

Before there was Madoff, there was Musica

By Rob Varnon
STAFF WRITER

Philip Musica and Bernard Madoff on the surface appear to be cut from the same cloth, 70 years apart.

In 1938, Frank Donald Coster, a man with a German medical degree, had been a pillar of the Fairfield community for more than 20 years. As the head of a national company, he was a job-creator, a money-maker and well-respected. But all that disappeared, along with nearly \$18 million of assets, when authorities discovered that Coster was really a twice-convicted felon from Brooklyn named Philip Musica who hadn't graduated high school. In December of 1938, Musica went into the bathroom of his Fairfield mansion and shot himself.

That no one seems to re-

member this scandal is part of what fascinates Fairfield resident Robert Kalm, an Emmy Award-winning producer, who was already researching the life of Musica when Bernard Madoff's multi-billion-dollar, multi-year Ponzi scheme was uncovered last year.

Kalm said what he's found in Musica's story is a complex and brilliant character that is far different from the sensational press accounts of the day. But he also found some significant similarities to the Madoff scandal that raises serious questions about American society.

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Author Robert Kalm holds a portrait of Philip Musica on Thursday in Bridgeport.

NED GERARD/STAFF PHOTOGRAPHER



New book recalls precursor to Madoff's scam

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Kalm has a direct connection to the Musica story. His great aunt married Musica's younger brother, who was also involved in the 1938 fraud at McKeeseon & Robbins Inc. that dominated headlines of the day. His mother's family also all worked for McKeeseon, which had a factory and office in Fairfield.

Two scandals 70 years apart

"Watching the Madoff thing has been amazing," said Kalm, who is writing a book titled "American Swindle: The Evolution of the 20th Century's Most Successful Con Man." The manuscript, part of his masters of fine arts program at Western Connecticut University, is due by the end of December, and Kalm is still hard at work writing it. He's looking for people in the area who might have known Musica and can talk about the man.

"Everything I found so far was about the scandal. They never really got behind the scenes. What he actually said to these people, how he pulled it off," Kalm said.

Musica created fictitious revenues based on inventory from his warehouse operations to pump up his balance sheet. Like the Madoff scandal, Musica's was uncovered when McKeeseon's treasurer reported it to authorities, who spent years trying to track down millions of dollars Musica had been juggling in as many as 150 bank accounts, according to Kalm. Only \$3 million was ever recovered. The event triggered major revisions to the auditing, accounting and regulatory fields.

Like Musica's fraud, the \$50 billion Madoff scandal was reported by one of the employees of Madoff's investment firm. Madoff was sentenced to 150 years in prison beginning this year. He, too, was accused of falsifying documents to indicate higher returns on investments, and the Madoff scandal is dominating the news in the same way Musica's scheme did in its day.

On Thursday, U.S. Sen. Christopher Dodd, D-Conn., led the Senate Finance Committee in grilling the SEC over its inability to uncover Madoff's scheme, which actually took in pension funds from Musica's old home town of Fairfield. Dodd's committee is attempting to overhaul the system to make sure this never happens again.

"Bernard Madoff stole \$50 billion," said Dodd. "He stole from indi-

viduals and pension funds and charities and municipalities like Fairfield in my home state. He stole more than money. He stole the retirement savings and the economic security of families across the country. And the Securities and Exchange Commission didn't stop him. ... And so today, we hold our third hearing on Ponzi schemes — and our second on the Madoff fraud, in particular — to find out how this could possibly have happened and what we need to do to make sure it can never happen again."

While the government tries to correct some major flaws in the regulatory system today, Kalm and a sociology professor weighed in why America seems to be plagued by cycles of fraud.

Without excusing Musica's actions, Kalm said there are clues as to why a brilliant, gregarious man like Musica would decide his best chance at achieving the American dream would be gained through deceit.

Musica's life lessons

Musica, born in 1884, was the oldest of nine children born and grew up in Brooklyn. Though not rich, Kalm said the Musica family was not as desperately poor as news accounts indicated. The father was a barber and eventually owned a grocery store. The mother was ambitious and pushed the father and children to make something more of their lives and achieve the American dream.

If there's a turning point in Musica's story, it might be his first arrest.

In 1909, Philip Musica was arrested for bribing dock officials to change the weight of cheese and other items he was importing for the family store, thus reducing his tariffs and allowing him to offer lower-priced items than his competitors. Musica served time in a reformatory prison, where he was released early after charming the warden and landing a presidential pardon.

"The first scandal, you have to question," Kalm said. "The cheese scandal was the Customs House scandal and was much larger than Philip. He was one example they picked on. ... Philip was just trying to play the game at that point."

But he also learned that he could charm people — that people wanted to believe in him.

Musica left prison and started a new company selling wigs. But that business was also fraudulent and involved securing loans against

over-inflated inventory values. One bank uncovered the fraud when it sent agents to the piers to inspect the inventory, Kalm said. Musica was again convicted of a felony.

Kalm said what Musica learned from these arrests was that there are different rules for different people. The same people who admitted taking bribes kept their jobs in the Customs House, while people like Musica went to jail, he said.

After his second conviction, Musica did something extraordinary. He changed his name to William Johnson and landed a job with the New York City district attorney. That also ended in scandal, but Musica ultimately survived to go on to found two hair tonic companies during the 1920s that served the bootlegging industry, according to press accounts from the day. Hair tonic makers were able to use large amounts of alcohol in their products, and bootleggers would buy the tonic and use the alcohol to make their booze.

He moved his operation to Fairfield, and in 1926, he bought McKeeseon & Robbins.

Kalm said Musica was actually a very good business man. As the head of McKeeseon, Kalm said Musica created what amounts to the modern distribution chain by consolidating small mom-and-pop drug stores across the country.

Some people saw Musica as the cancer that had to be removed from McKeeseon to save the company, Kalm said, but it was Musica who probably made the company worth saving.

Don't believe the hype

"The biggest comment I hear about Philip was, 'Oh, what if he had just been good?'" Kalm said.

Musica, like other men of his stripe, was perceived to be better at business than other people. Like some sort of Wall Street superhero, he was a magic money man. Madoff had the same sort of aura. Charles Ponzi, whose \$8 million scandal rocked the nation in 1920, had a similar reputation for a short period of time.

"Everybody talks about Charles Ponzi, and to me [Musica] makes Charles Ponzi look like a holdup guy," Kalm said. "[Musica] was in Connecticut for 20 years of his life, and he fooled everybody — the smartest guys in the room, Wall Street, Fairfield County."

He said after the fact a lot of peo-

ple said they knew all the time Musica was a fraud. But that was just people trying to save face.

Or it's tied to something deeper: that even those with suspicions wanted to believe there was a guy like Musica out there, who figured out how to not lose money, even in bad times.

Attorney Richard Slavin, principal and chair of Cohen and Wolf P. C.'s Securities Group and a former bank regulator, said these scams work because "people want to believe."

What's interesting to Slavin is when the scams last as long as Madoff and Musica's did. But that's a testament to the brilliance of the people who come up with these schemes.

"I've represented guys who committed fraud. I've sued guys who perpetrated fraud," Slavin said. "The mind of the fraudster is unlimited."

Kurt Schlichting, the Fairfield University E. Gerald Corrigan professor of sociology and anthropology, said these scandals create such a visceral reaction from people because they represent a betrayal of trust.

For example, he said, Madoff used his connections within the Jewish community to bring in investors. Madoff relied on his community connections, which are built on mutual trust.

"When that trust is betrayed, it's just awful," Schlichting said.

But the scandals also tear at a bigger idea, the professor said, an idea that's a core part of the American identity, that we are constantly building a better nation for a larger good.

"We believe in the perfectibility of humanity," Schlichting said. "We're constantly disappointed."

Kalm, for his part, thinks Musica didn't believe he was the bad guy in the story.

Musica grew up in a section of Brooklyn that produced gangsters and the heads of crime syndicates.

"Those kids were all there becoming the 'godfathers,' and he was right there next to them. But everything points to him having a different vision of what he should be," Kalm said. "He's not a gangster. He aspires to the American Dream, what we all aspire to."

Musica's path to that dream led to mansions, wealth and respect for nearly a decade.

"I think he thought what he was doing was best for his family," Kalm said, then added, "And the stockholders."

BUSINESS BRIEFS

Seeking Musica memories for book

Fairfield resident Robert Kalm is uncovering the man behind the legend of Philip Musica, aka F. Donald Coster, by seeking anyone who dealt with the con man who once ran Fairfield-based McKesson and Robbins Inc.

Kalm is writing a book on Musica, who lived in Fairfield County for more than a decade before his multi-million dollar fraud was uncovered in 1938.

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