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The Myth That the US Is Rapidly Approaching Bankruptcy

MICHAEL HUDSON • SEPTEMBER 4, 2024 • 11,700 WORDS • 7 COMMENTS Q&A

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NIMA: So nice to have you, Michael, and Richard on again on this podcast. And let's get started with the current situation of the economy of the United States. And the question is, Michael, to you, is the United States rapidly approaching bankruptcy?

MICHAEL HUDSON: Well, when Republicans and now the Democrats, ever since Obama, sought to frighten voters into supporting an attack on Social Security by trying to privatize it with the right-wing congressional commission he sponsored, there's been a lot of deceptive rhetoric about the federal debt and how the budget deficit forces us to make hard choices, hard for the people, the 90% of the population who are going to have their social spending, Social Security, and other basic government programs squeezed out by what the both Democrats and Republicans want to cut back.

The real problem leading to bankruptcy today is private debt. There's no problem at all with government debt going bankrupt. Governments don't go bankrupt. They can always print the money. And in many cases, going bankrupt can be a very good thing, most obviously in the case of student debt.

If private debtors were allowed to do what almost all other individuals are able to do to the student debtors, what companies and financial institutions are able to do, the student debtors could cope with their student debts by declaring bankruptcy. That would say, we don't have enough money to pay the student debts we're loaded down with.

But Joe Biden led the fight to prevent student debt from being subject to the bankruptcy declarations, thereby creating this unfair student debt crisis that we have today that makes students the only category in the whole American economy that's unable to wipe out its debts by bankruptcy and to free itself.

And the excuse is, well, we need to finance the government budget. Otherwise, we're going to raise the government debt. And the pretense is that if we don't make students pay their student debt, then the government will go bankrupt. And as if somehow the government going bankrupt is like an individual going bankrupt.

Well, the major reason that Biden cited all this, government needed the money, is to basically say, no, we have to enable the government to avoid deficits that are contributing to the debt.

Didn't say anything about the tax cuts for the rich or the unequal taxation or the fact that anyone who earns over \$120,000 doesn't have to pay any of the increased income at all for

their Social Security. It's all paid to them by people who earn less than \$120,000. None of that's in discussion.

Well, I want to put this debt issue in perspective. And in order to do that, I think it's necessary to think in terms of balance sheets. In one way or another, it's a question of who, whom. To whom does the U.S. government owe its debts?

And I want to make two points clear that always should be made at the outset of any discussion. First of all, nobody ever got in trouble by running into debt itself. The problem is having to repay it and to pay its carrying charges if you can't pay it down.

And I'll explain later, the government has no intention or likelihood of having to pay a large part of its foreign debt.

So the second point that's important to start with is to recognize that one party's debt is another party's assets. The government debt is a preferred asset of most of the economy.

So let's look at who holds the government debt as an asset. Well, with all of today's gloom and doom talk, it may surprise people to say that the U.S. debt is perhaps the most desirable financial asset on the planet. That's why so much of it is owned by the wealthiest layer of the U.S. population.

And that's because nobody expects this debt to have to be paid at a cost to the government. That may be surprising, but it's obvious when you think about it.

The paper money that you carry around in your pocket is technically a government debt. Government issued paper money in order to finance some kind of spending. And it issues a paper money and as its holder, the holder has a financial claim on the government.

So each of you viewers who have the currency of any government in your pocket, in financial terms, you're creditors to the government whose paper currency you're holding. And that makes you, in effect, a creditor to the whole society.

You don't think of yourself as a creditor because it's not that financialized. But technically, if you look at the government balance sheet, assets have to equal debts. That's why it's balanced. So you have government debt, liabilities on the left side, and on the opposite side, the assets. Paper money is a big chunk of this.

And if the government would repay this paper currency, presumably by giving you something in return, there wouldn't be any paper money left. So of course the government's not going to pay this paper money.

And you think of money being spent for what you buy, especially in small amounts. It's a grocery store or similar venues. But actually, most U.S. currency is held in \$100 bills, large amounts. Often they're packaged together in shrink-wrapped large bundles that are photographed being transported out of U.S. aircraft and paid to the dictators and kleptocrats and politicians that we're buying off.

Most \$100 bills and most U.S. currency isn't held by Americans. It's by foreigners. The phrase usually is, people keep it in their mattresses if they're living in a country with a bad, a weak currency like Argentina.

But of course, the people who have this shrink-wrapped \$100 bills don't need to put it in their mattresses. They have all sorts of storage rooms for that.

So this U.S. debt is the savings of a large portion of the world's kleptocracy and also just people trying to look at the U.S. as a safe currency compared to what they have. They certainly have more faith in U.S. paper currency than they have in their own foreign currency. And this money is considered for saving, not for spending.

Well, a second category of U.S. debt is sort of like this. It's the debt that's held by foreign central banks. It's their currency reserves. And you can look in the Treasury Bulletin. Every month, the Treasury Bulletin lists who is the U.S. debt owed to, who owns Treasury securities.

Well, a huge chunk, sometimes one-third of the entire new issue of foreign debt is owned by foreign central banks, especially a few decades ago when military spending was very high. And that's the essence of the dollar standard, which I call the U.S. Treasury Bill standard.

Since 1971, when President Nixon stopped paying deficits in gold, foreign central banks don't really have an international asset that they can hold apart from U.S. dollars. So instead of General De Gaulle and the French being able to take the dollars that they're getting from U.S. spending in Vietnam and Southeast Asia in the 1960s to buy gold, now all they could do is buy U.S. Treasury securities.

And these Treasury securities that foreign governments hold are to finance the U.S. budget deficit that is a result largely of U.S. military spending to create the 800 military bases we have around the world to surround countries and sort of force them not to abandon the dollar standard, but they're financing their own encirclement and their own basic U.S. military buildup against them.

And that makes the U.S. foreign debt to foreign central banks a free lunch. The U.S. can just spend it as much as it wants. The dollars that it spends end up in the foreign central banks of Europe and also of China.

And foreign central banks don't have an alternative unless they're to use these dollar inflows and buy gold or something else. And of course, if they do that, the United States declares them an enemy for trying to de-dollarize and essentially declares a financial war on them.

Well, this free lunch is something that nobody expects to be repaid. The U.S. is not able to create enough of a balance of payment surplus to pay Germany and France and China and Russia and Japan, all of the securities that it owes them. So it's not going to repay them.

And if a country says, we want to de-dollarize like Russia did, the United States simply confiscated 300 billion dollars of Russian money and paid it to the Ukrainian, the interest of it

to the Ukrainians to help attack Russia to prevent it from going down that road.

Well, let me spell out just how this system works. Suppose you go to, you could do what America does and in miniature. Suppose you go to a grocery store and you buy food and other household items. And when the cashier prints out your receipt for \$30, you sign an IOU, IOU \$30 and put your name. Well, that's not a credit card. That's just you're writing a note, a signed note, IOU \$30 to the store or whoever should be the bearer of this note. Well, the manager would come out and ask you, well, what am I supposed to do with this IOU? And you could tell them, well, you can use this \$30 IOU to pay whomever you buy your produce from, you know, they're delivering milk, you know, pay them partly in check and give them my IOU and let it just circulate around and it'll circulate and everyone will trade it just like they'd trade a dollar bill or a bank check. It's part of their assets.

Well, obviously that's not how the world works for you and for other individuals, but it's how the international financial system works. When the US spends money abroad and military spending is by far the leading category of the US balance of payments deficit that is pumping dollars into the world economy, the recipients of these dollars in foreign countries will turn these dollars over to their central banks in exchange for domestic currency because they operate their businesses or whatever in domestic currency.

And the central banks then have these dollars, is what they call their international foreign reserves or sovereign wealth fund, and invested in US treasury bills.

When the oil war happened in 1974 and the OPEC countries quadrupled their price, the price of oil, they were told, you can charge whatever you want for your oil, but you have to keep all of your savings, all the receipts you get from this oil, you have to keep that in US currency. We're not going to let you buy US companies, but you can buy stocks and bonds, but basically you have to put it in US banks to buy treasury bills. You can't really spend it for anything at all. You're stuck with it. And if you don't do that, we will treat that as an act of war.

So foreign countries count these unspent dollar receipts as their monetary reserves, just as a store might count your \$30 as part of its assets on its balance sheet. We have an asset from, it would be listed on their receivables or assets. Well, by the way, the free ride for the US government is what has led other countries to want to de-dollarize their economies. That's what the BRICS are trying to do. And Russia has already done it. If it holds any US dollar securities, the US will simply grab it.

China is worried that the United States may do to it what America has done to Russia and simply grab all of its money at a point, but it's hoping that somehow it can be friends with the United States.

Well, we can discuss this debt later, but that isn't the only debt that the United States government has no reason to pay. A large and growing debt is owed to the government's own Federal Reserve.

If the government wants to spend money into the economy, it asks the Federal Reserve to buy US Treasury securities. So the Federal Reserve owns these securities and the banking system

owns US securities as backing and reserves for its own deposits and loans. That's how banks work, holding reserves. So this part of the US debt also isn't supposed to be paid. And there's no way that the US is going to go bankrupt. If the US had no debt at all, there'd be no government debt to hold as bank reserves. There'd be no reason for the Federal Reserve to exist. You can see the problem.

So just like the paper money in your pockets, this other Federal Reserve holding, foreign bank holding of government debt are not expected to be repaid. And I think this kind of financial maneuvering shows that the United States doesn't really have to borrow. It can really, in effect, print the money. But when it prints the money, this money it prints, just like issuing paper money, the money it prints is counted as a debt to the Federal Reserve. So it's all a wash transaction, sort of the illusion of a debt that somehow is in trouble.

Well, if we can get all these categories of the US federal debt out of the way, then finally, we have the kind of debt that most people think of, the treasury bonds that are notes, that are held by individuals, especially by the wealthiest people. The wealthiest investors all have substantial holdings, either in US securities, the bond market, there's been a flood, a run into the US debt as a safe haven.

Just as the Congress is saying, warning, well, the US is near bankruptcy, Wall Street and the large investors and foreign investors too are calling the dollar a safe haven. That doesn't sound like bankruptcy. They're moving out of stocks and bonds, out of other assets into the US debt because as the US economy gets more fragile and top heavy, they know that the US government can't go bankrupt because its debt is all in its own currency. It doesn't owe foreign currency debt that it would have to print. It owns debt in its own currency and it can print as much as it wants.

If you go to the bank or the Federal Reserve and say, here's my \$20 bill, I want to cash it in for money, they can give you two \$10 bills, but that's all you're going to get.

Well, Abraham Lincoln financed the Civil War simply by printing the greenbacks and the greenbacks were technically a debt and that's what's happening.

Despite the enormous magnitude of US federal debt that Nima mentioned and the loud warnings of government insolvency when the financial sky's falling, the treasury bonds are viewed as the most desirable, safest asset around.

Chinese officials have told me that they don't expect the US dollar really to go down. They're reducing their holdings of dollars in favor of gold and other foreign currencies, but they still hold enormous amounts of dollars because they expect them essentially to remain a strong currency.

So basically, the enormous increase in wealth that the wealthiest 10% of Americans have made since the Obama bank bailout in 2008, this stemmed from the fact that the US debt has been thrown under the finance and created the largest bond market boom in history.

This bond market boom has only benefited the wealthiest financial classes.

So here's wage level and income for the bottom 90%, flat. For the top 10%, it's gone up and up.

All this is financed by the government debt, turning the stock in the corporate bond market into a Ponzi scheme. So this is the bright side of government debt and why you shouldn't be frightened into having to solve it. So the question is that I think maybe we should spend a few minutes discussing is why are people, what's their motive in trying to frighten people about the government debt?

RICHARD WOLFF: Yeah, I think maybe I can help in this regard because there really isn't a contradiction between the notion of the financial markets that the dollar is the safest place or the safest form in which to hold your wealth, the dollar obligations of the United States government given the way the world is working.

In other words, the United States' position is shrinking, the empire is falling apart, but compared to your alternatives it's still a logical place for people with private assets to hold them in that form. So that's the safety argument.

Now the other part of the safety argument isn't spoken, but I'm going to make it explicit now.

One of the reasons the dollar is safe, despite the fact that the dollar's footprint in the world is shrinking, that the percentage of central bank reserves held in dollars is less now than it's been at any time in the last half century, and on and on. I could give all those statistics that you could want. Why is it still safe?

Here's the unspoken assumption of the private world, which we'll see is reasonable. The assumption is that the United States government, despite the level of debt it's involved in and despite its shrinking global footprint, has an internal political capability of making sure that the people who hold that debt will not be in any way damaged by how this problem gets solved.

In other words, what they're doing is they're saying you can afford to keep your wealth here, which we need you to do, and here's what we'll do in exchange. We'll make sure that the angry people who are going to have to pay the freight of all of this will not be able to disrupt it.

But here's what that means. Suppose, suppose, that the American people demanded of their elected representatives, we want the social security of having a retirement that we can look forward to after we reach age 65 or 66 or 67. We want to live in a society that honors a lifetime of work by not making you destitute when you're old. It doesn't seem like an extreme demand. It's reasonable. We want that.

And you know what else we want? We want a health insurance from the day we're born till the day we die, like so many other people have around the world.

And you know what else we want? We want a free higher education. We want college to be like high school and elementary school. It is something we as a society invest in ourselves, like a public park, like a beach, like a state reserve where you can take your family and go camping.

We want a higher education like most of Europe already offers its people for no fee at all. No tuition. No. We want that.

All right. We all know, because we live in the United States, what the answer is. Oh, the government can't afford it.

Wait a minute. What do you mean the government can't afford it? The government is currently shelling out, I don't know what it is right now, but six to eight hundred billion dollars of interest on the national debt right now, and it's forecast to become more over the next two or three years, a lot more.

So the American people say, okay, don't pay the interest on the debt. There it is. Then you have 800 billion bucks right now, and that's way more than you need to give us free education, free health care, and all the rest we've just asked for. Do that. We elected you. Do that. And if you don't do that, we will unelect you and replace you with people who will.

Oh my gosh, say all the people in the world who own the debt.

That's a very important point that Michael made. For every debt, there's somebody holding that debt for whom it is an asset, and they want to protect their assets. They don't want there to be a risk that the United States government will stop paying interest on the debt.

So the American government's pledge to them, unspoken but very real, don't worry, we will cut back on everything to the American people to preserve your interest in getting paid off for that debt that you own and that you invested in. You European rich people, you potentates around the world ripping off your own populations and investing it in dollars. Yeah, yeah, yeah. We'll protect you who don't elect us but who fund us. And we will screw the American people because you elect us but you don't fund us.

Okay, so that's the deal. No one will say that to you. That's why it's so important that in the conversations, things get confused about money more than anything else.

We're told, gee, we'll have to cut public services so we don't mess up the budget.

Wait a minute, Jack. You don't have to cut public services. You just have to stop paying interest. Oh yes, but then people won't lend to us. Exactly. And then what will you have to do? You'll have to tax the rich people because there'll be nothing left unless you want to sell the Atlantic and Pacific Ocean. And then there'll be a dispute about who gets that money.

No, no, you want things to stay the way they are. And that's a system developed of, by, and for the rich. And it is so gross these days that you need an endless amount of blah, blah noise about money and other things people have had mystified all their lives.

People like me sometimes to mention, and I will at this point, bear with me, the greatest critic of capitalism so far. I hope we have better ones coming. But so far, it's the old guy Karl Marx. And he wrote as a young man, it was in his 20s if I'm not mistaken, maybe his 30s, but a very young man.

He wrote something called an essay, a short essay, about 10 pages, called *The Power of Money in Bourgeois Society*. Unbelievable. Half of it is quotations from the German writer Goethe and the British giant Shakespeare. He quotes in length. His own comments are half the article. The others are quotations from Goethe and from Shakespeare.

And there he captures the whole mystery of money and why it has confused people all along, and what's at stake. It's extraordinary. He went on to criticize capitalism because he understood its preservation requires something as absolutely central as money to be absolutely mystified, lest its function be actually understood.

What Michael just did is gave you a crash course in demystifying what this is all about. When the government of the United States, the treasury, issues the debt, the IOU that the government owes you money, it then sells a large part of it to another branch of itself, the government. This other branch is called the Federal Reserve.

It has the right to print money, folks. That's what it does. It prints the money, and it uses the money it prints to buy the debt of the other part of the government it is. Okay, this is weird. You should understand right off the bat this is very strange. No wonder it confuses people.

But that's half its purpose. You know, in the old days, the rulers would print money whenever they needed it for a new coach, for a new palace, for a new war. And then people would get nervous. Oh my god, he's printing.

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So we had a little special commission set up called the Central Bank. It's supposed to be composed of very wise men and women. Well, to be fair, throughout the history of capitalism, it's very wise men. The women are few and far between, even now. And its job is to be an intermediary to make sure all of this is done. What? All of this is done with the same mystification as always.

Only now it's a bit more mystified, because between the government that prints the money and the rest of us, we interpose a central bank who's supposed to make us feel all a lot better, even though we know from the very documents Michael mentioned earlier, how much of the debt borrowed by our government it's borrowing from itself, from the other part of the other office across town that literally prints the damn stuff.

Now, if you find that all terribly reassuring, then the system has worked. If you see through it, you're probably a communist.

MICHAEL HUDSON: Well, Richard mentioned the magic word interest. And while we're both in agreement that debt isn't the problem, the problem, if you're looking at the annual budget, is the rising interest rates, the interest payments relative to the receipts of the government.

And Richard pointed out quite right that interest is rising now that the Federal Reserve has raised the interest rates from only 0.1% per year to 4.5% to 5% in recent months. All of a sudden, this means a huge payment of interest in the budget, and that is going to increase the size of the budget deficit.

And that's, you know, I said at the start that nobody went broke running up debt, but they get broke when they have to repay the debt or even to pay its carrying charges.

And interest is the carrying charges. The interest that the government pays to itself, the Federal Reserve, the Federal Reserve, under Obama, said all the interest that the Federal Reserve gets from the government can now be paid to the banks. They can borrow from the Federal Reserve at nothing, and they can put their own deposits back at the bank and get the interest that the Federal Reserve is paid by the government.

That was the big Obama deception for the most right-wing, vicious financial twist in history. And it went completely unobserved by the financial markets, except for people who follow finance very, very clearly.

But what you're going to find now, and you've already heard verbals about it from the Biden administration, is if we're going to have this increase in interest payments, we've got to have the balanced budget amendment that Obama tried to create with the Republican-dominated commission that he appointed to try to get a constitutional amendment saying the government must balance its budget so that its debt doesn't go up anymore.

Well, let's see what happened if this Obama Democratic Party policy actually came through. If the government had to avoid running a deficit, subject to paying the emergency spending that every democracy has to do, you have to spend more than now 40% of your budget on military, because without supporting fascism in Ukraine and the Middle East, how can you promote democracy without supporting Ukraine's war against Russia and without declaring war on China and Middle Eastern countries?

And next to the military, alongside of it, you have to pay the 10% of wealthy people and banks that hold the government debt. Well, that really doesn't leave very much left for social spending. And the easiest thing to cancel is Social Security, Medicaid, grants and aid from the federal government to the cities.

And this is what Kamala Harris has pledged to do if there is a democratic administration and probably what Trump, if he gets to be president, also will do.

This is the big squeeze that has been planned now for 20 years, the plan to take social spending out of the hands of government and to privatize it. Well, what are they going to do?

They're not going to simply say, we won't pay Social Security, because that's a contractual obligation that the government has settled up. But what they say is, what we're going to do is we're going to take the Social Security Fund and we're going to create a government grant to, let's say, BlackRock and other money management companies to manage the Social Security in

the form of a huge privatized mutual fund, just like the Sovereign Wealth Fund of Malaysia was handled by Wall Street and criminally just ripped off by the financial managers.

That's what financial managers do. That's what Goldman Sachs was criminally prosecuted for, for the billions of dollars that it embezzled from the money that it was supposed to be handling as a fiduciary from the Malaysian Sovereign Wealth Fund.

They want to do that with all of the Social Security Fund and they want to take this money, the government funding for Social Security that you're paying every month, and all that's going to be paid into this mutual fund that's going to buy U.S. stocks and bonds.

And the financial sector says, if we can do that, this will create a huge stock market bubble. Boom. Because look, all this money, instead of being paid into the government to finance its war spending and the other spending that governments do, now it'll be spent on the stock market.

And thank heavens, the stock market is so over debt leveraged now. It's so almost insolvent that we've saved the stock market Ponzi scheme from the brink of insolvency by giving the money that used to be paid to the government to the mutual funds, put it into the stock market.

And then at a certain point, forecasters and the big money management funds will say, you know, that's really not going to succeed.

They'll sell all of their stock holdings, leaving the stockholders holding the bag just like they did in the South Sea bubble in the 1720s and the Mississippi bubble. That's how wealth is made. You create a bubble, you mobilize public belief that somehow this bubble is going to make money for you if you join it. And then you sell out, you leave them holding the bag and let it collapse. That's the plan that the Democrats and Republicans together are planning to do if they can do it in the next administration.

RICHARD WOLFF: And they'll package the whole thing, or at least a large part of it, as a reform of the social security system. Here's how this scam works.

And I know many of you watching this program will have been, you know, provoked into worrying or thinking about this by various fragments in this or that news report you read about the social security system. Here's the way the scam goes.

Number one, you raise alarms. Here's the alarm. The social security system is running out of money. We don't have enough money. Then you'll hear an erudite professor, sadly, one of us, getting up there and saying, the population is getting older. Oh, genius we got here. It's getting older. So you see there's more old people pulling money out of the social security system as a pension, relative to the young people working and putting money into the pension system in their weekly check deductions. The arithmetic is correct. The conclusion is absurd.

Social security either is or isn't a commitment a society makes to itself. Are we going to honor the people who give a lifetime of work, whether it's in the factory or the office or the store or at

home, raising children and all the rest of it? Are we going to honor those people by giving them a decent, secure retirement? Or are we going to throw them in the garbage?

And that tells you a lot about a society, which way it goes on that one. And you can see that around the world right now.

If you want to support older people as a matter of a decent moral or ethical community, let me assure you as an economist, we have no shortage of funds available to do that. No problem at all.

But that's not how the social security works. Social security works by taking money out of people's checks now, holding that money until they reach 60, whatever, and then paying out a pension for the rest of their lives.

Everybody knew that that was the system, because that has been the system from the beginning in the 1930s, when an angry population of the American working class got social security for the first time in our history, by mobilizing the labor movement, two socialist parties and the communist parties worked together to get that from the president at the time, Franklin Roosevelt. That's how this happened.

Now, first part of the problem, do we take money from the checks of everybody? Answer, no, we never did. We only take checks from the people who earn wages and salaries.

Wait a minute, aren't there people who earn income from interest they receive, from dividends they receive, from capital gains they receive? Yes.

What is the amount of money deducted from those incomes for social security? Answer, nothing. What? Yes. How do the wealthiest people hold their wealth in America? By stocks and bonds and cash, which generate interest dividends and capital gains.

So the richest people own the bulk of their wealth in that form which social security exempts from taxing for raising the money for pension.

You know what that's called? Grotesque injustice. That's what that's called. The people who have the most money are exempted from contributing to what the decent society wants to do for itself.

Wow, that's like having clean water in a community, carefully cleaned and maintained by the community, for which the whole community is charged except the rich people. They get to drink the clean water and they're not charged at all. Why? Well, because they're rich. Wait a minute, what? Yes, wait a minute, what?

You ought to wonder, but it's worse than that. It turns out that not all wages and salaries are taxed. Only the first, I think it's now 160,000 a year, something in that order. That's very nice, that is the bulk of us.

But you know who's exempt again? Bingo, you guessed it, the super rich, the people who make more than 160,000. Here's how it works, friends. Everybody pays the same percentage on the first 160,000 a year you earn. On every dollar over 160,000, no social security is withheld, no social security is deducted.

So, if you're a corporate executive and you make a million or two or six or twelve or twenty, everything above 160,000, you're not required to put into the pool for the pensions for our elderly. You're exempt.

Why? Because you're rich. That's what got you the exemption. Not what you know, not what you do, not who you are, not how you serve the community, no, no, no, no, no. Just because you're rich, that's why.

Unbelievable, unjust, grotesque, and now comes the best part. How could you fix this problem? Well, instantaneously, I've given you the answer. You could tax interest, capital gains, and dividends. Put the social security tax on them, problem solved. No alarm, no social security running out of money, not in this century.

Here's another one. Tax all income, wages and salaries, not just 160,000, all the way up. Look how much Elon Musk would have to pay. And here's the beauty, he would have to pay millions and he wouldn't notice.

But do we do that? No, no, no. We allow millions of Americans today, I'm talking many millions, millions. We allow them to worry themselves sick over whether or not they will live on social security, how much longer they'll have social security. Will it get cut back next year, two years, six years from now? What should they do now about savings and pensions, given that they couldn't possibly live already on the small amount that social security gives them?

Those who are smart enough to know that social security did not go up over the last 10 years as much as inflation did, so it's actually worth less now in terms of what it can afford you to buy than it used to.

Put all of that aside, but we're saving billionaires quantities of money they wouldn't notice they're losing, rather than do something for the millions of people that are suffering. It is a level of hard heartedness that makes any depiction of pre-depression America look like child's play in comparison.

So these issues of debt, these issues of government finance, they come right in and become not only a demystification, trying to explain what's going on, which Michael did so well, but they also touch you right in your personal life.

If you're not yet an old person worrying about retirement, and I want to remind you a third of the American people right now are doing that, but even if you're not in that group, you know what you are? The children of those people.

And if they don't get a social security, they're going to come and talk to you, because you're their children, and they'll need you to help them. And you'll want to do that, and that'll impede your economic development.

That's what's going on folks. A shrinking economy, a declining empire, is run by a group of people at the top who are doing what we all would have expected them to do. They're offloading the costs of a declining empire onto those below them in the social pecking order, and that's you and me.

And whether it's pinching the social security, or cutting back on funding for colleges, or not allowing the college students, as Michael opened up with, to go and get relief in the bankruptcy courts the way we allow all other private debtors to do, don't be fooled.

They're going to cut everybody else before they damage the core of what keeps them the richest people on earth. And manipulating the money system is a tried and true way for the elites in dying empires to hold on for a few more years.

MICHAEL HUDSON: What Richard just said may sound so radical that it seems, well, that's utopian. But his idea of taxing the rich more is less progressive than the original U.S. income tax in 1913.

When the income tax was first legislated, only 1% of Americans had to pay income tax. That's because income tax was paid only by those who made over a given amount, something like 10 times the normal wage.

So it turns out that who paid the income tax were large corporate investors, large real estate owners, and large financiers. The workers, wage earners, did not have to pay income tax at all. They were tax-free.

And in just over 100 years, there's been such a reframing of the narrative of how an economy works that people have no memory that originally the income tax was supposed to be progressive and actually was able to finance America's participation in World War I by these terms that only taxed what was called *rentier* income, rent recipients, financial investors.

And at that time, in the wake of that, ever since, beginning in the 1920s, you had the financial sector and the sectors it protects, the real estate sector, insurance, monopolies, fought back. And their plan was to financialize the economy.

And their great success was in the early 1950s when they developed the idea of corporate pension plans. And the corporate pension plans were presented as if, now labor is a capitalist in miniature. We're paying our workers in stocks so that the workers can actually own stocks in their companies, put it into the stock market.

Well, there were two kinds of pension plans. One is make them co-owners of your own company. So you would have the workers own more and more stock, for instance, in the Chicago Tribune, the right-wing Republican paper of Chicago.

Well, finally, once the pension contributions and stock holdings got high enough, the Tribune was taken over by a financier who confiscated all of the workers' savings since the 1950s in Tribune stock and used it to pay the banks that had lent him the money to buy the Chicago Tribune.

And for other people whose pensions plans that essentially said, well, we'll put aside your pension and the stock market is going to be growing. What that meant is that putting the money into the stock market and into investment banks and into money management funds created a whole financial system.

So suppose you work for a company and it was exploiting you and it was cheating you, but the company said, well, just think of it, you exploited workers. Your money is savings, pension savings are put into our company. So think of the pension savings you're making by our exploiting you.

Well, that's what's happened on an economy-wide basis. By investing pensions instead of on a pay-as-you-go basis, instead of making pensions a public obligation as it is in many European countries, it was financialized into the stock market.

And now you have pension plans like CalPERS in California, the California Public Retirement Savings Fund. The pension funds throughout the United States have become desperate to turn their money over to private capitalists to promise huge fast gains in buying up firms, downsizing them, cutting back the labor force and squeezing out more money and leaving bankrupt shells in their place.

So the industrial employees who put the money into their pension plans are financing the de-industrialization of the economy instead of its industrialization. That's the kind of plan that the politician donors would like to see translated into what to do with Social Security in that same way.

The problem is the financialization and finance capitalism has turned out to be just the opposite of the industrial capitalism that was described in the 19th century, not only by Marx but by everybody else.

RICHARD WOLFF: Yeah, and I would like to just, if I'm going to play the role of radical a bit, you know, capitalism says that profit is the bottom line. My colleagues in business schools across America who I know and who are friends of mine are constantly telling me that their basic message to students is if you want to build your business, you go where the labor is cheap and the market is growing.

And they said very good, they say to their teachers, thank you very much. I'll be reporting back to you from China because I'm going to China because the wages are low and the market is the biggest one in the world and it's growing faster than everyone. So it's kind of obvious where I should be. I'll see you later. You're stuck in Chicago or Cincinnati or somewhere else. I'm going to Beijing or Shanghai. I know where you've taught me I should be.

If you don't like the results of capitalism, which is the de-industrialization of one part of the world after another, come on, let's remember once upon a time capitalism was what we celebrated in New England. Then it left, you know, it went to the Midwest, Ohio and Pennsylvania, Wisconsin. And you know what's left in New England to this day? Those factories, four or five stories high, nice long brick buildings that now are full of artist studios, pottery shops, and yoga lesson businesses. Because that's all that will go into these empty factories.

And now what do we call the Midwest? We call it the rust belt of America because it's abandoned. Capitalism abandoned New England, went to the Midwest, abandoned the Midwest, went south, went west, and then predictably, you don't need to be a fortune teller here, why would they stay inside the United States?

They decided finally, wait a minute, the same logic that it's more profitable, that we can force the countries we haven't yet gone to to bid for us to go there and thereby use the profit mechanism to bring jobs to their part of the world. We're ready to go. We're ready to go to China. We're ready to go to the moon.

Capitalism, it's always this funny thing about capitalism. It wants you to see the good parts when it grows, when it expands, when it discovers something. And those are fine as long as you don't forget it has the bad things.

You know, we live and life is wonderful, but we also die. That's another part of our existence. Capitalism abandons.

You want to go to a place that capitalism has abandoned? Visit England. Visit the industrial heartland of Europe. Now basket cases that are the seeds of a fascism growing everywhere in Europe. And where? In the abandoned areas where industry isn't anymore, when it was.

That's the reality, folks, of what is going on here. The profit motive is a builder and a killer. If I can be allowed another quote from Marx early in volume one of Capital, he makes the remark, yes, capitalism, he says, is a constant producer and reproducer of great wealth.

Unfortunately, he adds, it is likewise the producer and reproducer of great poverty. One is the other side of the other, and that's what's wrong with this system. That's why we can do better.

And all that we've been saying is a kind of an illustration that when it comes to organizing an economy, the one we have in capitalism has achievements to its credit, no question. But we live in an advertising society, and I don't mean that as a compliment.

In advertising, notice something. The client pays the advertiser to say only good things about the client, true ones or make them up, but they have one quality in common, it's all good.

And what do they hide? Everything that's bad. That's a way of communicating to people that has nothing to do with what we're told as children, that you have to see the plus and the minus.

You have to weigh the pro and the con. You have to give a balanced contribution to understanding the world you live in.

No, no, no, no, no. Advertising is giving you a carefully constructed, unbalanced view.

You're going to hear from the Democrats wonderful things about Kamala Harris, that's all. And you're going to hear from Mr. Trump wonderful things about Trump, that's all.

They will allow themselves to put zebra doo-doo on the other one. That's advertising mentality. Capitalism's gifts to us is the advertising business, which has corrupted the whole process of speaking and of language.

It means that half of what Michael and I do, and what Nima is so good at organizing, is the demystification, trying to recoup something remotely like a balanced sense of the economic system, so that we can do what creative human beings have always done, better than what they have found when they were born into the system.

That's all we're trying to do here. We can do better than capitalism, and we ought to stop not learning that lesson.

MICHAEL HUDSON: So what we're talking about is a narrative. And if you can pierce the...

When you hear a narrative, like the government is broke, or we've got to balance the budget, what is it that they want you to do? Any narrative that you get these days, certainly by politicians, is an attempt to shape how you're perceiving how the economy works and your place in it, to make you do and support some policy. And this policy is paid for by the people who back the narrative.

And as Richard just said, we're trying to suggest a different narrative because nobody's paying us. And it turns out that the less you're paid for a narrative, probably the poorer it is.

RICHARD WOLFF: Yes, that's right. The less you've been bought off to stop whatever else you're doing, your enjoyments, your pleasures, your hopes, your dreams, in order to make a buck. It's awful that everything intrudes between you and the best in you because it questions or threatens your survival.

It's an extraordinary system. It has lasted and done as much as it has by virtue of that. But it's done now. And I don't think it's going to be salvageable. I don't know any more than anybody else does where it'll break first, and how, and how quickly, and none of that. I can't predict the future.

But it is crystal clear to me that the hold of the traditional truths is slipping a little more every day. And it's that that I also personally hold on to as a basis for what I do. And I think it's what animates people like Michael and Nima also. It's this sense we've got to do something, and here is something we can do.

We can say, look, the world isn't quite the way it's made out to be in the mainstream media. And let us show you what remarkable insights this can help you to develop, and they can make your life better.

NIMA: Yeah. Just, Richard, we have here some questions from our audience. And you may answer. One of the questions is pointing to you, Richard.

It says, if the government prints money at will, then why do they need to tax the public?

MICHAEL HUDSON: Good point.

RICHARD WOLFF: Yes. It's very, very important that people understand. Here is the question, Richard. You can read it at the screen here. If the government prints.

There are many reasons. Like all big decisions that are made in a society, especially if they last over a period of time, as this one clearly has, governments have been taxing as well as printing money for a very long time. This is not in any way new.

Some of the forms of it are new, but the phenomena of these two sorts are very old. Okay?

So one of the reasons for it is the way capitalism particularly—

And it's older than that, but the way capitalism works, you have this absurd, and I mean that, absurd situation. You could divide the population in any capitalist country between those who are corporations and rich on the one hand, and everybody else on the other. 10%, 90%, whatever you want, however you want to do that.

And all right, now here we go. Both of those two groups, the people at the top and everybody else, want services from the government. Corporations want the government to protect their wealth, to protect their freedoms, to protect their profit making, to enhance that, to subsidize them as needed, to secure a foreign market for what they produce, to secure cheap sources of foreign inputs to what they produce. They have a whole list of things they want the government to do.

And the mass of people, just for the sake of argument, they have their list. They want public education, they want health care, they want decent roads. Corporations want that too, and they would like help with babies and swimming pools, you name it. Okay? That's what they all want.

Now comes the question, how is this going to get paid for? They want the government to do it, how is the government going to do it? And here we can see very clearly, corporations and the rich would like lots of things done by the government, but they don't want to pay for it.

And the mass of people want lots of things done by the government, and they don't want to pay for it. Well, you can't have it if somebody doesn't pay for it.

So what have we got? We've got a system in which we tell the mass of people, everybody's got to pay their fair share, and so we have a tax system. Very old. We're all going to benefit from

these things the government is doing, at least we give lip service to the idea. So we all have to contribute, okay? We have a tax system.

All right, but people at the top, unlike the rest of us, they have the money and they have the power to do a lot more than “want” something. They can make it happen. That’s what it means to be a corporate CEO, or on the board of directors, or to own a billion dollars of wealth.

You’re in a position to do things, and so what do you do? You arrange for the taxes to be brought down, particularly on you, on corporations and the rich. So you push the tax burden onto the middle and the bottom. But beyond a certain point, and here’s where things get creative, beyond a certain point the mass of people can’t. Remember, they’re the ones who get the wages and salaries, and beyond a certain point you’re going to have a tax revolt. Every country has had it. We’ve had it too. Remember, started back in California several decades ago and swept the country. Tax revolt.

Okay, the people at the top realized now we’ve got to play a game. We announce a tax cut and we make very sure that everybody gets a little cut. You know, five percent for you, ten percent for you, and forty percent for us. Oh, we get that kind of tax cut.

The best example of that is the 2017 tax cut that Mr. Trump achieved. The only economic innovation, if you want to call it that, that Mr. Trump got passed. His was a do-nothing four years of empty crapola, which Mr. Biden copied, I understand, but nonetheless these are competing pro-capitalist countries. So he facilitated that with his 2017 tax cut.

And now here comes the creative, most creative part. When you cut taxes on everybody, telling the people that you can do more with less, you know, you’re cutting the fat out of the government, as if when you cut the taxes it has no consequence on the services you can provide. Having fooled people, maybe. You then say, okay, but here’s an even easier thing.

Instead of taxes, we’ll borrow the money. Isn’t that wonderful? We can give you what you want. We give you the corporations what you want. We’ll give you the masses what you want. We won’t tax you because you don’t want that. We’ll borrow the money. Isn’t that wonderful?

It is, as long as you don’t understand what Michael just spent, you know, almost an hour explaining. Who does the government borrow from? He went through it. It borrows from individuals. Of course, who? The richest. You know how you know it’s only the richest? Because how many times has a government official come to you in the privacy of your home or office and talked to you about making a big fat loan to the government?

The answer is, that’s never happened in your life. That’s because you don’t count. You don’t matter. The government borrows only from the rich, or from other countries, or from its own central bank. That’s how the government borrows, and that’s great for the rich because they get to avoid taxes, but instead of paying the money in taxes, they give the money as a loan to the government, which pays them interest and then pays the money back.

This is called a no-brainer, but if it’s a no-brainer to the advantage of the rich, it’s a no-brainer

in a different way for the rest of us.

You got to have no brain to accept such a system. This is a hustle as grotesque as selling you the Brooklyn Bridge for \$18.95. If you can't recognize that hustle when it's offered to you, then maybe somewhere, somehow, in some other universe, you actually deserve the hiding that you're getting.

This is a system designed of, by, and for the people at the top. I don't mean the American system, and I don't mean the, I mean capitalism as a system, because this game is reproduced in one form or another all over the place.

That's why some of us are critics of capitalism. Yeah.

NIMA: Then let's just wrap this session up with the latest news that the link that I've sent to you from the article of Ted Postal is talking about the new strategy of the United States considering nuclear weapons. They're talking about that this is a strategy of preemption.

But do you see, putting this part of nuclear bombs aside, do you see any sort of connection with this type of strategy and with the economy, the war that is going on between the United States and Russia and China in terms of their economy? Do you see any link between these two discussions? On one part, the military part, on the other part, you see their economy at war.

MICHAEL HUDSON: Well, the United States hoped to bankrupt Russia in the 1980s by arming, under the Cold War, so much spending that they thought that forced Russia to make a mirror image spending of its own military budget.

They thought that this is going to bring down the Soviet Union because they don't have as large an economic surplus as we do, and that will force them to squeeze their economy and cause public discontent, including discontent among their own ranks of the Communist Party people, and it will just demoralize them. So if we can increase our spending, forcing other countries to spend their money, the theory was their populations will revolt and vote somebody else in the power.

Well, that's just what NATO thought in the 2022 when it kept stepping up the attacks on the Russian-speaking Ukrainians and tried to do everything they could to provoke Russia into war.

The idea, once again, was if they could force Russia to counteract the NATO attacks on civilians in Donetsk and Luhansk, the eastern Ukrainian Russian-speaking regions, then Russia would, number one, have to divert its income to war spending, and it would not be able to industrialize and become more self-sufficient in its industrialization, and number two, since Russians were going to have their soldiers dying, the American National Endowment for Democracy and other propaganda organizations, non-government organizations in Russia, would be able to try to fan the flames of popular discontent, and obviously that didn't work, but that was the plan.

So when you bring out a suggestion, what you just did, this enormous increase in atomic weapon spending, number one, this is a bonanza for the military-industrial complex in the

United States because most of America's atomic weapons haven't been cleaned and spruced up for the last 50 years.

There's a question, do they still work anymore? Do we have to take them apart and fix them? And do we need new technologies to somehow invest in America to keep up with the Russian technology of the hypersonic missiles and everything?

It turns out that America's plan to bankrupt Russia with military spending has backfired. It threatens to bankrupt America with military spending, and the narrative of all of this is being framed by how we began the show.

The narrative is, in order to afford this military spending to threaten to blow up the world and start civilization all over again, in order to finance this, we have to cut back social security and social spending and interest payments to the bondholders.

So all of this is an excuse to spend enough money on non-social purposes in the United States that it crowds out the budgetary leeway for the social spending programs that the voters actually want.

And of course, to do that, you have to make a duopoly between the Republicans and the Democratic Party. You have to make them into a single party, preventing any third-party access on the ballot, such as, Nima, you and I have discussed when we had Jill Stein, the anti-war candidate from the Green Party, on.

Both the Republicans and the Democrats have tried to make such a labyrinthine set of rules to get on the ballot that really, Americans don't have any option on the ballot box but to vote either for the Republicans to do this rearming, new Cold War arming, or the Democrats to do the re-militarization.

You can vote which one is to do it, and each party has its own identity politics. But you can't have any party that is trying to urge peace.

You're seeing this whole charade being performed last week in Germany. When you have the two anti-war parties, Germany's talking about, to preserve democracy, we have to ban the anti-war parties. Because without going to war, we cannot support fascism throughout the world. We have to support the Ukrainian fascists against Russia. And if a party is formed, either the alternative for Deutschland or the Sarovagnecht party, we have to prevent them and just not let them take a position in Parliament, because that's anti-democratic.

Democratic is what benefits the United States in the Cold War. That's what we define. Democracy is the Cold War. Autocracy is avoidance of war. Autocracy is the BRICS, China, Russia, Iran, and other countries withdrawing from this whole financialized system.

So they not only have a different narrative that we're talking about, they have a different vocabulary, as George Orwell had pointed out. So we're talking on your show every week, not

only about the narrative, but about the very vocabulary that is meant to misshape how people perceive and what they think is happening in the world.

RICHARD WOLFF: Let me only add something. Let me put on my hat as an economist for a moment. Michael is right. The contest, the war contest, the arms contest, whatever you want to call it, between Russia and the United States, which in some ways goes all the way back to the end of World War II, was a very clever strategy.

Whether it's George Kennan who gets the credit or some of the later people in the State Department, they understood a very simple thing, which I don't think Americans ever understood.

That the United States came out of World War II as an absolutely unique dominant economic powerhouse, and that all the potential competitors, economic competitors, were gone. Russia was gone. China was gone. Germany was gone. Britain was gone. Japan was all gone, either destroyed by the war indirectly or literally destroyed in the war directly.

Now, this was not a sustainable arrangement. It would eventually end, but for a good while, I would argue for the rest of the 20th century, the United States maintained its dominant, overwhelming position.

Therefore, a contest, an arms race between the United States and Russia was a kind of a bad joke. One was sitting on top of an economic powerhouse. The other one was sitting on top of an economic disaster zone.

There was no... This is crazy. As recently as the last time I looked, two or three years ago, the GDP... Americans don't get this. The GDP of Russia three years ago was around one and a half trillion dollars per year. The GDP total output of goods and services for one calendar year, roughly one and a half trillion. In that same year, the GDP of the United States was about 22 trillion dollars.

Okay, everybody has to stop, right? One and a half versus 22. And that ratio isn't all that different now from what it was before. An arms race between a military based on a 1.5 trillion dollar economy versus a military based on a 22 trillion? I mean, that's not a contest.

You know what's amazing about that? The level of military production that the Russians were actually able to undertake. You can tell, even if they didn't admit it, that the priority they put on military was obviously enormous.

Maybe the Soviet Union was a challenge to the United States, using the word loosely in politics and in military. But in economics, never, not close, no way at all. So an arms race between them is something the United States could confidently think it would win.

We are not in that situation today. And that's part of what's going on. We are not in the same. Right now, the GDP of the United States is in the neighborhood of 23 trillion last time I looked. The GDP of China, about 17 or 18 trillion. That's a completely different story.

Put China and Russia together and you have a high priority on the military and a bigger economy. And the Chinese a mountainous bigger economy with a high tech sector second to none.

This is a new game. If you assume you're going to win the arms race now, you're crazy. You've lost touch with reality. You are not in the same situation and you're going to make terrible mistakes.

And the first clue of how bad the mistakes are is the mistake made when you decided that all Ukraine needed was your weapons and your money to overwhelm Russia.

Wrong. Why? Because Russia has China and Russia has BRICS and Russia has allies and Russia has options.

You didn't figure. You thought you were where you once were, but you're not. You're just not. And the result is a new framework which you haven't figured out yet.

I listen to the neocons running our foreign policy these days, the Blinkens, you know, the Jake Sullivan, those folks. They sound, look, and speak like cold warriors. They're still there. They're in another place with other calculations that made a certain sense then. Dangerous, risky, but they had a certain logic.

Now you get the danger, you get the risk, but the odds, they're not there. The context is not what it was. In fact, it's pushing the other way more so every year. This is a losing proposition, but they keep losing and they can't think their way out. They lost. They couldn't win the war in Korea. They lost it in Vietnam. They lost it in Afghanistan. They lost it in Iraq. They're losing it in Ukraine. They still don't get it.

That's why I think we're much closer than any of us dare hope for the very big changes I think are coming.

MICHAEL HUDSON: Well, give them credit, Richard. We did beat Germany in 2022. It's now completely dependent on it. We beat Europe.

RICHARD WOLFF: Yep, but you know Volkswagen, which is in its greatest crisis, Volkswagen is the emblem industry of Germany. There's a great success story. Up until last year, more VWs were sold in China than any other brand of car, etc., etc., etc. They are now in a crisis. They've announced they're about to close factories all across Germany, which they have never done in their 70 years of history before.

They're in desperate trouble, but they know why. Be careful. What we see is the surface which has to placate the United States for all the reasons Michael has in his mind, and they're right.

But right below the surface, there's a whole other layer of German industry which says, as Michael was about to say, it's the American policy in Ukraine that makes the Wirtschaftswunder of Germany disappear.

We knew we had no Wunder. We [Germany] don't have greater technical skills than the French do, or the British do, or the Italians do. Stop. We know better. What we had was cheap oil and gas, the cheapest oil and gas of any European, and with the pipeline that the Americans blew up, we would have had it for the next 30 years.

We are screwed, and because we were the engine of Europe, all of Europe is screwed. Are we really going to go into the rest of this century becoming a vassal of the United States when we really didn't have to? This is the painful question that sits right below the surface, not just in Germany, in France, in Italy, in Britain itself.

They are at a crucial point. I'm not sure which way they're going to go. I understand what Michael is saying. They may have sold their whole future.

They have made Europe, which by the way, just a footnote for everybody, Europe, the European community, is now the richest single block in the world. It's a bigger wealth block than the United States. It's a bigger wealth block than at least the original BRICS, or at least close to it.

It is gone, or maybe, which would be a remarkable thing for that part of the world that has been the center in many ways of the world for centuries, for millennia, to be pushed aside in this relative short time by a relative newcomer, the United States, and an utter newcomer, China, capitalist China, as opposed to earlier.

I really do believe, therefore, that these conversations, besides being interesting commentary from the left and all that, that would be enough. But I believe more than ever before, we are on the edge of a lot of these under the ground contradictions coming up to the surface.

We're going to be talking about how things could change so quickly when in fact our discussions have been documented that these are long-running changes that have been building for quite a while.

NIMA: Yeah. Thank you so much, Richard and Michael, for being with us today. Great pleasure as always.

RICHARD WOLFF: Yeah, good conversation. And Michael had let us know, I hope I'm not revealing anything, that he was worried that he was going to give a lecture on money. But I'm glad you did. I'm glad that we structured it around that, because I think that topic needs it more than once, and that we will have a chance, I hope, in the future to go and revisit some of these questions again.

NIMA: Exactly. See you soon. Bye-bye.

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