



Prof. Richard Wolff: Economics of the Ukraine and Gaza Wars & the rise of Artificial Intelligence

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Zain Raza (ZR): Thank you for tuning in today, and welcome back to another episode of The Source. I'm your host, Zain Raza. Today I'll be talking to Professor Richard Wolff about the economic challenges facing the globe. Richard Wolff is an author, founder of Democracy at Work and Professor Emeritus at the University of Massachusetts Amherst. Richard, welcome back.

Richard Wolff (RW): Thank you very much Zain, glad to be here.

ZR: I would like to start with the war in Ukraine and its economic impact. On February 24th, 2024, the second anniversary of Russia's invasion of Ukraine, the United States and the European Union announced hundreds of new sanctions in addition to the thousands of sanctions that they have already imposed since the war began. The latest sanctions target Russia's military industrial complex, as well as companies and third countries that facilitate Russia's access to the goods it needs. Despite the massive sanctions of the past, Russia's economy grew by 3.6% in 2023 and is expected to grow by 2.6% in 2024, according to the IMF. Can you assess how these sanctions have impacted the West, particularly the United States, over the last two year period? And whether, do you think the latest round sanctions will achieve the intended goal of stopping Russia's war machine?

RW: At this point, several things are clear. The sanctions program imposed shortly after the war began in 2022 is a complete failure. It is so grotesque of failure that even the fog of official statements in this country has stopped talking about them, has stopped even making claims about them. The failure is embarrassing to the American government. And so it is a dead letter. In my own judgment the misunderstandings of the policy makers that led to the sanctions are much the more important question. And here I would like to put it in historical terms as I can to make the point. The American empire is declining. It is over. It has peaked. It is on the way down. And whether you look at the wars that have been lost, Vietnam, Afghanistan, Iraq and now Ukraine, or you look at this, the statistics, the fact that the GDP of

the G7 nations, which include Germany, is now significantly less when you add it all up than the GDP of China and the BRICs. So you can see as clearly as you possibly could ask that one empire is going down and something new, possibly another empire is emerging. That is the backdrop. The reality of the United States is that the response to this decline is what psychologists call denial. It is a refusal to see it, a refusal to think about it, and a refusal to ask what the implications of denial might be for the policy decisions we now face. And a perfect example is the war in Ukraine. A long standing goal to isolate Russia and perhaps to break it up, or at least to get a more convenient regime in, led to this absorption of Eastern Europe into NATO and then the final step would have been Ukraine as part of that. This is not understanding that you're a declining empire, because it meant that you had to confront the risk, of course, that Russia would push back. Mr. Putin at least as far back as 2008 has said that. He has said we will react if you do this. Either, they decided he wouldn't; mistake/misunderstanding of his situation and his power or, and/or they misunderstood what their sanctions program would achieve. So what did they do? They shut off buying oil and gas. They shut off access, of Russia, to the SWIFT international payment system. They seized the reserve assets held in the West to back up the Russian ruble. It was supposed to, I quote from our president, "Bring Russia to its knees". Collapse the ruble, and bring regime change, our Secretary of Defense even mentioned that, because he's not too quick smart. Result: none of those things happened. The ruble is okay. Russia, as you pointed out, has grown, not shrunk.

What was the mistake? The mistake was to not understand that Russia could turn to China, India, Brazil and other parts of the world, the core of the BRICs, to offset what the West did. A stark example of a changed world economy. Cuba in its revolution couldn't turn anywhere else. Right? There you have the stark difference. They turned to the Soviet Union, which could keep them alive by sugar, make noise about missiles, but could not have responded to anything like what we now see. So, I think the best way to describe it is, there is now a recognition that sanctions only success, only success with two things. Number one, the sanctions gave a cover to a war that could not be engaged by the United States directly. That's too dangerous. Russia has nuclear weapons. So what? The only way the United States could fight is by providing Ukraine with the weapons. And the cover for that was the sanctions program. That would enable the weapons and remember, weapons of purchase. It's the United States government buying the weapons from American defense producers. So the money never leaves here. The money goes from me as a taxpayer to Washington to the defense companies, Raytheon, General Dynamics, the major corporate defenders, and then they ship it to Ukraine and all the money and all the profit is made here and kept here. The second thing the sanctions did was allow the neoconservative ideology to present itself as vigorously fighting against – you can't call them socialists and communists anymore – so now you revert to authoritarians. Another invention of the evil other that you're fighting.

So for those purposes, public relations at home and profit generating defense expenditures, the sanctions were useful. As an attempt to control the war in Ukraine or Russia, they were a complete failure. That's the way to understand them. And there's a further important issue. The denial I spoke of, that has not been challenged, the sanctions allow the denial to

continue. In other words, the denial of the decline of the American empire enabled the sanctions, and the sanctions react back to reinforce the denial. And even now, having ejected Victoria Nuland, she was fired a week ago, as the end of the first phase, they don't know what to do now, they are panicked because the domestic effect is gone. It's no more interesting. It's not exciting. It's not a headline. The mass of the American people are completely uninterested in all of this. So, you know you're losing it there. The defense spending, they can do that without the war. The war is becoming a burden, a cost, just like the Israeli activity in Gaza is now a cost. They are trying to figure out how to get out of it. If Mr. Trump becomes the next president again, that will be a popular thing. He will shut down the Ukraine war, leaving the Europeans hanging out there in a way that should produce regime change in Europe. But here in the United States, it is being now handled as an embarrassment to overcome. And it's not yet clear how long that will take. But it sure does look at this point that that's where it's going.

ZR: Let me make a counter argument that is usually presented in the media when it comes to the Russian economy. And this argument was made by the International Monetary Fund IMF spokesperson Julie Kozak, who stated that Russia has become a war economy with military expenditures boosting weapons production and government social spending propping up consumption while inflation is still rising. It's not an economy serving the people, but it's an economy serving the war machine, and the standard of living in Russia is not actually rising. What do you make of this argument? Is this an accurate assessment?

RW: Yes, but it's stupid. It's accurate, but it's stupid. Because it imagines that having said what you just read off is some kind of thing that can't go on. I want to remind her of a little bit of American history, which should have taught Americans to think differently. The worst collapse of capitalism was the Great Depression, 1929 to 1940. You know what got the United States out of the depression? Not the New Deal, not Franklin Roosevelt's economic policy. What got them out of the war, out of the depression, was World War Two. And suddenly the American economy was taken out of a depression that lasted eleven years and brought into a growth situation, because – now I'll read it to you – they converted from a peacetime to a wartime economy. They went much further than Russia has. Let me give you an example. They closed the market. They replaced buying and selling with money, with a rationing system. The United States printed and distributed to the people ration books that you got according to how many children in your family and how many people, according to need. And you would buy your milk and your gas and your meat and your sugar with the rationing.

Russia didn't do that. Russia doesn't need to because its shifting over to war has had the good effect of getting them out of economic difficulty without the costs that would have been cured. The reason the United States didn't have an inflation was because they closed the market and substituted the rationing. If the inflation gets dangerous in Russia, they would do the same thing, I would guess, because it would be the logical thing to do. They anticipate two or three years. The United States went to war basically from 1940/41 until 1945. So that's a period of four to five years. The Russians are only in the first two of those years. They think they can have the result for their economy, of bringing them up and then converting back to

peacetime – remember, when they convert back to peacetime, all those Russian industries will have a new market because of all the Western European and American industries that withdrew from Russia as part of it. The irony and the humor is that the sanction program has been better for Russia than without one, and it hasn't worked for the United States. And I want to remind you of the definition of insanity. In the textbook, insanity is when you keep doing the same thing, but you expect a different result. By that definition, draw your own conclusion.

ZR: Another counter argument that is made in the political and media discourse, especially in Germany, is that the West has a moral obligation of continuing to impose sanctions even if they don't work, to show aggressors, such as Russia, that they just can't invade countries based on imperial ambitions, that these sanctions have a symbolic value standing for and defending freedom and democracy. And if the West fails to act, other authoritarian countries, such as China, would expand their regional hegemony at the expense of the international order. What do you make of this argument?

RW: Again, I'm afraid I must use the word, I apologize, this is stupid. It is an old argument. It used to be called in the United States, the domino theory. In other words, you must do this here, because if you don't, then these brilliant people who can look into the future tell you what will happen. So, for example, we had to go to Vietnam because if Vietnam became a communist country right next to China, then the whole of Asia would be dreadful. None of that happened. The United States was defeated in Vietnam. It was forced to leave in 1975. The North Vietnamese Communist Party basically absorbed what had been South Vietnam to make one country. Where are the dominoes that were supposed to fall if this terrible thing happened? There aren't any. It turns out that whether or not other countries have revolutions or communist governments is dependent on many, many complicated factors which any halfwit would know from human history. Right? Vietnam is one thing, Laos isn't, it's right next door. And Cambodia isn't, and it's right next door. So this story is the attempt of people who have no more real good arguments to invent and tell us we must do what they want, because they can tell us what will happen in the future. Let me remind you, the only time you should go to have someone tell you about the future is when you go to an amusement park and you give a gypsy \$0.50, and that gypsy tells you who you'll be sleeping with next week. And your friends enjoy the humor of this, because if you start worrying about that, you don't like that person, you don't want to sleep with them, you've misunderstood what this is about.

ZR: Let us now examine Germany's economy. In 2023, Germany's GDP shrank by 0.3%, making it the world's worst performing major economy. The German government also revised down its economic growth forecast for 2024 from 1.3% growth previously down to now 0.2%. German Economy Minister Robert Habeck cited the following reasons for the downturn, quote, "The fact that the global economic environment is unstable and global trade is historically low is a challenge for an export nation like Germany", unquote. This comes at a time when the German government will spend a record €73 billion this year on its military and defense to reach the NATO 2% target, while simultaneously implementing austerity measures in the agriculture-, transportation sector, as well as on the green transition

initiatives. As an important note, I'd also like to mention that Germany has enshrined a debt break into the Constitution in 2009, which restricts the public deficit to 0.35% of gross domestic product. And questions are now being raised whether it should suspend this break, given the tough economic situation the country finds itself in. Can you first provide your economic view on Germany's debt brake, and then also talk about what you think are driving Germany's economic downturn?

RW: Yes. On the debt; Germany has always been a little bit of an unusual country. And the reason is the 20th century inflation. If you look at German history in 1922/1923, they experienced one of the worst inflations in human history. My family, German family went through that experience. I learned it from my grandmother, literally how they lived. My grandfather was paid in Deutsche Mark at that time and had to run home from where he worked at midday, not to get his lunch, but to give my grandmother the money so she could spend it, because by the evening it would be worthless. That's how fast price... People have no idea anymore. But deep in the German consciousness, they remember. Because in the whole 19th century and into the first of the 20th century, up until that inflation, German families had been famous for frugality. Mine included, they saved money, they put it aside. And in the period of six months, 50 years of savings became worth buying a quarter pound of butter. So if you traumatize a population, you will get weird political results. We know what the first one was. It was called Adolf Hitler. But one of the longer lasting ones is an anxiety about debt because it had much to do, this collapse of the German mark, with the debts owed by Germany out of World War One, the so called, Wiedergutmachung debts that had to be paid to France and Britain because Germany was the loser of World War One. So it is a very momentous symbolic act in Germany to relax limits on debt because of the anxiety, which is reasonable, of where that can lead. The more you let the government borrow, the more it will borrow from the Central Bank and that's just a way of printing money. And we all know where that can lead, especially with governments that are not held back by public opinion. So it's not an immediate threat, but it is a powerful symbol, and it would represent an opening for something that could become very dangerous.

Now, as to Mr. Harbeck; the statement about global instability, that's not stupid, but it counts on us being stupid. It has nothing to do with global instability. We've had global instability of various kinds and Germany did very well. The problem is something else happened, and namely that more than anything else, the Chinese market changed. Why? Because the Chinese went with the Russians and were no longer interested or willing to absorb the output of the German machine industry, which is its major export. And by the way, it's not just the war in Ukraine and the sanctions which did that, although that was a big supporter, it would have happened anyway, but it would have taken a few more years. Why? The Germans are the producers of efficient, relatively inexpensive automobiles. That's one of the reasons why Volkswagen and BMW, they're all big parts of German Wirtschaftswunder and all of that, right? But the Chinese don't need this anymore. The BYD corporation in China produces better cars that are cheaper than anything produced in Germany. And everybody knows this. And, you know, it's just ,it's over. That's part of the shifting of the world economy. Germany positioned itself as dependent on its exports to the BRICs, basically; China above all, but to

the other Bric countries. And they are developing their own manufacturing system, their own trade. And why should they support the Germans, especially if the Germans are arming someone against their fellow Bric members Russia?! This is not we being weird, it's them imagining something else. That's their problem. They have given the Chinese every reason to find other supports.

Finally, it's evenly important to understand that as these sanctions continue, led by the United States, there are growing pressures inside the United States to sanction companies that do business with Chinese companies that do business with Russia. Well, more and more Chinese companies are doing business with Russia. Very profitable business. They are not going to lose the business they do with Russia in order to absorb from Germany what they can get elsewhere anyway. So the irony is the United States pressures Germany to impose sanctions, and it comes back and it hits Germany harder than anyone. Germany depended on cheap oil and gas from Russia. Germany depended on selling, with cheap oil and gas, to China. And in fact, the sanctions shut off both the input of cheap energy and the export to China, the products of cheap energy. That the Germans didn't understand it, tells you something about what kind of leadership you have and goes back to the earlier question: There is an enormous denial on the part of the leaders of Europe and of the United States, that they are in a declining position, and they are making mistakes in not understanding how that is going to impact them, both in the immediate situation and in terms of any policy decisions they make, such as sanctions, war in Ukraine or for that matter, supporting Israel in Gaza.

ZR: I would like to switch gears here and shift to the Middle East, in particular the situation around Israel in Gaza. Let me just recap some of the latest developments for our viewers. Since the October 7th attack of Hamas that killed at least 1200 Israelis, that included around 370 military personnel, Israel launched an air and ground assault in Gaza, first in the north and now towards Khan Yunis in the south, which thus far has killed at least 31,200 Palestinians, most of them being women and children. Regional tensions are also escalating on a day to day basis that involves some sort of military clashes between the countries such as Syria, Iraq, Yemen, Israel, Lebanon, the US and UK. Can you provide your economic perspective on this war? How is it impacting the global economy? As well as what the US stands to gain by standing by Israel unconditionally?

RW: In terms of the immediate economic situation, it doesn't matter much. It's too small. It is not directly relevant to it. Palestine is too poor to make a difference and Israel is too small to make a difference. So Israel is important because it's a regional military power and can do great damage as we are watching and is prepared to do that damage as we are also watching. So that's as far as the economics of it goes. I think what has to be seen here is that there's another kind of denial going on here of the same thing. The part of the world that is now declining is, the remaining part of the world that is really based on colonialism and on settler colonialism in particular. Settler colonialism is a phenomena that developed out of the colonial explosion several centuries ago, where Western Europe went around the world and used its power, naval and other powers, to create a world economy for the first time built around Western Europe and then expanding to include North America and Japan. And in

many of the areas, not all, but in many, the colonialism took the form of settlers, bringing your own people from the European context to become the settlers dominating a colonial territory where the majority of people were native to that colonial territory. You know, South Africa; the United States is the best example. And that has been defeated or pushed back everywhere in the world, even to the point where the colonial powers that still remain in their settlers have had to and have chosen to apologize for all the horror they did, whether in New Zealand and Australia or in South Africa. The United States hasn't brought itself to that point, but it will, and it's slowly getting there.

Israel and Gaza represent the only remaining settler colonialism in the world. And it announced yesterday something that shows it to the whole world. They announced that their strategy for the Palestinians in Gaza is to, I kid you not, create humanitarian islands, that's what they called, to which the Palestinians will be limited. Well, in the rest of the world, settler colonialism called these reservations. That's what they're called in the United States, reservations, where you take a piece of land nobody else wants, that has nothing on it, and you cram more people than that land can support onto that area where they become unbelievably poor and depend on jobs in the rest of it. And it's disgusting. It's been analyzed by 50 books, half of which I've read. I know this story. I wrote my first book about Kenya. Kenya is a place where the British did that in the Kikuyu [white Highlands] highlands, in the middle of Kenya, etc., etc. So the Israelis are now taking this idea, universally denounced as inhumane, and calling it a humanitarian island. It is really beyond worry. But it's mostly at the level of this symbolism overlaying a horror, of course for the people who have to live or die under this absurd arrangement.

I think economically, in the longer run, here are the important things. Every Arab country and beyond that every Muslim country, sees this, I think, as the last effort of a dying empire and or let's call it imperialism more generally, the last effort to hold on. And therefore they are especially interested in bringing that effort to an end. You know, for historical reasons, it happens to be Jewish – that's a whole nother, that's an accident that it happens to be the Jews, they never were in that position before, but they happened to be in that position, now. It's been mostly Christians who have done this charming piece of work. But in any case, there you begin to see effects. Because in the struggle which we deny between the G7 declining and the BRICs emerging, the BRICs are the natural, obvious allies of the Arab and Muslim world relative to the G7, which is the old colonialism, again. And so what you're going to be seeing is, for the BRICs, a kind of easier way to gather in. They've already got Saudi Arabia, they've already got Iran. These are very, very important – obviously Egypt. I'm sorry, I don't want to leave them out. So more and more of the Arab and Muslim countries will more easily ally with the BRICs because of this historical oddity, that is this horror of what the Israelis are doing there, given what they've tried to do all along. It's sort of imperialism, not wanting to let go of the last bastion that it still controls. And I think this is for the long term interests of the West, this is a disaster. This is lining up, watching these votes in the United Nations, where only the United States votes against and the UK is abstaining, I mean, childish games that only make it more dramatic around the world.

And if you want to see concrete effects, if what I'm saying sounds too abstract, well, then we have a concrete effect, the first one. Which is the decision of the Houthis in Yemen to shut down the Red sea. That's where the traffic for Europe from Asia comes in; the Red sea, the Suez Canal. You close that, or even if you don't close it, you just make the insurance for a ship going through be very expensive and you make some ships have to go around the Cape of Africa, well, you are showing this is going to affect the price of everything brought to Europe. That is inflationary. That hurts the working class standard of living. This has real effects. And all that the Houthis did is figure out how they could be supportive of the Palestinians at a distance. Well, what the Houthis can do in the Red Sea, Iraqis can do it in some other way, and Syrians in another way, and Pakistanis in another way, and so on. And they're looking and you're going to see if this continues, you're going to see more initiatives like that at the same time that the United States in Western Europe has less and less capability of doing anything about it. So I think in the longer run, the economic effects will mount, even though they're a bit indirect.

ZR: Before I end this interview, I would like to ask your view about something that's galvanizing the global community, namely artificial intelligence, AI. AI systems have been on the rise, and governments worldwide are just catching up with legislation. For example, just yesterday the European Parliament passed a law that, according to them, will protect fundamental rights, democracy, the rule of law and environmental sustainability from high risk AI while boosting and maintaining innovation. How do you view these AI systems? Will they boost innovation and efficiency for businesses and raise people's economic well-being? And also, as has always been promised, set humanity free from monotonous and boring work that they still have to do. Or do you see any risks associated with the rise of these technologies?

RW: Well, for me, and I'm not an engineer and I am not knowledgeable about the technology of this, but I am a student of economic history, and I will tell you that for at least the history of capitalism, that is at least the last three to four centuries, every major technical breakthrough, whether it is electricity or atomic energy or modern chemistry or the computer, every single one of them has been introduced with enormous literary debates in which some people said it would liberate us and other people said it will destroy us and the final group was somewhere in between. And that this is a ritual, a kind of almost religious ritual, that we seem to go through. The promises that it would liberate us, completely wrong. Work is more boring, more drudgery than it has been in my lifetime. So the direction of work, boredom is going up, not down. I suppose if you wanted to compare it now to what it was 300 years ago, well, even that people are contesting. Yes, in the cities it was terrible. But in the countryside it wasn't anywhere near so terrible. People were forced off the countryside to the city. They were forced because they didn't go on their own. The story that, I don't want to be in the country, I want to be in this town because it's exciting, that comes much later. And I saw the same thing; the computer of it...

Here's the reality. What determines technological effects from a new invention, like AI or like robots or anything else, is not the technology, but it is the economic and social system within

which the technology emerges, that determines. And let me give you a simple example to show you that. Suppose I get AI or something else that allows me to no longer need half of my labor force to produce my output. I make – doesn't matter, I make something and I have 100 workers who work. I employ them and they make whatever. Now I buy AI equipment, software, whatever it is and 50 workers can now do the same output that 100 workers used to. Thank you AI. Now let's follow the logic: For the capitalist, the capitalist the employer, buys the AI and then fires 50 workers. Why? Because he will save in wages he doesn't have to pay those 50 workers he fired more money than it cost to buy the AI. So it's profitable for him to buy the AI and fire the workers. Same output, charges the same price, pays the remaining workers what he owes them. Everybody is in good shape except the 50 workers, they're unemployed, their family and their communities are in trouble. All right, now the option. Suppose I'm not a capitalist. Suppose I'm a worker co-op. I buy the AI because it makes everybody twice as productive. But here's what I do. I cut the working day from eight hours to four hours. That way, in half the time with AI can produce exactly as much. I pay the workers the same money I paid them before. Everything is the same except what? All the workers, 100 of the workers now have leisure; half a day free every day for the rest of their lives. In the first example, AI helps profits. In the second example, AI helps workers. Capitalism will make sure that AI is used in the first way, and it will never use it in the second way. But a socialist economy or a worker co-op grounded economy would do a completely different thing. It's not the AI that determines the effect. It's the economic system, which is why capitalism has to go.

ZR: Richard Wolff, professor of economics and author, thank you so much for your time today.

RW: My pleasure, Zain, and thank you for producing these programs.

ZR: And thank you for tuning in today. If you're watching our videos regularly, please make sure to support us in a standing order via Patreon, PayPal, or a bank account. We don't take any money from corporations and governments and don't even allow any advertisement. All with the purpose of maintaining our independence and providing you an independent perspective that the mainstream media is just not providing. If all of our 145,000 subscribers would just support us with €1, €2, €3 a month with a standing order, we would be able to cover our costs for the next four to five years. I thank you for your support and for tuning in and see you next time.

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