To Our Children
and Grandchildren
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td></td>
<td>vii</td>
</tr>
<tr>
<td>Introduction</td>
<td>The Global Debt Trap</td>
<td>1</td>
</tr>
<tr>
<td>Chapter 1</td>
<td>Why the Debt Crisis Was Predictable</td>
<td>11</td>
</tr>
<tr>
<td>Chapter 2</td>
<td>Real Estate, Banks, Bubbles and Debts</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td><em>A Look at the Extent of the Real Estate Bubble</em></td>
<td></td>
</tr>
<tr>
<td>Chapter 3</td>
<td>The Great Money Game</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td><em>Warning: Reading on May Seriously Damage Your Faith in Government</em></td>
<td></td>
</tr>
<tr>
<td>Chapter 4</td>
<td>The Road to (Hyper)Inflation</td>
<td>85</td>
</tr>
<tr>
<td>Chapter 5</td>
<td>How Could It Have Come to This?</td>
<td>115</td>
</tr>
<tr>
<td>Chapter 6</td>
<td>What Can You Do Now?</td>
<td>151</td>
</tr>
<tr>
<td></td>
<td><em>Forecasting in Difficult Times</em></td>
<td></td>
</tr>
<tr>
<td>Chapter 7</td>
<td>A Future Retrospective</td>
<td>211</td>
</tr>
<tr>
<td>Notes</td>
<td></td>
<td>217</td>
</tr>
<tr>
<td>About The Authors</td>
<td></td>
<td>221</td>
</tr>
<tr>
<td>Index</td>
<td></td>
<td>223</td>
</tr>
</tbody>
</table>
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