THE

# GLOBAL DEBT TRAP

## HOW TO ESCAPE THE DANGER AND BUILD A FORTUNE

CLAUS VOGT AND ROLAND LEUSCHEL

FOREWORD BY MARTIN D. WEISS

*NEW YORK TIMES* BESTSELLING AUTHOR

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## *How to Escape the Danger and Build a Fortune*

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Roland Leuschel

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*To Our Children*
*and Grandchildren*

# Contents

# Foreword

In the days after the real estate bust of 2007, scores of pundits came out of the woodwork declaring that they had predicted the crisis. Still others made similar claims after the debt collapse of 2008, and again, following the sovereign debt crisis of 2010.

But how many analysts truly foresaw each of these three crises, wrote about them extensively ahead of time, carefully explained the causes, and clearly spelled out the consequences?

I don't have a precise answer. But I do know that Claus Vogt and Roland Leuschel, the authors of this book, are definitely among them.

In their 2004 German bestseller, *Das Greenspan Dossier,* they exposed, in great detail, how the monetary policies pursued by the former Fed chairman were creating an unprecedented real estate bubble. They showed how the bubble would inevitably collapse. And they predicted how that collapse would lead to a series of financial disasters of unthinkable dimensions.

"When the U.S. real estate bubble bursts," they wrote in *Das Greenspan Dossier,* "it will not only trigger a recession and a stock market crash, but it will endanger the entire financial system, especially Fannie Mae and Freddie Mac."

That one sentence alone—plus their constant reminders throughout the book about the enormous magnitude of the expected crisis—gave readers an unambiguous forewarning of the precise sequence of events that followed:

- First, the bursting of the housing bubble.
- Then, the worst recession and stock market crash since the Great Depression.
- Next, a near meltdown in the entire financial system.
- And finally, the near demise of Fannie Mae and Freddie Mac.

Indeed, not only were these two government-sponsored mortgage giants the primary victims *during* the debt crisis of 2008, they are also the two largest institutions whose troubles have most obviously endured *after* that crisis. Clearly, Vogt and Leuschel singled them out in their book for the right reasons.

The irony of this story, however is that *Das Greenspan Dossier,* although a bestseller in Germany, was never translated into English. So unless you happen to be an avid reader of German language treatises on international finance, you missed it.

I didn't miss it—but mostly by coincidence: I happen to work closely with Claus Vogt because we were co-editing *Sicheres Geld,* the German edition of our U.S. investment newsletter, *The Safe Money Report*. So when Claus first brought *Das Greenspan Dossier* to my attention, my first question was the natural one "This book is about America and should be of intense interest to all American investors. So why wasn't it translated and published in the United States?"

The answer: Although American books about Germany, Japan, or other countries are almost automatically translated into their languages, the reverse is not true: Foreign books about the United States are *rarely* translated into English.

It seems few in the United States seek out the opinions of overseas authors—let alone about the United States itself. Indeed, to find a time when American readers were measurably intrigued by the analysis of a foreign observer, you might have to go back to Alexis de Tocqueville and his *Democracy in America,* first published 175 years ago.

That's a shame.

Foreign authors can shed fresh light on America's dilemmas and suggest novel solutions that U.S.-based analysts might miss. Foreign authors do not suffer from the same biases; they rarely have the same academic or political turfs to defend.

Moreover, as I explain in a moment, these two authors, in particular, have talents and insights that help them rise head and shoulders above their peers abroad.

"Clearly," I said to the authors, "we must not let this happen again! When you write your next book, revealing your forecasts for what's likely to happen in the *next* phase of this crisis, we must find a way to get it promptly translated and made available to everyone in the English-speaking world."

Fortunately, John Wiley & Sons, which has published three of my books, agreed; and the product of that effort is in your hands right now—the fully translated and updated edition of the authors' original German bestseller published in 2009—*Die Inflationsfalle*.

I was asked to review the translated manuscript, and I was pleased to find that the authors' track record for prescient forecasts was reconfirmed. Indeed, in the relatively short time it took to find a U.S. publisher and translate the original, some of the authors' key new forecasts were already beginning to unfold.

For example, in their 2009 German edition of this book, they wrote that the "cure" for the 2008 debt crisis that many sovereign governments were pursuing—massive bailouts—were worse than the disease. They explained that it would merely lead to a *new* crisis, this time in the debts of the sovereign governments themselves. In other words, the authors clearly predicted the *sovereign debt crisis*.

Sure enough, even as I was reading the manuscript, this is precisely what the world was experiencing or fearing—not only in financially vulnerable countries like Greece, Spain, or Portugal, but also in supposedly stronger economies like the United Kingdom, Japan, and even the United States.

The 2009 German edition of this book also predicted that the U.S. Federal Reserve under Chairman Ben Bernanke would embark on an increasingly more aggressive program of "quantitative easing"—outright *money printing*. This is precisely what the Fed has done. And right now, how much further the Fed travels down this dangerous path has become *the* defining policy issue of our time.

But the authors' proven forecasting abilities are not the only unique strengths they bring to this work.

They are former banking industry insiders who never accepted the established economic theories that prevail in their world. Instead, they are eclectic, independent thinkers, drawing heavily from one of the few schools of thought that can logically explain the true causes and consequences of the busts we are now experiencing.

They fully understand—and explain—what *money* really is, what our governments have done to abuse it, and what the ultimate cost could be to society.

They are also ardent students of one particularly extreme boom-and-bust cycle that most government officials would prefer to forget: the rampant abuse of money printing presses in 1920s Germany, the destruction of the German currency and all of its terrifying consequences. More so than most other German authors, they are vividly aware of how that singular episode unfolded and the lessons it can teach us today.

Most important, the authors are major advocates for everything that has made the United States the envy of the world. Mr. Vogt writes weekly to 500,000 American readers to convey his views. And Mr. Leuschel was the co-author—along with Congressman Jack Kemp—of the German bestseller, *Die Amerikanische Idee* [*The American Idea]*. This book was translated into French and Dutch and became a bestseller in Belgium. An important chapter of this book was dedicated to the idea of sound money. In following Ludwig von Mises's ideas, the authors tried to convince European readers that a return to growth and full employment was only achievable with sound money and tax cuts (Kemp-Roth Bill in 1981). Both are ardent critics of today's U.S. policy, particularly under Fed chiefs Greenspan and Bernanke. But both have always been passionate supporters of America.

Looking ahead, no one can predict the future with precision. But Claus Vogt and Roland Leuschel provide a clear vision of what's possible. If you want to protect and grow your wealth even in the worst of times, heed their warnings and seriously consider their recommendations.

MARTIN D. WEISS, PHD

# INTRODUCTION

# The Global Debt Trap

Nearly every advanced industrial nation on the planet is ensnared in the greatest debt trap of all time.

The debt trap is not a far-off danger that we can worry about some other day. Nor is it merely a concern for armchair theorists.

Quite the contrary, the debts are so large, so widespread, and so deeply entrenched around the world that virtually every policy decision by our leaders, every strategic move by investors, and every financial choice by billions of citizens is influenced, constrained, or driven by the need to compensate for—or the desire to escape from—the great trap that these debts have created.

The most recent 15-year sequence of events provides the best historical evidence.

*First came the tech boom and bust.*

In the mid-1990s, mostly thanks to aggressive money easing by U.S. Fed chairman Alan Greenspan, U.S. technology stocks enjoyed a massive bubble that culminated in an equally massive bust in the year 2000.

In the wake of the bust, the Fed chairman, vividly aware of the debt trap, feared the market decline would set off a deflationary debt collapse.

So he eased money even further, engineering America's lowest interest rates since World War II.

*Second, we saw the housing boom and bust.*

By overreacting to the tech stock bust, Greenspan helped create another, even larger bubble—this time in U.S. real estate.

And when that bubble also burst, his successor at the Fed, Ben Bernanke, confronted an even greater problem. This time, not only did U.S. authorities harbor the *fear* of a debt collapse, they faced an actual, real-time collapse that threatened the entire global financial system.

*Third was the Great Recession.*

The world stumbled into the most severe economic downturn since the Great Depression of the 1930s. The banking system did not only come to the brink of a total collapse, but actually fell over the brink.

In a concerted effort to prevent a global collapse, the United States, Western Europe, and others embarked on the most expensive program of financial bailouts, economic stimulus, and money printing in the history of mankind.

In the United States, the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)—the government agency responsible for tracking the $700 billion bank rescue package of 2008, reported to Congress that, by mid-year 2010, the U.S. government had spent $3.7 trillion in financial bailouts and bond-buying operations. If you add other measures taken to stem the debt crisis—such as U.S. government guarantees of bank deposits, credit markets, and other institutions—the total bill and liability is over $14 trillion. And if you consider parallel rescue efforts in Europe, it easily exceeds $20 trillion.

But none of these great rescues came without a cost. Quite the contrary, to save the banking system and financial markets from the global debt trap, the sovereign governments of the United States and Europe have gutted their own finances, instantly creating the largest peacetime deficits of all time.

*Fourth, the sovereign debt crisis struck.*

Given this sequence of events, it should have come as no surprise. Global investors rebelled, dumping the bonds of sovereign governments, targeting first the weakest among them.

Suddenly, Greek government bonds plunged in price as their interest rates soared from as low as 2 percent to 18 percent. Suddenly the Greek state was at the brink of default, and other European countries like Spain, Ireland, Portugal, and Italy were also in jeopardy. Suddenly, the acronym PIIGS—Portugal, Italy, Ireland, Greece, and Spain—largely unknown to the public, became a household word, denoting countries buried in the muddy world of the sovereign debt crisis.

The European Union was initially very reluctant to intervene with yet another major financial rescue. But ultimately, the threat was deemed so great that European leaders were forced to do what many swore never to do—join with the International Monetary Fund (IMF) to bail out their weaker members with a massive $1 trillion rescue package.

## The Global Debt Trap Is Clearly Driving Policy

Thus, it should be clear that monetary and fiscal policy are no longer driven by reason—let alone by any semblance of sounder principles established in earlier decades. Clearly, it is driven almost entirely by the global debt trap and the fear of its inevitable consequences—a global depression.

The global debt trap has driven monetary and fiscal policy makers to take ever more desperate measures to escape its fangs. But alas, the only solutions they have been able to come with so far have merely added *more* debts, created *bigger* speculative bubbles and ensnared them into a *deeper* trap, raising the specter of even *harsher* long-term consequences for billions of their citizens.

The Bank of International Settlements (BIS), the world's "central bank of central banks," helps gives us a clear vision regarding what some of those consequences might be. In its most recent annual report, it first gives us a snapshot of the massive, global deterioration in government finances, summarized in Table I.1.

This table itself is devastating in its implications. It shows that:

- We have witnessed an increase in government debt that is both dramatic and ubiquitous. Not one country listed by the BIS escaped the trend. Not one took effective measures to stop it.
- The government debts of two pivotal countries in the global financial system—the United States and the United Kingdom—are no less threatening than those of two countries that have already been victims of the sovereign debt crisis—Portugal and Spain. Indeed, for 2011, the BIS estimated that the government debts of Portugal and Spain to be

**Table I.1** Conclusive Evidence of the Global Debt Trap

| | Government Debt | | | Fiscal Balance | | |
|---|---|---|---|---|---|---|
| | As a Percentage of GDP | | | | | |
| | **2007** | **2010** | **2011** | **2007** | **2010** | **2011** |
| Austria | 62 | 74 | 77 | −0.5 | −4.7 | −4.6 |
| France | 70 | 94 | 99 | −2.7 | −7.8 | −6.9 |
| Germany | 65 | 81 | 84 | 0.2 | −5.4 | −4.5 |
| Greece | 104 | 129 | 139 | −5.4 | −8.1 | −7.1 |
| Ireland | 28 | 83 | 92 | 0.1 | −11.7 | −10.8 |
| Italy | 112 | 132 | 135 | −1.5 | −5.2 | −5.0 |
| Japan | 167 | 199 | 205 | −2.4 | −7.6 | −8.3 |
| Netherlands | 52 | 75 | 79 | 0.2 | −6.4 | −5.4 |
| Portugal | 71 | 95 | 99 | −2.7 | −7.4 | −5.6 |
| Spain | 42 | 73 | 78 | 1.9 | −9.4 | −7 |
| United Kingdom | 47 | 82 | 91 | −2.7 | −11.5 | −10.3 |
| United States | 62 | 90 | 95 | −2.8 | −10.7 | −8.9 |

SOURCE: Bank for International Settlements.

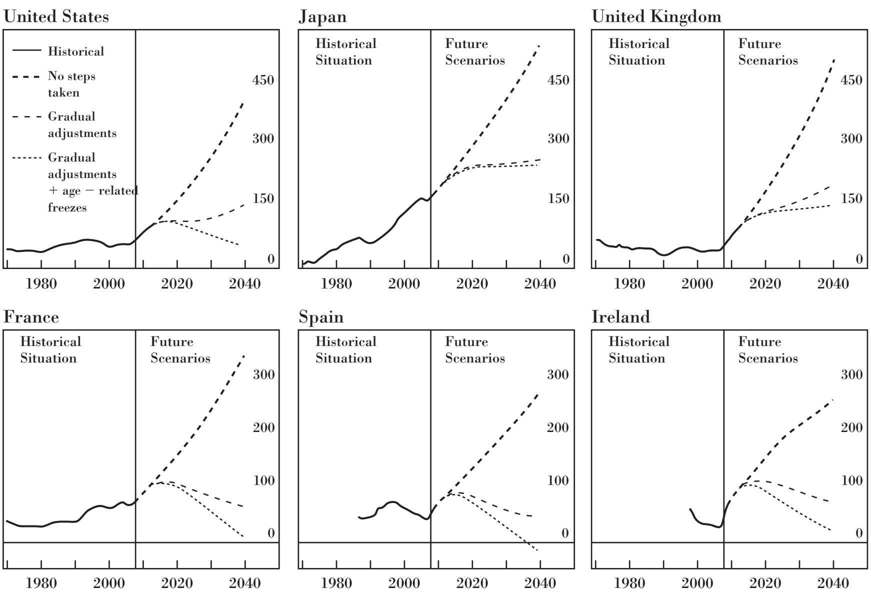
99 and 78 percent of GDP, respectively. For the same year, the BIS estimated that the government debts of the United States and the United Kingdom to be 91 and 95 percent of GDP, respectively. The debt burdens of these two larger countries are similar—or larger—than those of the two PIIGS countries.

- Japan has the biggest government debt problem of all. So some apologists for large U.S. government debts use Japan as an argument for how much debt is possible without risking a bigger disaster. But Japan, unlike the United States, has been able to finance its debts almost exclusively with the savings of its own citizens, while the United States relies on foreign lenders for most of its financing. Moreover, any implication that Japan's economy has *not* been severely hurt by its debt burden ignores Japan's two lost decades of chronic, on-again–off-again recession and deflation.
- The changes in the fiscal balance of every one of these countries is shown in the second group of columns. And they show that the fiscal

balance has clearly deteriorated sharply, especially in the past two to three years.

- Moreover, the BIS numbers show that the pace of deterioration in fiscal balance has actually been much faster in the United States and the United Kingdom than in four of the PIIGS countries—Italy, Portugal, Spain, and even Greece. This directly refutes anyone who might deny the possibility that the United Kingdom and the United States could be the next victims of the sovereign debt crisis.

But if you think this snapshot of the *current* global debt trap is shocking, wait till you see what the BIS projects for the future, as illustrated in Figure I.1.




The debts in these charts refer to general government debt, with the future scenarios reflecting projections by the OECD (2010–2011) and BIS (2012–2040). The vertical line corresponds to 2008, the first full year of the debt crisis. For the "no steps taken" scenario (thick broken line) the BIS assumes (1) constant growth of potential real GDP at the rate estimated by the OECD for 2012–2025; (2) constant real effective interest rate at the 10-year precrisis average; (3) 2011 revenue and non-age-related spending (both as a percentage of GDP) held constant. The "gradual adjustments scenario" (thin broken line) assumes improvement from the 2011 level by one percentage point per year for the first 10 years of the projection and remains at that level for the remaining period. The least adverse scenario (dotted line) makes the additional assumption that age-related expenditures as a percentage of GDP remain constant at the 2011 level.

**Figure I.1** Gross Public Debt Projections (as a Percentage of GDP)
Sources: OECD; BIS calculations.

Here you can see that for each country, the BIS estimates three scenarios:

In the first scenario, deficits continue to grow at the current pace with little or no efforts to change course. In this case, the resulting global debt trap would be *many* times worse than we have today. Not only would it be entirely intolerable, creating a burden so massive it would sink every economy . . . it is also entirely unthinkable, threatening an end to governments as we know them and a twenty-first Century of Dark Ages.

Therefore, the BIS assumes that governments must and *will* take steps to change course. The only questions are: how, how much, and when?

The big dilemma: even if the United States, Japan, and the United Kingdom can cut deficits by 1 percent of GDP per year for the next 10 years, the BIS projects that their accumulated debt burden will *still* increase. They will still be incurring new debts and those will still be larger than the old ones they pay off. Plus, to accomplish that unsatisfactory result will be, in itself, a major challenge.

The only way the United States can reduce its debt burden in the BIS scenario is to not only cut its deficits but also to freeze age-related spending, such as Social Security payments, at current levels—in other words, austerity measures that most Americans would consider draconian.

In the United Kingdom and Japan, the challenge is actually greater. Even *with* the 1 percent annual decrease *and* the freezing of age-related expenditures, the burden of government debt continues to rise over the years, albeit at a much slower pace than it's rising currently.

Again, the question arises: Are these future prospects better or worse than those of PIIGS countries that were considered directly vulnerable to the sovereign debt crisis? The answer: Compared to two of the PIIGS countries—Spain and Ireland—the prospects of the United Kingdom, the United States, and Japan are actually far worse.

Remember: even if the United Kingdom, the United States, and Japan can impose austerity in the years ahead, their government debt burdens could still increase. But Spain and Ireland (plus France) are better off in this scenario. If they do pursue austerity measures, their government debt burdens will ease markedly, according to the BIS.

Another big dilemma: all three of the BIS scenarios assume healthy growth in the global economy. If the expected economic growth fails to materialize, or worse, if the global economy suffers another contraction, the explosion in growth in government deficits will be greater. At the same time, any tangible results from austerity programs will, at best, be delayed for many years.

Certainly the "healthy growth scenario" is far from guaranteed. Quite to the contrary, as we put the finishing touches on this English-language edition of our book, our forecasting model, which correctly warned of the 2001–2003 and of 2007–2009 declines, is again showing a very high risk of another recession. Hence, if anything, the BIS scenarios may be too optimistic.

So again we ask: when global bond investors pick their next sovereign governments for dumping sovereign bonds, which ones will they pick? Will they target the ones that have taken—or have the ability to take—measures to counter these trends? Or will they target those that have neither the political will nor the financial flexibility to do so?

And again, we say emphatically: anyone who thinks the United States and the United Kingdom—or Japan—are invulnerable to a sovereign debt crisis such as the one that has struck Greece must awaken from their slumber and look carefully at these hard facts.

This is why the United Kingdom has already embarked on a shock-and-awe austerity program that far exceeds what most observers might have expected. And it is why political pressure is likely to build for the United States and Japan to do the same. Whether it will be possible to pursue austerity, however, seems doubtful. And how monetary authorities will react to the resulting economic shocks is equally uncertain.

No matter what the outcome, the only conclusion that can be drawn from the BIS study is a future of turmoil and economic pain.

## What Will Actually Happen?

In theory, there are six ways to resolve the global debt trap—six escape hatches. So as a preview of the arguments we make in this book, let's briefly review each one:

> *Escape hatch 1: An economic growth miracle*. It's highly unlikely that the developed world will stage a growth miracle during the coming years. Even the most optimistic economists don't dare forecast such an event. The debt burdens themselves are massive obstacles to growth. Nor have any of the highly indebted countries made the investments in infrastructure or

technology that would be needed to generate rapid growth. It would indeed be a miracle, and it's so unlikely that it merits no further discussion.

*Escape hatch 2: Major interest rate cuts*. Also not possible. Interest rates have already been falling dramatically since 1981, with short-term official rates near zero. They cannot fall below zero. And there is virtually no more room for additional substantial declines in long-term rates. In short, all developed countries have already played this card. They can't play it again.

*Escape hatch 3: Bailouts by other governments*. This was apparently possible—at least temporarily—for PIIGS countries, all of which are a part of the euro zone. But it would be far more difficult to justify for countries outside the euro zone. Moreover, what country or entity is large enough to bail out the United Kingdom or Japan. And who could possibly bail out the United States itself? Certainly not smaller countries. Even if it were willing, China is not big enough, either. And a bailout from the IMF, whose funding comes mostly from the United States, would also not be possible.

Obviously these first three escape hatches from the global debt trap are not available—especially for the United States, the United Kingdom, and Japan. They must choose from one of the other three escapes, none of which is painless. . . .

*Escape hatch 4: Outright default*. This may be possible for smaller nations that can subsist under dictatorships that isolate them from the global economy. But it is not possible for the United States, which depends on its credit with foreign lenders, to survive. Even if the United States is willing to give up its status as the world's economic leader, an outright default on its government debts would be a disaster and blunder of such obvious and great magnitude that it is highly unlikely it would ever be seriously considered—let alone pursued as an escape hatch.

*Escape hatch 5: Austerity*. Austerity policies include tax hikes and massive spending cuts—both with dramatic political consequences and painful economic impacts.

So far, virtually the whole world has responded to the Great Recession with the largest government stimulus program in peacetime, and still the results have been very disappointing. Thus, it doesn't take a PhD in economics to imagine what might happen if those same governments did precisely the opposite—instead of pouring money into the economy, pulling money back out. The result would be a vicious cycle of government cutbacks, falling income, shortfalls in income taxes, even larger deficits, and still more cutbacks needed. In sum—a depression.

This scenario is possible. But we don't see it as the most probable, at least not until the final alternative is pushed to the limit.

*Escape hatch 6: Money printing*. Governments can and do default on their debts in a more subtle and sly manner—through inflation. Central banks can monetize government debt and seek to inflate the debt away. And it is this escape hatch that is typically the most appealing to most politicians.

In their minds, the major byproduct—inflation—is distributed through the society. And more importantly, the inevitability of that byproduct is not fully understood by large segments of the public, giving politicians the opportunity to inflate their country's currency and let their successors or other scapegoats take the blame.

It is this escape hatch from the global debt that we deem to be the most probable. But it comes with a high risk. It may soon careen out of control and usher in a period of hyperinflation. Unfortunately, financial history holds many examples of this very sad outcome.

In the balance of this book, we explain why. We show you how we arrived at this unfortunate predicament, how our leaders have failed us and how they are likely to continue to do so.

No matter what, the coming years promise to be both frightening and exciting. Both as an investor and as a citizen, you need to be as flexible as ever before to circumvent the many pitfalls. But always remember: the bigger the crisis, the greater the opportunity for those who can prudently prepare ahead of time. In the chapters that follow, we will show you how.

# CHAPTER 1

# Why the Debt Crisis *Was* Predictable

How was it that we, of all people, were able to successfully predict the major financial and economic crisis that continues even as we write these words today? What differentiates us from the army of economists, professors, analysts, bankers, fund managers, central bankers, politicians, and journalists who only recognized the impending calamity after it was well under way?

We are not whiz kids or members of Mensa. Nor do we have any secret access to knowledge.

Rather, our only strategic advantage is the willingness to swim against the tide, and to remain immune to the siren songs. Most human beings are gregarious animals who can believe—and sometimes, *must* believe—almost anything, as long as they are part of a group that subscribes to the same viewpoint. It seems no theory or thought is too absurd to be accepted by vast numbers of otherwise thoughtful people. Fictions that few could ever believe individually are trusted implicitly within the shelter of the group. Individuals who otherwise might be totally rational are swept up into irrational groups that suppress and inhibit even the most basic of common sense.

The second factor that has helped us distance ourselves from the crowd is the absence of any conflicts of interest. We view market analysis—which necessarily includes political analysis, social analysis, and even mass psychology—as one of the most worthy pure intellectual challenges that the world has to offer. We have no professional ties, contracts, or commitments that interfere with or bias that endeavor.

From a technical point of view, the key is our intensive focus on the phenomenon of the speculative bubble. A comprehension of its causes, its dynamics, its bursting—and the consequences thereof—has enabled us to see the period since the mid-1990s, when the largest stock market bubble of all time began, through different eyes from the majority of our colleagues. Furthermore, the internal logic of the speculative bubble forced us to ask further critical questions and to connect the dots to what others may have seen as unthinkable conclusions.

Finally, and most important, our understanding would be woefully incomplete if we were not familiar with the Austrian School of economics. The brilliance and consistency of its approach, dedicated to the cause of freedom, is both inspiring and persuasive. Its logic will propel you toward insights that cannot be reconciled with ready-made views of the world. But therein lies one of its great strengths. Moreover, it does not stop at the gates of institutions that continue to be regarded as sacrosanct. Quite the contrary, the Austrian School debunks the wisdom of the state's monetary monopoly, reveals the danger of its resulting system of central banks and fractional reserve banking, and exposes this monetary complex for precisely what it is. As we will document here, this monetary complex is the underlying root of the crisis now unfolding. Worse, the global official response to the crisis—unprecedented interventionism—threatens the continued existence of our free market system and, with it, individual freedom itself.

## Keynes versus Mises and Hayek

Let us start this chapter about the huge differences between classical liberal thinking and Keynesianism with a central quote about money from F.A. von Hayek.

> The past instability of the market economy is the consequence of the exclusion of the most important regulator of the market mechanism, money, from itself being regulated by the market process.[1]

We refer again and again in our analyses to the insights of the Austrian School of economics, whose preeminent thinkers were Carl Menger, Eugen von Böhm-Bawerk, Ludwig von Mises, Friedrich August von Hayek, Walter Eucken, and Murray N. Rothbard.

At the heart of this school of thought, which extends far beyond the realm of economics, is freedom of the individual. And inextricably tied to freedom is, of course, property—specifically including ownership of the means of production. Freedom of contract and self-responsibility are the most important additions to these key concepts, which underpin classical liberalism and from which the political program of a free society emerges.

It goes without saying that the boundaries of the freedom of one individual lie where the freedom of another begins. It is easy to derive the rules governing cooperation from this basic principle.

At the same time, there are also thieves, liars, and fraudsters, seeking to acquire other people's property for themselves. It follows that certain measures must exist to protect property rights. Furthermore, freedom of contract would have little meaning were there no mechanism in place for the enforcement of contractual agreements.

At discussion of the precise form of such mechanisms—and what concrete proposals classical liberalism offers for their regulation—is beyond the scope of this book. Suffice it to point out that individual freedom continually faces a series of specific threats and that the greater threat to individual freedom comes not from other individuals but rather from powerful organizations.

Organized crime, like the Mafia, is a common example that springs to mind, but it is not the one that affects the most people most of the time. Rather, the single greatest threat to individual freedom comes not from common criminals, but from the mightiest organization of all—the state.

## The Road to Serfdom

History is littered with examples of horrendous crimes. But the biggest, the worst, and the most devastating have, almost without exception, been