. Multi-Level Marketing Businesses and Pyramid Schemes, *supra* note 6.

initial investment.³² Ponzi/pyramid schemes put on the façade that by giving more money to their recruiter, they will accumulate higher profits or see a higher return in their investment.³³

It is important to note that there is a difference between Ponzi/pyramid schemes and multi-level marketing schemes ("MLMs").³⁴ MLMs also operate through a top-down recruitment process; however, MLMs "will pay based on [an employee's] sale to retail customers, without having to recruit new distributors."³⁵ The main difference between MLMs and pyramid schemes is that MLMs receive a large portion of their revenue from sales whereas pyramid schemes generate their revenue from recruitment and investments into the initial product.³⁶

In the diagram to the right, the hypothetical pyramid scheme leader recruited twenty people total. Each of those individuals would have paid the leader to join the investment, and to see a return on those funds, they must recruit a certain number of individuals into the business. All the "employees" will pay a large fee to join; a cut of that fee goes to the first group of investors, and an even larger cut goes to the leader. The percentage of the cut gets smaller as the pyramid extends further from the top. This ploy continues with people at the bottom of the pyramid seeing little to no return on their initial investment, even if they are pulling in more recruits than their recruiter.

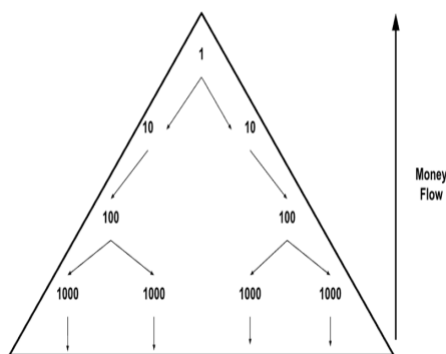


Figure 1 Diagram of Pyramid Scheme

i. Federal Law and Fraudulent Business Schemes

The United States Government employs multiple organizations towards catching the con artist, including the Federal Trade Commission (FTC),

32. Kim, *supra* note 12.

33. *Id.*

34. United States Sec. and Exch. Comm'n, *Pyramid Schemes*, Investor.gov, <https://www.investor.gov/protect-your-investments/fraud/types-fraud/pyramid-schemes> (Mar. 3, 2024).

35. FED. TRADE COMM'N, *supra* note 6.

36. *Id.*

Securities and Exchange Commission (“SEC”), and the Federal Bureau of Investigation (“FBI”).³⁷ According to the FTC, pyramid schemes are illegal due to their deceptive trade practices.³⁸ Similarly, the SEC “bring[s] legal actions to enjoin companies operating pyramid schemes and level charges of fraud and securities regulations violations.”³⁹ Finally, the FBI’s white-collar crime unit investigates pyramid schemes and Ponzi schemes – bringing both criminal and civil charges against those who violate the law.⁴⁰

Under § 10b-5(a) and (c) of the SEC, “it shall be unlawful for any person, directly or indirectly, . . . to employ any device, scheme, or artifice to defraud . . . in connection with the purchase or sale of any security.”⁴¹ To prove fraudulent intent, the government must satisfy a four-prong test showing: deposits were made by investors, (2) [defendant] conducted little or no legitimate business operations as represented to investors, (3) [defendant’s] purported business operation produced little or no profits or earnings, and (4) source of payments to investors was cash infused by new investors.⁴²

Accordingly, to prevail on a pyramid or Ponzi scheme claim, “the SEC must prove that [a person] committed the acts described in either subsection (a) or (c) . . . [as] defined by the Supreme Court as ‘a mental state embracing intent to deceive, manipulate, or defraud.’”⁴³ As such, businesses that seem legitimate can still be found criminally and civilly liable for fronting as a Ponzi/pyramid scheme.⁴⁴ In fact, the FTC, SEC, and FBI can investigate any business for fraudulent activity, and if found guilty, they are likely to face punishments in both state and federal civil/criminal courts.⁴⁵

ii. Criminal and Civil Punishments: State vs. Federal

Victims of fraudulent business schemes rely upon state law for more “iron-clad definitions” than the prevailing federal law.⁴⁶ The federal courts . . . On the other hand, state laws have incredibly explicit statutes that define what

37. Pyramid Schemes, FINDLAW, <https://www.findlaw.com/criminal/criminal-charges/pyramid-schemes.html> (Apr. 22, 2024).

38. *Id.*

39. *Id.*

40. *Id.*

41. Sec. & Exch. Comm’n v. Traffic Monsoon, LLC, 245 F. Supp. 3d 1275, 1285 (D. Utah 2017); *aff’d sub nom* Sec. & Exch. Comm’n v. Scoville, 913 F.3d 1204 (10th Cir. 2019).

42. U.S. S.E.C. v. St. Anselm Expl. Co., 936 F. Supp. 2d 1281, 1294 (D. Colo. 2013); *citing* In re Whitley, 2012 at 4 (Bkrctcy.M.D.N.C. Jan. 19, 2012).

43. *Id.* at 1293.

44. Miller v. Wulf, 84 F. Supp. 3d 1266, 1272-73, 1276 (D. Utah), *aff’d*, 632 F. App’x 937 (10th Cir. 2015).

45. *Id.*

46. Kim, *supra* note 12.

a fraudulent business scheme is on top of their civil and criminal liabilities statutes. One example of this is the state of Missouri: defining pyramid schemes as,

[A]ny plan or operation for the sale or distribution of goods, services or other property wherein a person for a consideration acquires the opportunity to receive a pecuniary benefit, which is not primarily contingent on the volume or quantity of goods, services, or other property sold or distributed or to be sold or distributed to persons for purposes of resale to consumers, and is based upon the inducement of additional persons, by himself or herself or others, regardless of number, to participate in the same plan or operation[.]⁴⁷

In Missouri criminal law, any person found "willfully violating any of the provisions of section 407.405 is guilty of a class E felony"⁴⁸ – subjugating themselves to a maximum of four years prison time, one year jail time, or a fine of up to \$10,000.⁴⁹ Some states, such as Connecticut, have even stricter laws with fines as high as \$25,000 per count.⁵⁰

Federal courts, on the other hand, can impose criminal liabilities that exceed the state's statutory punishment. In 2023, the DOJ sentenced LaShonda and Marlon Moore for "defraud[ing] thousands of participants of more than ten million [dollars]."⁵¹ They each face a maximum penalty of 20 years in federal prison "for each wire fraud count and ten years in prison for each money laundering count" with nine counts split between the couple.⁵²

Civily, state courts provide significantly higher restitution for victims. In Missouri, individuals found liable for pyramid scheme activities are required to pay the victim "in an amount equal to sum of twice the amount of consideration paid, and . . . the costs of the action together with a reasonable attorney's fee . . ."⁵³

47. MO. ANN. STAT. § 407.400; *See* MO. ANN. STAT. § 407.405 (codifying that pyramid sales schemes are prohibited within the state of Missouri).

48. MO. ANN. STAT. § 407.420.

49. MISSOURI DWI & CRIM. L. CENTER, *Class E Felony*, FELONY MO, (Sep. 22, 2021) <https://www.dwicriminalawcenter.com/felony-missouri/>.

50. *Connecticut Pyramid and Ponzi Scheme Laws*, FINDLAW, (Jun. 20, 2016), <https://www.findlaw.com/state/connecticut-law/connecticut-pyramid-and-ponzi-scheme-laws.html> (noting that fines can exceed \$25,000 for a single offense).

51. Press Release from Office of Public Affairs, *Couple Charged for Operating Multimillion-Dollar Pyramid Scheme*, UNITED STATES DEPARTMENT OF JUSTICE, (Nov. 9, 2023), <https://www.justice.gov/opa/pr/couple-charged-operating-multimillion-dollar-pyramid-scheme>.

52. *Id.*

53. MO. REV. STAT. § 407.410 (1975).

So, if you are planning to start a pyramid or Ponzi scheme, know that, when caught, you are likely to face upwards of 20-year sentences in federal court, multiple-year sentences in state court, fines in state court upwards of 25,000 dollars, and restitution costing you double the amount scammed from every single investor plus their attorney's fees.

B. *Girl Boss, Gaslight, Gatekeep*

Any business can become fraudulent; all it takes is a little charisma, no ethics, and a couple of clueless investors. Not all multi-level marketing schemes are pyramid schemes, but all pyramid schemes are illegal.⁵⁴ It is a very legitimate business practice to obtain sales based on commission,⁵⁵ but funneling money from the bottom to the top is where the U.S. government draws the line between genuine and felonious.⁵⁶ Conversely, ascertaining between real or fake can be incredibly difficult – everyone is a potential target.⁵⁷ As the title of this section suggests, the internet meme, “girl boss, gaslight, gatekeep,”⁵⁸ can be used to symbolize the trichotomy of fraudulent business scheme tactics to trap individuals into their program.⁵⁹

i. The “Girl Boss”

The first tactic pyramid schemes use to gain followers is by making the individual believe they are a part of the organization by promising high rewards.⁶⁰ The “girl boss” in this situation believes they are running their own practice.⁶¹ Because many of these schemes target women, a large portion of

54. Alden Wicker, *Multilevel-marketing companies like LuLaRoe are forcing people into debt and psychological crisis*, QUARTZ, (Aug. 06, 2017), <https://qz.com/1039331/mlms-like-avon-and-lularoe-are-sending-people-into-debt-and-psychological-crisis/>.

55. Evan Tarver, *What Is an MLM? How Multilevel Marketing Works*, INVESTOPEDIA, <https://www.investopedia.com/terms/m/multi-level-marketing.asp> (Mar 3, 2024).

56. Andrew Bloomenthal, *What Is a Pyramid Scheme? How Does It Work?*, INVESTOPEDIA, (Jun. 03, 2024), <https://www.investopedia.com/insights/what-is-a-pyramid-scheme/>.

57. Steven A Hassan, *Multi-Level Marketing Groups Operate Much Like Cults*, PSYCH. TODAY, (Jan. 14, 2022), <https://www.psychologytoday.com/us/blog/freedom-mind/202201/multi-level-marketing-groups-operate-much-cults>.

58. Phillip Hampton, *Gaslight, Gatekeep, Girlboss*, KNOW YOUR MEME (2021), (Nov. 2, 2022), <https://knowyourmeme.com/memes/gaslight-gatekeep-girlboss>.

59. Greenman et al., *supra* note 16, at 293-94.

60. United States Sec. and Exch. Comm'n, *supra* note 34.

61. Whicker, *supra* note 54.

their marketability relies upon sisterhood and independence.⁶² Specifically, pyramid schemes recruit women who want to have it all. In a recent publication about the pyramid scheme epidemic, author Emily Lynn Paulson describes it as: the direct-sales pitch is that this woman can run a cottage industry from home in her spare time, on her own terms, without having to pay for a babysitter or a business degree [and] surrounded by a like-minded community of effusive salespeople and instant friends.⁶³

In the popular scheme LuLaRoe, sellers were encouraged to put in their own finances in order to buy more inventory, even if it meant sacrificing their other financial duties.⁶⁴ LuLaRoe is a fashion pyramid scheme that marketed to women that they could become fashion merchandising wholesalers that would "generate substantial income while still being able to spend time at home with their families."⁶⁵ All they needed to do was pay an onboarding fee of 2,000 to 9,000 dollars to participate.⁶⁶ While a spokesperson has come out and discouraged this practice, many sellers have stated that after following the advice of their recruiters, many individuals were down thousands of dollars with no hope in sight. By giving people the false sense of hope that they can be their "own girlbosses," these scams are able to lure in almost any person – especially someone short on cash and time.

ii. The "Gaslighter"

The second element, gaslight, aligns with the original definition of the word. Gaslighting is the act of intentionally making a person believe that what they are seeing or feeling is not true, creating a power imbalance between the aggressor and the victim.⁶⁷ Eventually, the person being gaslit will not trust their own opinions or assumes the gaslighter is correct; thus, giving the manipulator the power to control any given situation.⁶⁸ Pyramid schemes do the same thing by going to extreme lengths to convince a person that this business model will eventually create substantial and consistent profits.⁶⁹

62. Jessica Winter, *The Unkillable Appeal of Multilevel Marketing*, THE NEW YORKER, (Mar. 2024), <https://www.newyorker.com/books/under-review/the-unkillable-appeal-of-multilevel-marketing>.

63. *Id.*

64. Whicker, *supra* note 54.

65. Sperring v. LLR, Inc., No. 5:19-CV-00433-AB-SHK, 2019 WL 13240893, at*1 (C.D. Cal. July 23, 2019).

66. *Id.*

67. Marissa Conrad, *What Is Gaslighting? Examples And How To Deal With It*, FORBES HEALTH (May 15, 2024), <https://www.forbes.com/health/mind/what-is-gaslighting>.

68. *Id.*

69. United States Sec. and Exch. Comm'n, Pyramid Schemes., *supra* note 34.

In a personal blog, one victim of a beauty pyramid-scheme described their experience as being gaslit, that if they were “prettier or skinnier, [they] could hit the top of the company.”⁷⁰ This form of manipulation preys upon people who are in vulnerable positions.⁷¹ Many of these individuals are single mothers, immigrants, and college students who do not have consistent income or are in need of extra cash under the guise of their “business” being passive income.⁷² Because a seller has to invest their own money into the products, they continue to chase sales by investing more money than they are receiving.⁷³ Initial buy-ins can range from 1,000 to 10,000 dollars for start kits, and their “supervisors” continuously gaslight the victims by promising if they just making a little bit more, they will make five or even six figures on sales alone.⁷⁴

iii. The “Gatekeeper”

The final tactic, gatekeep, refers to the idea of keeping the seller separate from the scheme. This is done by gatekeeping funds, tax reports, financial statements, and product information. In conjunction with the “gaslight” and “girl boss” recruitment tactic, pyramid scheme promoters “make extravagant promises about [people’s] earning potential,” yet keep individuals in the dark when it comes to actual profits made.⁷⁵ By gatekeeping these vital business practices from their actual “employees,” the pyramid scheme looks legitimate on the outside.

Think of pyramid/Ponzi schemes like a termite or mold infestation. From the outside, the house seems fine. With mold or termites, it takes time for the infestation to make its way from the inner core of the foundation to the outer drywall. Thus, when the owner finally sees the signs of deterioration, the house is completely hazardous – requiring hundreds of hours of work to repair. Ponzi schemes such as Bernie Madoff, who in 2008 accumulated over 64.8 billion dollars in client assets, were not caught until thousands of individuals were conned.⁷⁶ From the early 1990s, Madoff had secured over

70. Lillie Endicott, *The Story of a Recovering MLM'er*, MEDIUM (Aug. 9, 2021), <https://medium.com/@lillieendicott/the-story-of-a-recovering-mlmer-a653065c2cec>.

71. Veda Kota, *The Daily Targum*, THE DAILY TARGUM (Mar. 3, 2022), <https://targum.com>.

72. Are MLMs Scams or Entrepreneurial Opportunities?, BUSINESS.COM (May 15, 2024) <https://www.business.com/articles/mlms-target-women-and-immigrants>.

73. Caroline Thompson, *How to Get a Friend Out of an MLM*, VICE (Oct. 22, 2018), <https://www.vice.com/en/article/43e573/how-to-get-a-friend-out-of-an-mlm-herbalife-amway-younique>.

74. Kota, *supra* note 71.

75. FED. TRADE COMM’N, *supra* note 6.

76. Adam Hayes, *Bernie Madoff: Who He Was, How His Ponzi Scheme Worked*, INVESTOPEDIA, (updated June 23,

170 billion dollars through unmade promises, grooming client's trust, and incredible networking skills.⁷⁷ Another notable scheme, that only ran from 2017 to 2019, accumulated over 99 million dollars in investments for a wine collection that never existed.⁷⁸ In both scenarios, the "owners" were able to amass millions and billions of dollars by withholding vital information regarding their business practices. Madoff, for example, when asked about investment returns and documentation, "made-up a six-page list, the SEC drafted letters to two of [his] firms listed but did not send them."⁷⁹ These two plots, alone, show how lucrative a pyramid scheme can be for just a few people, and their success hinges upon the gatekeeping tactic.

iv. The Probability of Success

Pyramid schemes have been around for over 100 years.⁸⁰ Since Charles Ponzi's "brilliant" plan to con millions, others have taken the scheme to new heights, from mail scams⁸¹ to fake internet influencers.⁸² Because of their success, economists and mathematicians began studying the phenomenon including their successfulness,⁸³ likely indicators,⁸⁴ and overall market trends.⁸⁵

2024), <https://www.investopedia.com/terms/b/bernard-madoff.asp> (last visited Mar 29, 2024).

77. *Id.*

78. Erin Nolan, *2 Men Bilked Wine Investors Out of \$99 Million in Ponzi Scheme*, *U.S. SAYS*, N. Y. TIMES (Dec. 16, 2023), <https://www.nytimes.com/2023/12/16/nyregion/wine-ponzi-scheme-charges.html>.

79. Hayes, *supra* note 76.

80. Chen, *supra* note 9.

81. *Pyramid Schemes*, U. S. POSTAL INSPECTION SERV., <https://www.uspis.gov/news/scam-article/pyramid-schemes> (Mar. 29, 2024).

82. Nick Donen, *The Role of Social Media in the Proliferation of Pyramid Schemes*, MEDIUM (Sep. 9, 2023), <https://medium.com/@soccernick/the-role-of-social-media-in-the-proliferation-of-pyramid-schemes-social-edc170b80cae>.

83. Gastwirth & Bhattacharya, *supra* note 18, at 1.

84. Greenman et al., *supra* note 16.

85. Greg Iacurci, *Ponzi Schemes Hit the Highest Level in a Decade*, CNBC (Mar. 29, 2024), <https://www.cnbc.com/2020/02/11/ponzi-schemes-hit-the-highest-level-in-10-years.html>

v. Mathematically Impossible = Legally Liable

The model scam⁸⁶ used by prominent 20th century economists is the “Golden Book of Values” case.⁸⁷ In 1970s Connecticut, people were offered dealerships in a “Golden Book of Values for a fee of 2,500.”⁸⁸ Each book included a number of discounts that could be sold to the public for 15\$ a book.⁸⁹ With each person recruited, the seller would receive 900\$ per recruit, and by the end of the year, the company promised “the participant [that they] should receive \$21,600.”⁹⁰ During the trial against owner, James Sanford, and the company, Golden Book of Values, Inc., a statistics professor testified that “there would be a tripling of the number of dealers per month[,] and by the end of 18 months, the geometric progression would exhaust the population of the United States,” thus making it impossible for anyone to ascertain anything close to the projected profit for one year.⁹¹

Profitability of any business venture is deduced by analyzing “the initial investment to the expected return over a period of time.”⁹² By calculating the opportunity to pay c dollars to enter a venture that has N number of participants in which the recruitment fee is d dollars, one should expect to see a return after the k th entrant.⁹³ Thus the formula comes out to:

$$S_k = \sum_{i=k}^{N-1} X_i,$$

Where $X_i = 1$, with probability $p_i = 1/i$, and $[] = 0$, with probability $1 - 1/i$. Therefore, by adding in the element of recruitment, the problem is:

$$\sum_{i=k}^{N-1} \frac{1}{i} \sim \ln \left[\frac{N - \frac{1}{2}}{k - \frac{1}{2}} \right].^{94}$$

86. The term “model scam” refers a common mail fraud scheme from the 1970s that is commonly used by mathematicians in the mid-to-late 20th century who studied the statistical probability of pyramid schemes.

87. Gastwirth & Bhattacharya, *supra* note 18.

88. *Id.*

89. *Id.*

90. *Id.*

91. *Id.*

92. Joseph L. Gastwirth, *A Probability Model of a Pyramid Scheme*, 31 AM. STAT. 79 (1977).

93. *Id.*

94. *Id.*

If this were not a fraudulent business scheme, individuals should see the profit increase with the number of recruits, but because pyramid schemes do not return the value of the initial investment, individuals receive a fraction of their stock at a rate of:

$$\left[\frac{K-2}{K-1} \right] \times \left(\frac{d}{c} \right)^{.95}$$

By the 240th recruit, individuals have only a 0.00626% yield of seeing a repay on their share.⁹⁶ In a similar study, it was determined that "participants who entered the chain when [the scheme] was only 10% of its ultimate size earned big money (\$5,000 or more) in only 6% of the cases and received no payment in about half of the cases."⁹⁷ This is what makes pyramid/Ponzi schemes illegal. It is mathematically impossible for anyone to see a return on their investments; therefore, the business is committing fraud against the employee/investor through means of deliberate financial exploitation. Ultimately, anyone who falls prey to a pyramid/Ponzi scheme is statistically destined to fail.

95. *Id.*

96. *Id.*

97. Gastwirth & Bhattacharya, *supra* note 18.

vi. Factors of Susceptibility

Additionally, researchers have conducted statistical analysis on the community-level vulnerability for a pyramid scheme to take root.⁹⁸ Using the Social Vulnerability Index, certain contextual factors are evaluated to determine whether “an area [is] more or less susceptible to the prolific and rapid spread of pyramid schemes.”⁹⁹ Certain characteristics within a community are common indicators of fraudulent activity. For example, economic stress, such as a recession, is a major indicator of fraudulent activity.¹⁰⁰ During the 2008 Great Recession, over 40 Ponzi schemes were uncovered with a combined \$23 billion dollars in fraudulent investments.¹⁰¹ In 2019, the FTC prosecuted 60 Ponzi schemes – discovering \$3.25 billion total,¹⁰² and this number has continued to increase alongside inflation. As

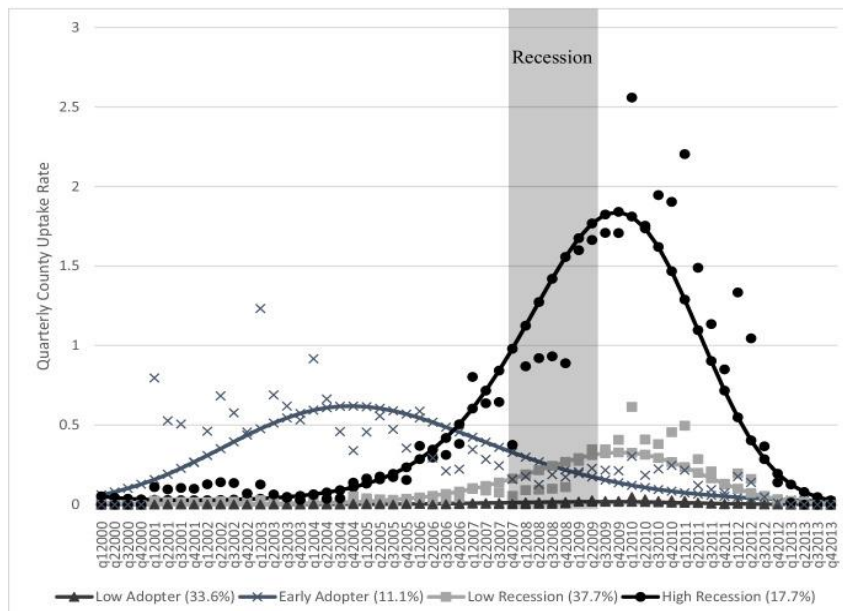


Figure 2 Group based trajectory model of county quarterly pyramid scheme uptake.

98. Greenman et al., *supra* note 16.

99. *Id.* at 304.

100. Greg Iacurci, *supra* note 85.

101. *Id.*

102. *Id.*

of 2023, 66 Ponzi schemes have been discovered which amounts to one scheme found every five days.¹⁰³

From December 2007 to December 2009, researchers calculated the percent of pyramid schemes created based on the strain theory.¹⁰⁴ The strain theory states that during times of economic strain, fraudulent activity, especially that of pyramid schemes, will peak.¹⁰⁵ Looking at the graph above, the groups labeled as "high recession" saw their peak levels of activity during the height of the 2008 economic recession.¹⁰⁶

Certain factors, alongside the economic recession, were significant to the success of a pyramid scheme. For example, towns with community opportunity¹⁰⁷ were less likely to have fraudulent businesses due to their low Social Vulnerability Index; however, towns with high unemployment rates, reduced community membership opportunities, and a lack of local activity centers contribute to an increased likelihood that a pyramid scheme would begin and succeed in any given county within the United States.¹⁰⁸ Additionally, the COVID-19 pandemic increased the vulnerability of communities, allowing for more fraudulent behavior to spike in the United States since 2020.¹⁰⁹

This research supports the notion that pyramid schemes prey upon isolated and vulnerable individuals. When a group of people are in a socially vulnerable situation with other individual isolating factors (such as being a stay-at-home or single mother), predatory business schemes are more likely to take hold and scam already struggling individuals out of their money.

III. "CLIMBING" THE STAIRWAY TO HEAVEN: NEW RELIGIOUS MOVEMENTS

Predatory NRMs, more commonly referred to as cults, have gotten their name because their religious practices are considered socially deviant

103. *Ponzi Schemes Hit 7-year high in 2023*, PONZITRACKER (January 05, 2024), <https://www.ponzitracker.com>.

104. Greenman et al., *supra* note 16, at 305.

105. *Id.*

106. *Id.* at 306, *Fig. 2* (graph) (where high recession refers to pyramid schemes that started right before or during the 2008 Great Recession).

107. *Id.* (Community opportunities include physical fitness facilities, sports clubs, labor organizations, bowling centers, and political organizations. This allows members of the community to make friends and have a hobby they can enjoy with likeminded individuals.).

108. Greenman et al., *supra* note 16, at 306.

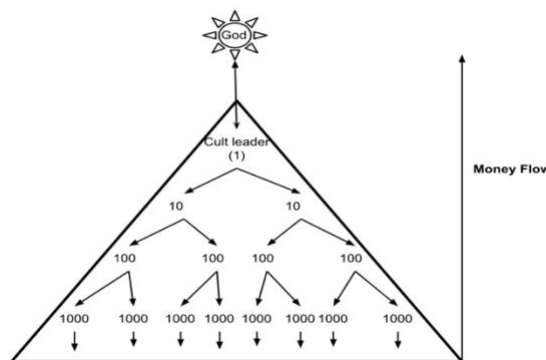
109. Yun Zhang et al., *Vulnerability and Fraud: Evidence from the COVID-19 Pandemic*, 9 HUMANIT. SOC. SCI. COMM'N. 424 (2022).

by the general public.¹¹⁰ Like other taboo groups that deviate from mainstream practices, NRMs are treated negatively because their authoritarianism characteristics directly collide with the ideals of “American freedom.”¹¹¹ There are a variety of cults within the United States, ranging from doomsday to political cults to sex cults.¹¹² If there is such a hysteria surrounding cults, *why do people join them?* Like pyramid schemes, people are looking for a place to belong.¹¹³ According to researchers, “the human drive to form social relationships and need to belong may contribute to an individual’s decision to seek out [cults].”¹¹⁴ Thus, cult leaders are put in the perfect position to exploit their followers for their own political, personal, and financial gains.

A. *Becoming God*

Are you having trouble finding God? Try becoming one! Just like pyramid schemes, cults are set up through a top-down process with a charismatic and controlling leader at the top who recruits individuals with the intention of gaining more followers.¹¹⁵ Through a process of isolation and think

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Figure 3 Diagram of NRM

110. Sara Li, *What Is a Cult and Why Do People Join Them?*, TEEN VOGUE (2023), <https://www.teenvogue.com/story/what-is-cult>.

111. Catherine Kaufman, *Cults and Religious Freedom in the United States*, POLICY PERSPECTIVES (Nov. 8, 2019), <https://policy-perspectives.org/2019/11/08/cults-and-religious-freedom-in-the-united-states/> (Mar. 30, 2024).

112. Li, *supra* note 110.

113. *Id.*

114. Melissa M. Greiser, *Understanding Cult Membership: Beyond “Drinking the Kool-Aid,”* ALT. CONSIDERATIONS OF JONESTOWN & PEOPLES TEMPLE (Jan. 4 2020), https://jonestown.sdsu.edu/?page_id=93938 (last visited Mar 30, 2024).

115. Isaac Thomas, *Anatomy of cults*, LINKEDIN, (Nov. 24, 2022), <https://www.linkedin.com/pulse/anatomy-cult-isaac-thomas>.

your financial commitment to the church.¹¹⁶

In the movies, people are accustomed to seeing cults in rural areas,¹¹⁷ but cults recruit people from every corner of society: "social media discussion groups, community events, and the like."¹¹⁸ Cults such as the Manson Family preyed upon rebellious runaways, the Sullivians operated virtually in Manhattan's Upper West Side, and Heaven's Gate targeted doomsday preppers with a sci-fi twist.¹¹⁹ Anyone is vulnerable, making predatory NRMs just as dangerous as fraudulent business activities. Like pyramid schemes, NRM leaders hold just as much power, gain just as much money, but are less likely to be caught for their deceitful behavior. For all intents and purposes, this paper will focus specifically on religious cults (NRMs).

B. *Cults, the First Amendment, and the IRS*

Previously, this paper used a metaphor comparing a termite/mold infestation to a pyramid scheme. That same metaphor can be applied to predatory NRMs; the groups, however, have one large protection that hinders federal entities from catching the infestation: the United States Constitution. The First Amendment guarantees individuals the right to freely practice any religion.¹²⁰ To distinguish between a regular organization and a religious organization, groups must undergo the Lemon test.¹²¹ The Lemon test states that a religious organization must have "(1) a secular purpose; (2) have predominantly secular effect; and (3) not foster 'excessive entanglement' between government and religion."¹²² Once established, the organization reaps the benefits of the U.S. Constitution—including tax benefits provided by the IRS.¹²³

116. Lisa Kohn, *Growing up in a Cult Taught Me It Was Sinful to Spend Money on Myself, and That Took Me over a Decade to Unlearn*, BUS. INSIDER (Mar. 22, 2022), <https://www.businessinsider.com/personal-finance/leaving-cult-lessons-about-money-2022-3>.

117. MIDSOMMAR (2019). (Midsommar is one popular example of films based on NRMs. The cult is set in the Swedish countryside with miles of land between them and the nearest town).

118. *The Psychology of Cults*, UT PERMIAN BASIN ONLINE (2023), <https://online.utpb.edu/about-us/articles/psychology/the-psychology-of-cults> (Mar. 30, 2024).

119. *Id.*

120. U.S. CONST. AMEND. I, § 3.

121. *First Amendment and Religion*, U. S. COURTS, <https://www.uscourts.gov/educational-resources/educational-activities/first-amendment-and-religion> (Apr 3, 2024).

122. P. *The Lemon Test*, PEW RSCH. CTR. (May 14, 2009), <https://www.pewresearch.org/religion/2009/05/14/shifting-boundaries6>; see *Lemon v. Kurtzman*, 403 U.S. 602 (1971).

123. U. S. Courts, *supra* note 121.

Although this right “can be abridged if its exercise would infringe on the rights of others,”¹²⁴ regular manipulation is not illegal. The problem lies in the ability to catch the perpetrators. If individuals within a group commit illegal acts, they, or the entire organization, can be prosecuted.¹²⁵ The leaders, however, can switch the core ideology of the religion whenever they want, making it nearly impossible for legal action to take place when illegal activity is suspected.¹²⁶ Because cult members base their identity in the cult, members are likely to justify their relationship to the organization rather than admit the wrongdoings of leaders—even if members were directly hurt by the leaders.¹²⁷ Thus, the system relies on former cult members who are willing to admit the wrongdoings of their leader.

C. Godhood, Gaslight, Gatekeep

The manipulation tactics used by NRMs are incredibly similar, if not identical, to the ones used by pyramid schemes.¹²⁸ This paper will explore broad, over-arching tactics that have been observed by experts throughout the 20th and 21st century.

i. Godhood

The defining motivation to join a cult is the need to belong.¹²⁹ This need to belong is so prevalent that individuals without social relationships are likely to be at high risk for various physical and mental health issues.¹³⁰ Consequently, if a NRM promises someone a loving environment, becoming part of the cult would satisfy their innate desire for connection.¹³¹

This desire, however, can lead to deadly consequences. For example, the “Manson Family” was a well-known cult in the 1960s that ended when the leader, Charles Manson, used women to kill for him through his racially-charged “religious” messages.¹³² Charles Manson ascended to the level of godhood through acid trips “where he felt like he was being crucified, and he took these [hallucinations] to mean that he was the coming

124. Are Cults Legal?, *supra* note 26.

125. *Id.*

126. *Id.*

127. Greiser, *supra* note 114.

128. Hassan, *supra* note 57.

129. Greiser, *supra* note 114.

130. *Id.*

131. *Id.*

132. Jeff Semple, *How did Charles Manson convince his followers to kill people 50 years ago?*, GLOBAL NEWS (Aug. 9, 2019), <https://globalnews.ca/news/5744900/charles-manson-murder-anniversary/>

Christ."¹³³ Former members stated that Manson was incredibly personable and he got close to each of his members, giving them the needed validation and acceptance they were searching for.¹³⁴ This acceptance quickly turned to violence as Manson would use their connection against his followers by threatening or committing acts of sexual violence against anyone who attempted to speak out against the leader.¹³⁵ This perception that he was "god-like" was so intoxicating that members would kill for him.¹³⁶

Another example of using the ascension to godhood to build community is the Heaven's Gate cult. On March 27th, 1997, leaders Do and Ti convinced 39 people that they could promise eternal life so long as they were "willing to devote 100 percent of [their] total energy to overcoming [their] attachments to the human level."¹³⁷ Specifically, members of Heaven's Gate would be picked up by a UFO/mothership that would deliver them to heaven as prophesized by the Bible.¹³⁸ The leaders used their knack for persuasion to recruit members over a period of two decades by using pamphlets and, eventually, the internet to transmit messages.¹³⁹ By the end of the 1990s, individuals were convinced they could see images of UFOs by just touching the cult leaders.¹⁴⁰ In the end, the leaders laced applesauce with barbiturates and vodka, causing 39 individuals to suffocate and die; their bodies were found with plastic bags over their heads in various stages of desiccation.¹⁴¹ Though extreme, these examples show how lethal a leader's "ascension to godhood" can be in predatory organizations.

i. Gaslight

Previously, this paper touched upon the meaning of gaslighting in connection to pyramid schemes. Ponzi/pyramid schemes hide behind the façade of being a legitimate business through empty promises and pearly whites. Similarly, many predatory NRM leaders hide behind the guise of religion by gaslighting their members to believe that they are doing this for the glory of God and thus becoming "obedient to the commands of a single

133. *Id.*

134. Jill Sederstrom, 'Charlie Never Pretended Anyone Was The One And Only' How Manson Cultivated Relationships With Several Women, OXYGEN TRUE CRIME (Aug 7, 2019, 2:26 PM ET), <https://www.oxygen.com/manson-the-women/crime-time/how-charles-manson-seduced-cultivated-relationships-multiple-women>.

135. *Id.*

136. *Id.*

137. Wendy Gale Robinson, *Heaven's Gate: The End*, 3 J. COMPUT.-MEDIAT. COMMUN. JCMC334 (1997).

138. *Id.*

139. *Id.*

140. *Id.*

141. *Id.*

leader who claims to have an exclusive connection with God or some other supra-human source . . .”¹⁴² Essentially, the members are brainwashed to forgo their previous identity and moral compass—allowing the leaders to poison the water with their fundamentalist, and sometimes dangerous, rhetoric.¹⁴³

In 2023, the state brought a case against the LeBaron cult—a fundamentalist group based in Texas and Mexico that controlled entire family units throughout the southwest.¹⁴⁴ The leaders of the cult, Ervil and Aaron LeBaron, used intense gaslighting and indoctrination tactics that the former members described as full-on brainwashing and mind-control.¹⁴⁵

For example, television and radio was completely forbidden, and everyone outside of the cult was perceived as evil.¹⁴⁶ Members were told that their actions put them closer to God, and it was imperative that the leader’s scripture encompassed the entire family to reach salvation.¹⁴⁷ Children were home schooled to prevent them from becoming “worldly and evil,” and all members were “. . . required to study numerous religious publication[s].”¹⁴⁸ These books included the “principles of blood atonement, polygamy, and sacrifice,” and children were taught that the only way to avoid eternal damnation was a righteous sacrifice to “the Kingdom of God.”¹⁴⁹ This intense gaslighting led to the murder of multiple members under the guise that if they commit these acts, they were escaping the flames of hell.¹⁵⁰

Ervil and Aaron went to extreme lengths to gaslight their followers to believe that their illegal actions would secure them a spot in heaven. Members trusted the direction of their leaders because they were led to believe that the leaders were all-knowing.¹⁵¹ One way the leaders were able to achieve this was by using the disrupt-ten reframe technique.¹⁵² Similar to a salesperson distracting customers from unsavory product/business information, NRM leaders first create a small disruption by “using unexpected phrasing followed by a direct reframing of the object as being desirable.”¹⁵³

142. Sara Van Hoey, *Cults in Court*, 8 *CULTIC STUD. J.* 61 (1991).

143. *Id.*

144. *United States v. Lebaron*, No. CR H-92-177-05, (S.D. Tex. Nov. 6, 2023).

145. *Id.* at *1-4.

146. *Id.* at *4.

147. *Id.* at *2-4.

148. *Id.* at *4.

149. *Id.*

150. *Lebraron*, No. CR H-92-177-05, *2.

151. Greiser, *supra* note 114.

152. *Id.*

153. *Id.*

Once they achieved "godhood," cult leaders could isolate members from their friends and family who would, likely, pull them away from the predatory organization.¹⁵⁴ Thus, the victim must fully rely upon the leader for support and validation.¹⁵⁵ When a person gets further and further into the organization, the victim is likely to lose their sense of identity because the manipulators shift any blame or guilt onto the individual.¹⁵⁶ As seen in the LeBaron case, any action that went against the leaders was punishable by death, and the members were told that bad things happen because they were bad people whose souls were damned without the cult's guidance.¹⁵⁷

ii. Gatekeep

Have you ever had trouble falling asleep? Like most people, you go to your pantry and grab a cup of Sleepytime Tea. Alongside the 1.6 billion cups sold each year, Sleepytime Tea prides itself for being the herbal remedy for your nighttime melodies.¹⁵⁸ Beyond the millions of boxes of sold, however, lies a "Book of Wisdom" that separates humanity into six distinct races.¹⁵⁹ Sleepytime Tea was founded by the Urantia cult—a NRM founded upon extraterrestrial teachings derived from the hypnotic visions channeled by aliens.¹⁶⁰ While Urantia has not taken as drastic measures as the previously mentioned cults, the teachings encourage eugenics, and the founders believe that the "ideal human race" will cure illness as evil will be removed from the genetic pool as the celestial aliens intended.¹⁶¹ It is not illegal to be racist, but with the right product, it is profitable. Whether or not the average person knows it, the teachings of the Urantia Book of Wisdom are printed on every box sold—unknowingly indoctrinating the masses through seemingly inspirational quotes.¹⁶²

This section of the paper will discuss how NRMs use gatekeeping tactics to exploit their members for financial gain. The Sleepytime Tea cult

154. *Gaslighting and The Group*, ENTHUSIASTIC SOBRIETY ABUSE ALL., <https://www.esaalliance.org/blog/gaslighting-and-the-group> (Sep 9, 2024).

155. *Id.*

156. *Id.*

157. *United States v. Lebaran*, *supra* note 142.

158. *Our History*, CELESTIAL SEASONINGS - HAIN, <https://celestialseasonings.com/pages/our-history> (last visited Apr 26, 2024).

159. Chrissy Stockton, *The Insane True Story Of Sleepytime Tea's Orgins In An Extraterrestrial Cult*, THOUGHT CATALOG (Jan. 3, 2022), <https://thoughtcatalog.com/christine-stockton/2021/01/the-insane-true-story-of-the-racist-eugenics-book-your-inspirational-teabag-tag-might-be-based-on/>.

160. *Id.*

161. *Id.*

162. *Id.*

is just one example of how a seemingly normal product, if not household name, has blurred the line between cult and corporation. Whether it is the collection bin in Catholic Mass or a percent of your yearly salary, it is not uncommon for religious groups, especially those derived from Christianity, to participate in tithing. Tithing is the act of donating to the church.¹⁶³ Normally, it involves a portion of a person's yearly salary dedicated to the church.¹⁶⁴ Some churches, such as the Church of Jesus Christ, require tithing as a core principle of the bible as a vague call to “. . . further the work of the Lord”¹⁶⁵

Again, it is not illegal to donate money to a religious organization, but under current tax laws, these religious organizations do not have to report their earnings.¹⁶⁶ So long as a church “. . . meet[s] the requirements of section 501(c)(3) . . . [they] are automatically considered tax exempt and are not required to apply and obtain recognition of exempt status from the IRS.”¹⁶⁷ To qualify as a church under the Internal Revenue Service (IRS), “. . . an organization must be organized and operated exclusively for exempt purposes.”¹⁶⁸ These exempt purposes include charitable, religious, and educational.¹⁶⁹

One example is the Fundamentalist Church of Jesus Christ of Latter-Day Saints (“FLDS”) who, before the arrest of their leader Jeff Warren, accumulated over 100-million dollars in property—including corporations that built the U.S. Department of Defense.¹⁷⁰ In the recent documentary, “Keep Sweet: Pray and Obey,” former members recall the leader, Jeff Warren, requiring business owners to transfer their companies and profits to the church as an act of true sacrifice to the Kingdom of God.¹⁷¹ Because of their status as a religious organization, any profits were presumably tax free.

163. Rachel Cruze, *Tithes and Offerings: Your Questions Answered*, RAMSEY SOLUTIONS (June 6, 2024), <https://www.ramseysolutions.com/budgeting/daves-advice-on-tithing-and-giving>.

164. *Id.*

165. *Tithing*, THE CHURCH OF JESUS CHRIST OF LATTER-DAY SAINTS, <https://www.churchofjesuschrist.org/study/eng/manual/gospel-topics/tithing> (Apr. 26, 2024).

166. United States Courts, *supra* note 121.

167. Exemption Requirements - 501(c)(3) Organizations, IRS, <https://www.irs.gov/charities-non-profits/charitable-organizations/exemption-requirements-501c3-organizations> (Apr. 26, 2024).

168. IRS § 501(c)(3) (2024).

169. *Id.*

170. Jamie Lerner, *Here's How Warren Jeffs Amassed Over \$100 Million in Assets Before Going to Jail*, DISTRACTIFY (2021), <https://www.distractify.com/p/where-did-warren-jeffs-get-his-money>.

171. KEEP SWEET: PRAY AND OBEY, (Participant Media, LLC 2022).

NRMs, however, do not need to go as far as outsourcing companies from their members. Rather, through the power of pseudo-tithing, NRMs can exploit funding from their members through required literature and courses that are vital to a person's success within the community. The Church of Scientology has been operating under this ideology since its creation.¹⁷² One member explained that the first twelve fundamental books costed roughly 4,000 dollars.¹⁷³ On top of that, members were encouraged to reach spiritual actualization which required courses costing 650 dollars each.¹⁷⁴ Another tool required by Scientology is spiritual auditing, costing members 800 dollars an hour for minimum two-and-a-half hour sessions.¹⁷⁵ If a member is found breaking the rules of the church, their auditing sessions can last multiple hours with interrogators pressuring members until they finally "confess."¹⁷⁶ In total, the members have paid up to 250,000 dollars, with some reports pushing that number to almost 400,000.¹⁷⁷

D. Your Favorite Smoothie Shops is Probably a Cult

The NRM/cults examined throughout the previous section are groups that operated mainly during the 1960s through the 1980s.¹⁷⁸ This begs the question: *is exploring this topic even relevant?* While Manson, Heaven's Gate, and LeBaron are isolated examples, COVID-19 and the internet has created a resurgence of cults that revolve around political and religious ideology.¹⁷⁹ Many of these organizations have blurred the line between fraudulent business scheme and NRM. In fact, some of these organizations that originated as a pyramid scheme made the jump from company to cult.

NXIVM (pronounced NEX-ee-um) began as a health class geared towards education, therapy sessions, and health products.¹⁸⁰ As the business

172. Jethro Nededog, *How Scientology Costs Members up to Millions of Dollars, According to Leah Remini's Show*, BUS. INSIDER, <https://www.businessinsider.com/scientology-costs-leah-remini-recap-episode-3-2016-12> (Apr. 16, 2024).

173. *Id.*

174. *Id.*

175. *Id.*

176. *Id.*

177. *Id.* See also *Costs of Scientology's Courses*, <https://www.spaink.net/cos/mpoulter/scum/costs.html> (Apr. 16, 2024).

178. Rogersbacon1, *The Cult Deficit: Analysis and Speculation* (v2.0), <https://forum.effectivealtruism.org/posts/5JLWcw5MaE6hm9vwA/the-cult-deficit-analysis-and-speculation-v2-0> (Apr. 25, 2024).

179. Konnikova, *supra* note 23.

180. Nicole Hong, *Nxivm 'Sex Cult' Was Also a Huge Pyramid Scheme, Lawsuit Says*, THE N. Y. TIMES (Jan. 29, 2020), <https://www.nytimes.com/2020/01/29/nyregion/nxivm-lawsuit-keith-raniere.html>.

developed, leaders targeted “trust fund babies” with the hopes that they would, in return, recruit more individuals for their pricey, but scientifically unsound, classes.¹⁸¹ One member reported to the New York Times that they paid 145,000 dollars just to take classes.¹⁸² What began as a run-of-the-mill business scheme turned dangerous after the leader, Keith Raniere, was convicted of committing violent sexual crimes against female members – including branding their bodies with his initials.¹⁸³ NXIVM quickly turned into a sex cult that terrorized the victims through the use of torture techniques¹⁸⁴ within the pseudo-science scheme.¹⁸⁵

Another prominent unconventional cult that has been a hot-topic in mainstream media is Qanon.¹⁸⁶ The political and religious cult, Qanon, profited off the radical beliefs and skepticism known as “fake news.”¹⁸⁷ Fraudulent business schemes and NRMs thrive in social and economic chaos.¹⁸⁸ Instability coupled with pandemic isolation drove people to conspiracy theories shrouded in predatory religious rhetoric that tackled topics such as anti-vaccination, blood libel, antisemitism, and pedophilic cabals.¹⁸⁹ Essentially, Qanon is a pseudo-Christian organization that uses political characters to masquerade behind their predatory behavior—using political figures as the “messiah” sent by God to liberate the United States from the “satanic” liberals in a “. . . cosmic battle of the oppressed against the oppressors . . .”¹⁹⁰

The resurgence of NRMs and the rise of Ponzi/pyramid schemes go hand-in-hand. For example, a prominent Qanon figure, Phil Godlewski, began encouraging members of the Qanon community to buy silver but not just any silver.¹⁹¹ The silver had to be bought from the 7k Metals, a known

181. *How NXIVM Seduced Hollywood Stars and America’s Most Powerful Elite Into a Barbaric “Sex Cult,”* ESQUIRE (2022), <https://www.esquire.com/entertainment/tv/a33658764/what-is-nxivm-sex-cult-celebrities-stars-the-vow-hbo-true-story>.

182. Hong, *supra* note 180; *see Id.* (citing that “[t]he cost for the first course, a 5-day intensive, was \$2700. . .”).

183. *Id.*

184. Esquire, *supra* note 181.

185. *Id.*

186. Konnikova, *supra* note 23.

187. *Id.*

188. Zhang et al., *supra* note 109; Konnikova *supra* note 23.

189. *Id.*

190. Nicolò Miotto & Julian Droogan, ‘Stand Against the Wiles of the Devil’: *Interpreting QAnon as a Pseudo-Christian Extremist Movement*, CRIT. SOCIOL. 08969205241228744 (2024).

191. Will Sommer, *QAnon Leaders Push Followers Into Multi-Level Marketing*, THE DAILY BEAST (Apr. 15, 2022), <https://www.thedailybeast.com/qanon-leaders-push-followers-into-multi-level-marketing> (Apr. 25, 2024).

MLM.¹⁹² Funny coincidence, Godlewski happens to be the owner of 7k Metals.¹⁹³ Much like the NXIVM¹⁹⁴ and Sleepy Time Tea cult¹⁹⁵, Qanon is pushing their followers towards financial dependency by investing into their own business schemes through their religious rhetoric.¹⁹⁶

In today's technologically connected world, pyramid schemes and NRMs operate on the same playing field – the internet. Because these groups/businesses use identical manipulation tactics, individuals with a high-vulnerability index can unknowingly become involved in both a pyramid scheme and a cult with the click of a button. Consequently, the same factors that contribute to the rise in fraudulent business schemes can be attributed to the rise in predatory NRMs.

i. Pyramid Schemes vs. NRMs

In the segment labeled "Girlboss, Gaslight, Gatekeep," this paper discussed the ways pyramid schemes manipulate individuals to join their fraudulent business. As you may have noticed, the title of the previous section is labeled similarly to draw a parallel between the groups. It is important to note, however, that the manipulation tactics used by both organizations are not inherently illegal. While the methods used by pyramid schemes and NRMs are nearly identical, this is not to show that all NRMs are illegal. Rather, comparing the manipulation tactics of both groups shows the similarities between the groups because many NRMs do prey upon the same individuals pyramid schemes target.¹⁹⁷

The Manson Family, Heaven's Gate, and LeBaron are three extreme examples of NRMs. The cults used intense manipulation techniques to brainwash their members to commit various illegal acts – including human sacrifice. Obviously, murder is illegal, and most people would recognize that as an inherent evil. However, if someone is willing to go as far as killing someone for the sake of the group, imagine the less-drastic measures a person would be willing to take to please their leader or deity. After all, some members of the Church of Scientology have paid, at minimum,

192. *Id.*

193. AJ Dellinger, *QAnon is turning into a literal pyramid scheme*, MIC (Apr. 18, 2022), <https://www.mic.com/impact/qanon-phil-godlewski-7k-metals>.

194. Hong, *supra* note 180 at 6.

195. Thought Catalog, *supra* note 159.

196. Dellinger, *supra* note 193.

197. Casey Bond, *How MLMs And Cults Use The Same Mind Control Techniques*, HUFFPOST (AUG. 13, 2019), https://www.huffpost.com/entry/multilevel-marketing-companies-mlms-cults-similarities_1_5d49f8c2e4b09e72973df3d3.

\$250,000 to the organization just to reach a higher “level” within the institution.¹⁹⁸

Ponzi/pyramid schemes operate on a base-level of manipulation: (1) Person A wants to make money; (2) Person B promises Person A they will make money; (3) Person B manipulates Person A to believe that if they continue recruiting, they will see a return on their investment; (4) Person B, the leader/boss, grabs the cash and runs. NRMs, on the other hand, go past the surface-level methods and get to a person’s core identity. In these intense examples, the leaders had enough power to rewrite the mass’s morals.

Although the threat of eternal damnation is rather extreme compared to fraudulent business schemes, the general idea is still the same. Previously, this paper touched upon the scheme LimeLife that one victim described as entering the “shark tank” because of the vicious tactics their recruiter used to keep them from leaving.¹⁹⁹ This included gaslighting the victim to believe that if they were skinnier or prettier they would be making the sales that “everyone else” was making.²⁰⁰ Similarly, NRMs use religious rhetoric to keep individuals within the organization because if they leave, they are forgoing their spot in heaven.²⁰¹ Both people, regardless of the situation, are being gaslit through the same tactics to give their time, money, energy, and “soul” to the organization.

While manipulation is highly unethical, that is not what makes Ponzi/pyramid schemes illegal. As stated previously, what makes these schemes illegal is the act of scamming someone out of their money with the promise of a return on their investment and an even larger profit to follow.²⁰² Some NRMs do the same thing by asking their members for money with the promise that by tithing or buying classes they are ultimately paving the path towards a spot beyond the pearly gates.²⁰³ When comparing two of the largest schemes on the market, Scientology²⁰⁴ and Herbalife,²⁰⁵ both organizations are pulling in billions of dollars from their members. The line in the sand is thus drawn between the physical and metaphysical wealth a

198. Nededog, *supra* note 172.

199. ENTHUSIASTIC SOBRIETY ABUSE ALL., *supra* note 154.

200. *Id.*

201. *Id.*

202. Kim, *supra* note 12.

203. Nededog, *supra* note 172.

204. Chris Matthews, *How much does Scientology pocket from its tax exempt status?*, FORTUNE, <https://fortune.com/2015/04/08/scientology-tax-exempt/> (last visited Apr 14, 2024) (Scientology makes around 500 million a year from their members alone).

205. *Explain Herbalife’s purpose and value proposition as a company and prospective supplier: Why we do what we do the way we do it.* HERBALIFE, <https://www.herbalife.com/en-us/about-herbalife/our-company> (Apr. 5, 2024) (Herbalife gains roughly 5.2 billion dollars in membership sales).

person is promised after an initial investment is made. Because NRMs fall under the First Amendment, the leader of a NRM can push the bounds of this line so long as it falls under the guise of religious rhetoric.

Professionals have noted the eerie similarities between the two types of organizations.²⁰⁶ Not every NRM will rise to the level of Manson, Heaven's Gate, or LeBaron, but it is not radical to presume that many NRMs would rise to the level of Ponzi/pyramid schemes in terms of fraudulent behavior. When comparing their recruitment and manipulation tactics, they are practically identical.²⁰⁷ In a study conducted, authorities noted that factors such as economic crisis, unmanageable and debilitating stress, and non-existent familial or community ties directly influences the predisposition of an individual to join a predatory cult.²⁰⁸ Ponzi/pyramid schemes, as previously noted through the study on Social Vulnerability Index, use the exact same predictors to determine the susceptibility level of any given county within the United States.²⁰⁹ Thus, it is safe to presume that if a community is at high-risk for fraudulent business activity, they are likely at high-risk for predatory NRMs to take root.

IV. KILLING TWO BIRDS WITH ONE STONE: FIXING THE SYSTEM

With the resurgence of NRMs and the rise of fraudulent business activity,²¹⁰ the United States needs to take an offensive approach to tackle both types of predatory organizations. During the Great Recession, government agencies, such as the National Consumers League, put out information to help "consumers spot and avoid risky business 'opportunities.'"²¹¹ This is a good start, but legal safeguards need to be put in place during times of economic strain to prevent individuals from falling prey to predatory organizations. Moreover, religious organizations need to be held to a higher tax standard as a protective net against predacious NRMs.

206. Bond, *supra* note 197.

207. Hassan, *supra* note 57.

208. John M. Curtis & Mimi J. Curtis, *Factors Related to Susceptibility and Recruitment by Cults*, 73 PSYCHOL. REP. 451 (1993).

209. Greenman et al., *supra* note 16.

210. Zhang et al., *supra* note 109.

211. *More bad economic news: Recession putting consumers at increased risk of being duped by pyramid schemes – National Consumers League*, NATIONAL CONSUMERS LEAGUE, https://nclnet.org/more_bad_economic_news_recession_putting_consumers_at_increased_risk_of_being_duped_by_pyramid_schemes/ (Apr. 5, 2024).

A. Follow the Data

Pyramid schemes and cults operate so similarly that many consider them essentially the same thing.²¹² Whether it be a LuLaRoe²¹³ or Scientology,²¹⁴ statisticians have developed tools such as the Social Vulnerability Index²¹⁵ to indicate when certain areas cultivate a fraud-friendly environment. When looking at the peer-reviewed studies, the Social Vulnerability Index used data precise enough to calculate not just a state's general susceptibility, but every county within the state.²¹⁶ Although economists cannot predict the next great recession,²¹⁷ lawmakers and federal agencies can implement policies in already strained communities so that when another recession occurs, socially vulnerable neighborhoods have some protections against fraud.

These policies can look like extra securities for MLMs and recruitment-based organizations. In 2014, Congress attempted to pass a bill that would require MLMs to warn individuals about the dangers of pyramid schemes and other fraudulent activity.²¹⁸ Unfortunately, MLMs lobbied against the bill, resulting in its failure.²¹⁹ With COVID-19 and current inflation statistics another bill similar to the one proposed in 2014 could pass, especially since the internet has become a catalyst for these groups to take root.

Groups such as NXVIM and Qanon are just the first, and most prominent, to appear since the COVID-19 pandemic.²²⁰ With the internet, Ponzi/pyramid schemes and cults do not need to rely upon the local population to gain attraction. Now, all it takes is a clever post, a few influencers, and the right amount of algorithm manipulation for these predatory groups to take control of people from across the country.²²¹ The

212. Hassan, *supra* note 57.

213. Wicker, *supra* note 54.

214. Jannik Lindner, *Must-Know Scientology Statistics [Recent Analysis]*, GITNEX (Apr. 4, 2024), <https://gitnux.org/scientology-statistics/>.

215. Greenman et al., *supra* note 16 at 302.

216. *Id.*

217. Jeanna Smialek & Ben Casselman, *Economists Predicted a Recession. So Far They've Been Wrong.*, N.Y. TIMES (Jan. 26, 2024), <https://www.nytimes.com/2024/01/26/business/economy/economy-recession-soft-landing.html> (Apr. 5, 2024).

218. Emily Stewart, *MLMs Might Not Be Able to Get Away with Their Shady Promises Much Longer*, VOX (2021), <https://www.vox.com/the-goods/22732586/ftc-mlm-rohit-chopra-business-opportunity-rule> (Apr. 26, 2024).

219. *Id.*

220. Konnikova, *supra* note 23.

221. E. Gabriella Coleman, *From Busting Cults to Breeding Cults: Anonymous h/Aktivism vs. the (a)Nonymous Far Right and QAnon*, 13(2) HAU J. ETHNOGR. THEORY 248 (2023).

internet has directly influenced the rise in these rapacious schemes because of their accessibility;²²² unfortunately, this is not new information. Unsettling internet groups have existed since the mid-2000s, but the internet has grown tremendously since the days of chat-boards. This growth, coupled with chaos and isolation, created a breeding ground for legal trouble.²²³ This solution does not ask for internet moderation. Rather, to address the severity of the situation, lawmakers need to use these statistical studies alongside their knowledge of the internet's influence to act offensively. To do this, lawmakers should develop taskforces designed to find, follow, and analyze the country's overall vulnerability in any given year and its correlation to national economic trends.

This solution essentially kills two birds with one stone. By considering the general vulnerability of a county, lawmakers can create public service announcements ("PSAs"), send out information resources, and educate law enforcement to look for signs of trouble. For example, every year the FBI educates businesses on cybersecurity threats by promoting an entire month towards cybersecurity awareness.²²⁴ While the FTC,²²⁵ SEC,²²⁶ and FBI²²⁷ have awareness of fraudulent business schemes, a website is not enough. Places that report higher rates of economic instability, less community-oriented activities, and other factors that contribute to their overall susceptibility need more protections in place. Their community leaders, law enforcement agents, and civilians need proper education and resources to combat both predatory NRM and fraudulent business schemes.

States and Federal Congress should direct resources into these communities to protect them from becoming another statistic. Lawmakers can assess the success of programs during times of economic prosperity and use them when economic strain occurs. Accordingly, when another economic recession or natural disaster strikes, authorities can implement already successful measures in larger communities that are not normally susceptible to either type of organization.

Overall, this solution requires time, money, and commitment. While it may seem infeasible, the statistics do not lie. Both Ponzi/pyramid schemes, regardless of the end goal, deter the well-being of the public. By

222. *Id.* at 250, 257-58.

223. *Id.* at 248.

224. *Cybersecurity Awareness Month*, CISA, <https://www.cisa.gov/cybersecurity-awareness-month> (Apr. 26, 2024).

225. U. S. Sec. and Exch. Comm'n, *supra* note 34.

226. *How to Avoid Fraud*, U.S. SEC. AND EXCH. COMM'N, <https://www.sec.gov/about/reports-publications/investorpubsavoidfraud> (last visited Aug 24, 2024).

227. *White-Collar Crime*, FEDERAL BUREAU OF INVESTIGATION, <https://www.fbi.gov/investigate/white-collar-crime> (Apr. 28, 2024).

allowing these institutions to grow, more expensive defensive measures will have to be implemented that may not lead to a long-term result. Like a hydra, cutting off one problem can lead to three more, and acting defensively only stops the immediate problem rather than implementing lasting results to a systemic issue. Thus, by acting offensively, through proposed bills, increased education, and increased awareness, the government can limit the total damage to any community, regardless of its size.

B. *The IRS Safety Net*

Finally, to curtail predatory NRMs, the IRS needs to develop a database for religious organizations in the United States. At the moment, predatory NRMs can skirt under the radar so long as they win the auditing gamble. Even then, the IRS does not require organizations to file under § 501(c)(3).²²⁸ § 501(c)(3) is a section of the IRS that designates organizations that are exempt from taxes due to their status as a “non-profit corporation formed to carry out charitable, religious, literary, educational, or scientific purpose.”²²⁹ If an organization qualifies under this statute, they do not have to report or pay taxes.²³⁰ There seems to be one simple solution, require religious organizations, along with the other groups specified under IRS § 501(c)(3), to properly file as an exempt organization. Although organizations can simply not do anything and hope they do not get caught, religious groups that fail to file face legal penalties which can lead to more scrutinous investigations. More scrutinous investigations, as seen with the previous extreme examples, could mean the difference between life and death.

One critique this solution could face is the possibility of First Amendment rights being violated or, at the very least, abridged. Religious organizations, at their core, are allowed to practice without state scrutiny. By requiring all groups under § 501(c)(3) to register, the government can define who is a religion. This is not the purpose of this solution. In fact, the IRS already evaluates organizations that fall under § 501(c)(3), per their guidelines, if the group is audited.²³¹ Unfortunately, this requires a group to be known and audited to begin with.

Instead of waiting for the right group to win the audit-lottery, this statute will require every organization, religious or not, that falls under §501(c)(3) to fill out a form stating their donation collection amount, origin

228. IRS § 501, *supra* note 168.

229. 501 C 3 Tax Exemption for California Non-Profit Corporation \$440.95, https://www.amerilawyer.com/ca_501c3corporation.htm (Nov. 19, 2024).

230. *Id.*

231. *Id.*

or source, and how they are exempt from filing normal taxes. Not every group will get audited. Any individual or corporation can be audited, and tax-exempt organizations are no exception. Having a database of all tax-exempt organizations eliminates the ambiguity surrounding these groups.

Essentially, it puts a name to a face. Therefore, victims of predatory NRM groups have an extra safety net that an investigation could occur at any point. Requiring groups to register will not fully curtail illegal activities, and there is always a chance that a group slips through the cracks. What this solution aims to do is hold predatory organizations that pull in millions of dollars a year accountable. Rather than waiting for a large scandal or the next Netflix documentary, the IRS can work alongside the DOJ to prosecute groups/individuals who have taken their religious group past the bounds of the abrogated protections under the First Amendment.

V. CONCLUSION

In conclusion, there are inherent similarities between fraudulent business schemes and predatory new religious movements within the United States. These similarities are found in the legal, psychological, and statistical factors that contribute to their ability to take root in socially vulnerable communities. The manipulation tactics are nearly identical, and with the recent pandemic and economic inflation, the United States has already seen a rise in fraudulent behavior. To curtail this, lawmakers need to implement safeguards that protect individuals from investing their time, money, and "soul" into scams. Moreover, by requiring all religious organizations to file under IRS § 501(c)(3), predatory NRMs will not be able to fly under the radar and thus can be subjected to civil and criminal investigations.