



## **Prof. Richard Wolff: The Economics of the Ukraine War**

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**Zain Raza (ZR):** Thank you guys for tuning in today and welcome to another episode of The Source. I'm your host, Zain Raza and today I'll be talking to Professor Richard Wolff about the economics of the Ukraine war. Professor Richard Wolff is the founder of Democracy at Work and Professor Emeritus of Economics at the University of Massachusetts Amherst. He's the author of many books, like *When Capitalism Can Save Us From Pandemics Or Itself*. Professor Richard Wolff, thank you so much for your time today.

**Richard Wolff (RW):** Thank you very much. I'm glad to be here.

**ZR:** Sahra Wagenknecht, left wing politician and member of the German parliament caused a political and media uproar last year in Germany when she stated that Germany and its allies are waging an economic war against Russia. How would you classify the West's economic policy towards Russia since the war began?

**RW:** Well, I think that the problem of the Ukraine war can be handled this way. There are two wars. One war is military and involves Russia and Ukraine. There it is pretty clear that one of the two sides is better equipped, larger and I mean, there's really not much of a contest on the military scale unless you are prepared to confront Russia yourself. You are watching a war that is being won by one side and lost by the other. And that's true whether or not you fill the Ukrainian weapons gap with external weapons; that slows the process, but it does not change. And the West understood that and so the West undertook a second different war. And in that case, we have the same kind of imbalance in the sense that the United States and Western Europe and Japan on the one side are waging economic war against Russia. Many people do not understand that that is the same lopsided war in economic terms that the other one is in the military. So let me give you a statistic that more people should understand. In economics, we use something called the GDP, the gross domestic product. It gives you a rough idea of the size of an economy. It measures literally the total output of goods and

services in one calendar year. The most recent year for Russia, the GDP of Russia is 1.5 trillion dollars. On the other side is the United States, whose most recent GDP is \$21 trillion. In other words, this is a struggle, economically speaking, an economic war waged by sanctions and counter-sanctions that we all know about. That is a war between David and Goliath. And you can all figure out who's on which side in this arrangement. If you then add the countries of Europe, Germany, France, Britain, Italy to the United States, then it becomes closer to a 30 to 1 ratio of economic wealth. That is as lopsided an economic war as the military war is only in reverse. The mystery is why it has not succeeded. Why, after nearly a year of war, the promised- and I mean it- promised by the West, by our President Biden, among others, that this would destroy Russia as an economic entity, that they would be prostrate, that the ruble would be worthless in international currency exchange, that the economy would have collapsed. All of that was wrong. None of that has happened. And the mistake in the West was not understanding that the global economy has changed and the dominance of the United States, which was already slipping for some decades, has now been exposed and revealed as far less of an economic power than it was imagining itself to be. Russia turned out to have very important allies, chief of them, the People's Republic of China. Just again, to keep that statistic in everyone's mind, the most recent GDP of China is 17.5 trillion dollars. Therefore, catching up to the United States and many, many, many times larger than Russia, given China and India and Turkey and Iran and other supports that Russia has been able to get, the predictions were wrong. And we now face a kind of stalemate situation because the predicted dominance of the United States, which it had gotten used to for 75 years since the end of World War Two, is now over. And it's going to take a lot of time before the different people and blocs in the world adjust to this. But I can leave you with an economist warning countries around the world, and this includes every country in Europe, better rethink their strategic decisions because the world has changed and it will not go back. This genie cannot go back in the bottle. This is a new situation and will have enormous ramifications.

**ZR:** I want to focus right now exclusively on the impact on Russia. Could you first talk about what measures Western countries, in particular the US took to isolate Russia and then talk about how it impacted the economy of Russia?

**RW:** Sure. Every kind of sanction imaginable has been tried here against Russia. That is, Russia has been subject to sanctions before. This is not the first time. There is experience with sanctioning Russia going back at least 15, 20 years. I'm talking legal public sanctions, illegal under the table that's an even longer older story. That goes back to the days of the Soviet Union and so on. But this has been an attempt to learn from the sanctions applied against Cuba, Iran, China, to do it all, to try to come together and do it all. So, for example, about \$300 billion worth of currency reserves which are kept in Western banks and so forth by the Russians to support their currency was seized. The Russians are denied access to what is Russian property. It should be kept in mind what this means, because this is a precedent. Whether the people who did it intended it as a president or not, the notion that we live in a

global economy run by the United States, which observes the rules of private property, is over. There is no private property rule. It is trumped by the economic nationalism that has replaced neoliberal globalization as the dominant ideology here in the United States. The Russians were denied use of the international payments system called the SWIFT- that's just an acronym- that makes it much more difficult to arrange payments. It's a way of interfering and hobbling international trade. Then sanctions were put against individuals, against companies. Enormous pressure, public and private, was put on American corporations. And by the way, in other countries this was also done. But I'm talking mostly here about the United States, that is what I know best. And so American companies sold their subordinate companies in Russia to other companies, other international companies, in some cases, other Russian companies and still others. The United States has threatened other countries and other companies around the world with sanctions if they do trade with Russia. Somebody- nobody knows who- somebody blew up the pipeline in the North Sea, embargoes against oil and gas, in some cases transported by sea, in some cases transported by land, with pipelines and so on, shutting off the export of energy, which is a major support for the Russian economy. All in all, if Russia had not had major allies in the world, these measures would have reasonably hobbled in a very short time the Russian economy. It didn't do that. But the major reason is that the Russians had developed far better than most of us who observed these situations, understood and clearly better than the West understood, had developed relationships above all with China and India, but other countries as well, that allowed them basically not to put a long face on this, but to substitute relationships with Asia, Africa and Latin America that were taken together, able to stifle most of what the West saw. So, for example, if you measure over the last 12 months the amount of damage suffered by an economy in terms of slowing production and so on, there is a shrinkage in Russia, but it is actually not as big as the shrinkage in the United States and Western Europe. So the irony, it is really remarkable, the irony is that, yes, the war has been an enormous expenditure here in the United States. If you take all the commitments together, it's over \$100 billion, which makes it the most expensive war in recent memory and it's less than a year old, so who knows? But the impact of the war has been to do damage globally and to do as much damage to the West as to Russia. Now, Russia is a much smaller economy so that it has less resources to cope. So it is causing trouble inside Russia. That's clear. They are having to divert resources from producing for the civilian sector to producing war materials. But nothing compared to the collapse that was predicted by the West has happened. And unless something changes, there is no prospect of that happening this year either. Meanwhile, the inflation, the rising interest rates in the West are a much more serious threat to the economy of the West than this war has proven to be to the economy of Russia.

**ZR:** Just to make a counter argument, some would say that it's not about achieving economic objectives. It's about setting a tone. It's about moral significance. How would you comment on that? For example, when people would argue that sanctions in this case, even if they didn't work, showed our moral significance in terms of protecting freedom and democracy?

**RW:** I must say, I find it extraordinary such an argument. Even here in the United States you would have difficulty with that argument from both the right wing and the left wing, neither of which would accept such an argument. And remember, I'm talking from the United States. Here's our record as a nation when it comes to a rules based international order or authoritarian government or large countries invading small countries, all of that kind of talk that what you just said refers to. The United States invaded Korea. It's a small country. The United States invaded Vietnam. It's a small country. The United States invaded Afghanistan. It's one of the poorest countries on the face of the earth and a small country. The United States invaded Iraq. I could go on, Libya and so forth. We have a history as a nation. If there are rules based on international order, then the rule that we can identify is the United States does what it wants to do in the last 75 years, and either the United Nations goes along or it doesn't. But it doesn't really matter. And people like me who are close to the American government in terms of my personal life and my personal friendships, it doesn't enter into their mind. Therefore, suddenly to be outraged when another country and a big country, relatively, invades a small one, relatively, to be all excited about taking moral positions: Wow. That requires a level of blindness and gullibility and one sidedness that's a little embarrassing to witness, let alone to reprieve.

**ZR:** You mentioned the impact on Europe and the United States. Could you elaborate on that in terms of the economic impact it's having also on the infrastructure and energy infrastructure, etc.?

**RW:** Yes. Well, I mean, the most immediate and obvious has been the impact on energy prices, number one. That impacts Europe, not the United States. So that puts the United States in a bizarre situation, but it's even more bizarre for you in Europe, for the Europeans, because the United States takes the lead in applying sanctions whose impact is much more severe on the economy of Europe than on the United States. One would have thought to the degree that economic considerations are important and they always are, more or less, that the leadership would have been taken by Europe since they have to live with the negative consequences. The United States has its own sources of energy, could care less whether Russia does or doesn't export. I mean, it has implications on global prices and that's important, but it's not the kind of impact that you're seeing all across Western Europe, and particularly in the countries that did rely on cheap energy from Russia. But I would stress that the impacts here go far beyond the immediate question of inflation stimulated by rising energy prices. There are other factors, and they are just as important. They're related to the war in Ukraine. So it's not a separate matter, but they are also distinct. And here, here's the basic one. There is an empire that is declining. If you look at the 19th and 20th century, whatever else you say, you notice, especially as the 19th century moves into the 20th century, that the dominant empire of those two centuries, the British Empire was declining, especially in the 20th century. It was being challenged by the United States, a former colony, by Germany, trying as it always did, to match British capitalism and by Japan, emerging later. And you still had the competing colonial systems, the French, the Russian, the Dutch, and so

on. But the British Empire was declining. World Wars one and two removed the German and Japanese competitors, leaving the field to the United States. We are now in a post peak American empire phase. That's what I referred to before. People have begun, but only begun, to understand the macro picture here. This is a declining empire. The Chinese are the obvious rising empire. China, it has to be understood, is the first serious economic competitor to the United States in nearly a century. The American dominance emerges in World War One and the interwar period and becomes clear to everyone with End of World War Two. Russia was never an economic competitor. That's why I gave you this statistic: 1.5 Trillion to 21 Trillion. I mean, that's not the same number at all points. But the idea is Russia may have had a nuclear weapon, there may have been a serious military problem, but it was never an economic competitor. For that, we have to wait for China. China's GDP, in case anyone wonders, the 17 trillion, that's a competitor for the United States. And everything that is happening now has to be contextualized as part of that struggle. That's why it should have been clear before that Russia would turn to China for all kinds of assistance; probably made the decision, I wouldn't know, but probably made the decision to move into Ukraine, having already worked out with China what they would or wouldn't do as allies. In other words, we have a new situation for most of the last 75 years, any country, anywhere where the local political leadership wanted to break out of the US hegemony, capitalist world economy was pretty quickly smashed and crushed because they had nowhere else to go. Well, you'll have to work with global capitalism. It is highly unequal as a system. The United States sits at the top politically, economically and militarily. What are you going to do? You have no option. And the United States made it very clear, if you don't listen to us politically, we will squeeze you economically. If you do not listen to that, we will attack you. I mean, it's your choice, but we will defeat what you are doing. And you can only choose which way you're going to be defeated. If you want an example, look at Cuba. That's how they dealt with Cuba, and they dealt more or less with everybody. There is now a change. This change, I cannot exaggerate this, country after country is now experimenting. The smallest countries of Africa, the smallest countries of Latin America are experimenting in this new world. They are dealing with the People's Republic of China. By the way, they're dealing with Russia, too. Russia is able to sell oil and gas in limited quantities to small, poorer countries because everybody has a choice now. The United States and Western Europe are desperately trying to hold on to a dominance that is shrinking with each passing week. They can continue to pretend to themselves and to the world that they are still in charge, but this sanction war and its failure so far is a major blow. And they are going to have to adjust to the changing world just like everybody else.

**ZR:** I also want to talk about the effect military spending has been having on the United States itself. Billions of billions of dollars are going in military aid to Ukraine. Last I heard that the amount of aid that's been sent to Ukraine in 2022 is more than the budget of the State Department. What effects is all of this military aid having on the United States itself?

**RW:** Well, let me quote you back to you. So far, this is all justified in grandiose, patriotic matters of principle. If you know anything about American politics, when a politician in this country talks about principle, my advice is to reach into your back pocket, hold on to your wallet because someone is about to remove the money that was in it. And Americans make that joke all the time. So most Americans are not much fooled by this business either. Here's the reality that is hidden from the public. If you suddenly have in this country a devastating inflation running eight, nine, ten % per year, which is what we had starting in the latter part of 2021 and basically running across 2022, pretty soon you're going to have trouble. Especially if the rate of the rising wages is much behind the rate of rising prices. And in our country, here in the United States, rising wages have rarely been more than half the rate of rising prices. Therefore, meaning that you're squeezing your working class badly. But on top of that, remember that this is a working class that was already squeezed by the pandemic for two years and by the economic crash that accompanied the pandemic. So you have a working class that has been relatively losing wealth for 25 years, having gone through a terrible pandemic and crash, to be followed by an inflation and now to be followed by raising interest rates. This is a country whose level of indebtedness, government debt, corporate debt and household debt is higher than ever in the history of this country by a lot. So raising interest rates is a very serious economic blow on top of the inflation, on top of the pandemic, on top of the crash and on top of 25 years of wealth redistribution. No working class can exist under such pressure for so long at such a level. And so what you're seeing over the last 12 months in the United States is a rise of the militancy of the labor movement, which we've never seen in 100 years. We are now seeing levels of unionization of strikes that bring us back to the 1930s with the worst crash of capitalism in its history. That has to be understood. That's a consequence of all of this. In the midst of this, to deal with the inflation our government is raising interest rates. That, of course, hurts poor people and middle income people, small businesses and medium businesses, because for them, a few rising levels of interest rate cripple their ability to function, because they have such debts. We are told falsely that this is the only way to deal with inflation. I do interviews across the United States where I explain to people that the last time we had an inflation like this in the 1980s, our conservative president, Richard Nixon, imposed a wage price freeze overnight; August 15th, 1971, and that solved the inflation problem. Today, we don't do that, but we don't even allow a conversation. We have a society in which the government tells us this is the only way and this is what we're going to do. Okay, what are the consequences? Here's the irony. Raising interest rates is to slow the inflation. Yeah, but the government's expansion of money spent on the war in Ukraine is the opposite. It makes inflation work. Everyone who's ever studied economics understands that a sudden increase in government expenditure is inflationary. So we have the government spending more on Ukraine on the one hand, and limiting the spending of small and medium households and businesses by raising interest rates. You know what that is?! A) contradictory B) senseless and C) a not very subtle way of saying we're rearranging the economy. You, small and medium sized businesses, you, small and medium sized households, you're going to have to cut back your consumption so that we can free resources to throw into military production for Ukraine. Who pays for the war as usual? Yeah... But the problem here

is that in the United States, making the working class pay coincides with a rising militarization and militancy of our labor movement. That is a very dangerous thing. And you're beginning to see both on the right wing and on the left, a coming together of neither of whom is happy with this war in Ukraine and the way it is being funded. And the moral argument cannot, never has in this country and will not now, be strong enough to overcome the on the ground material problems that I'm talking about.

**ZR:** Left wing economists usually argue that government spending in the social fabric does not necessarily lead to inflation. How come this is the case that military spending would lead to inflation?

**RW:** Well, mostly because it's an opportunity for what we call here the military industrial complex. And let me explain. Many, many years ago, a wonderful relationship was developed between the military, the government and the industries that produce the planes, the bullets, the guns, the tanks and all the rest of it. Very famous, President Eisenhower after World War Two, when he leaves office as president, makes a famous speech where he warns the American people about the military industrial complex, which works like this and is very important for people to understand: The government gives contracts to military producers. These are called cost plus contracts. In other words, the military producer says it'll cost me \$1,000,000 to make that airplane and therefore I want a contract for \$1,100,000 because I need a profit of \$100,000. And that's how the contract is written. Okay. So now we permit the military defense producer, we permit them to take whatever steps they want politically. What steps do they take? They support the political candidates who write those contracts for them. So we have a wonderful relationship. Who gets into office? People who are believers in military spending. Why? Because the military contract to get spent on taking a portion of the money they get from the government to bribe- excuse me- to donate to the government. I mean, this is childish. We've been dominated by that every year, including the one we're just finishing now. Every year there is a request from the military for a certain amount for the budget for that year. And they typically get many billions of dollars more than they request. Normally when requests go in, they are reduced a little by the politicians. But in this case, for example, this year there were tens of billions of dollars allocated to the military, larger than what the Biden administration requested from Congress. And that's usual. That's not unusual. So we have a situation where when the government spends enormously, it is easy for these companies with their long standing, cozy relationship to raise the prices of whatever it is they charge the government for. And since they know they're getting more each year, and since they know they're raising the prices, they can in turn pay more for their inputs. Whether it is sand which is brought to their workers for lunch or it's electricity they buy or it's inputs of iron and steel. In other words, they can percolate. They can spread inflation throughout the economy. When you remember that the United States federal government is the largest single consumer in the country, and that one third or more of its budget is military, you are giving an enormous inflationary thrust to the economy when you allow this kind of an expansion with all of its ramifications. And when you have a situation of social spending, you have a little of

this, but much, much less because there's no monopoly. There's no social industrial complex that's comparable. The money is spent on working class people, you know, clerks, social workers, all that kind of thing. And they're not in a position to demand higher wages and none of that. So basically, you have the same problem. You are increasing spending. And liberals should not deny that because it's silly, but it's nothing comparable to the structured situation in defense industries. And of course, I say defense only because that's what we call it. Countries with less problems with honesty call it the war department. But we, of course, can't because we need to always be pretending- excuse me- advocating that we are in a defense situation.

**ZR:** I would like to examine the Ukrainian economy. It shrank by 30% in 2022. What is not reported with great attention is the role of the IMF in Ukraine. It is estimated that somewhere between 40 billion to 57 billion of external financing will be needed by Ukraine this year, including 3 billion that it owes to the IMF itself. This also includes roughly 360 million in surcharges fees alone by 2023. Why is the IMF not, when it comes to freedom and democracy, supporting the Ukrainian economy by doing away with these loans and surcharges and just providing free credit?

**RW:** My guess is they are. You know, they're not saying it, but whether they insist on a payment, all right, so then the United States will send another 2 billion over there so they can pay that. These are details. For all practical purposes, there's very little economy left in Ukraine. That's the truth. Whatever anybody else tells you. And this is not a critique of Ukraine or anything else. You can't be a little country like that fighting a war you couldn't possibly afford against a huge enemy, better organized, better equipped than you are, and being subject to missile attacks that destroy your infrastructure. I mean, it's over. That is a destroyed economy, whatever the particulars are. You know, they're not that big a country and they've lost at least five to ten million people that have left the country. I mean, the jobs those people did aren't being done, and on and on and on and on. It's not meaningful at this point to talk about the economy of Ukraine, because for all practical purposes, there isn't one. They are getting by. They have to import food. They have to import fuel. Their military runs on what comes from outside, literally down to the bullets that they shoot. So I think that you're hearing statements and the statements, if you listen carefully, the statements can be translated as follows. We have committed everything to this war. We were willing to push it to the point where the Russians threatened us that they would invade. We didn't probably believe they would. We were wrong. They did. And they are doing what a war involves. We cannot survive that situation, so we become totally dependent. If you listen to Mr. Zelensky, they're totally dependent already on the military bases. If you look at what happened to their labor force, to their transportation system, I'm not even talking about the large parts of the country that are now taken over and run by the Russians. What's left for them is chaotic, unable to be repaired- nothing. So what you hear from Zelensky are fantastic estimates. It's going to take, the last what I heard, \$600 billion to rebuild. They're making statements like the 300 billion taken from Russia that backed its currency, that money, Zelensky says, should be a first down



payment on rebuilding Ukraine to punish Russia. They are desperate. They've committed everything. Mr. Zelensky must know that he will come out of this as a great hero if they can save him. But he will come out as the worst person in the history of Ukraine if this falls apart. He is on the knife edge one way or the other. If this isn't fixed, if they don't get vast amounts of money from the West beyond what's already been given to them to repair the damage of the war, the Ukrainians will be the ones that look back on Mr. Zelensky with horror. And he must know that somewhere, everybody else who pays attention does. It's a very open question. And this is Mr. Zelensky's nightmare. It's a very open question. Whenever this war ends and all wars do sooner or later, whenever this war ends, will the countries of Europe and North America be prepared to spend at the same rate to reconstruct what they spent to fight the war? I don't think so. But of course, I can't tell the future any better than anyone else can. But Mr. Zelensky, his life depends on that question and how it gets answered.

**ZR:** Professor Richard Wolff, founder of Democracy at Work, author and economist, thank you so much for your time today.

**RW:** My pleasure and I hope we can get a chance to talk again soon.

**ZR:** And thank you guys for tuning in today. Don't forget to join our alternative channels on Rumble and Telegram. We are switching away from YouTube as YouTube is shadow banning us, so please join. And don't forget to donate so we can continue with our independent and nonprofit news and analysis. I'm your host Zain Raza, see you guys next time.

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