



## Economic Update: How Deficits and Debts Rip Us Off

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**Richard D. Wolff:** Welcome, friends, to another edition of Economic Update, a weekly program devoted to the economic dimensions of our lives and those of our children. I'm your host, Richard Wolff. Let me quickly remind you that Charlie Fabian is ready and willing to take whatever suggestions, ideas, documents you might want to send our way to help us plan future programs. You can reach him at [charlie.info438@gmail.com](mailto:charlie.info438@gmail.com). I also want to take a moment to tease you a bit. We have finished a new book. It's called *Understanding Capitalism*. It is, if you like, a kind of final piece of a trilogy. We've already produced *Understanding Marxism* and *Understanding Socialism*, which many of you have kindly ordered. So this is *Understanding Capitalism*. It's a completion of that three part project, but it is also a culmination of 12 years of doing this program every week, plus 40 years before that of teaching economics at half a dozen universities. I think you'll find it an extraordinary summary and compilation of capitalism's problems, the myths that support it, the crisis it now faces and what comes afterwards – in a way that is readable, accessible and above all, interesting. Look for it, it's coming soon.

Today's program is devoted to a particular topic. Global in importance, crucial in many, many parts of the world, including the United States. It's called the problem of deficits. The problem of the national debt. It's all about why countries borrow money. From whom they borrow. Who benefits from all that borrowing? It's now in the many trillions of dollars both in the United States and in most of the other countries of the world. It's a factor in elections all the time. It's not a boring topic, although it is often presented in the media in details that lose the whole picture. I'm going to try to focus on the picture. I'm going to try to make sure you understand what's at stake in a topic you often look away from. Okay, let's get into it.

Governments do many things, as you know, and in order to do them, whether it's helping older people, whether it's teaching schools, maintaining roads, a national defence or whatever, it has to raise money to do those things. The United States government, for

example, is an overwhelmingly dominant major employer in the United States. State and local governments add to the number of governmental bodies that hire people, as well as do all sorts of things, and to hire people and do things the government has to raise money. And how does it do that? Well, the number one thing governments have been doing as far back as we can remember is taxing. The government's major way of raising money in most societies has been to tax. Now whom do they tax? They tax businesses, a share of the profits are taken as taxes and they tax individuals. A share of your and my income is taken by the government, together with the money they take from the profits of enterprise. And then the government spends that money to do whatever it is the government in each country is called upon to do. It happens – and here we get to the nub of the issue – it happens that in a society like ours, more money is demanded of the government – that is, we wanted to spend – than the government raises in taxes. And then the government has to do what you and I have to do if we spend more than we take in. The government borrows. That's right. The government borrows the money.

So you get the simple solution. Here we go. What the government spends is equal to what it picks up in taxes, plus what it borrows. The amount it borrows is called the deficit. It's called that because it's the difference between what the government spends on everything combined relative to how much it takes in in taxes, the more it takes in and taxes, the less deficit it needs to have. When the government borrows, it does so typically in the following way. It issues pieces of paper, like an IOU. The government, having borrowed, owes whoever lends to the government, and it writes out an IOU called a government security, or a government bill or a government bond. The words don't matter. The idea is the government borrows promises to repay the borrowing, gives the lender a piece of paper that has on it: you will be paid back on such and such a date; two months, two years, 20 years from now; and each year we will give you so much in interest because you have lent us the money. That's what governments do. They have to pay interest when they borrow, just like anybody else. If you add up the total amount of outstanding IOUs, borrowings, that the government did in 1849, in 1924 and last year, minus whatever portion of that the government may have paid back. And it does do that, sometimes. What you're left with is the total amount of accumulated deficits. And the word for that is the national debt. It's the total amount of money that the government has borrowed and not yet paid back. It's what the government owes to the lenders that have come forward to enable the government to borrow. That's all these words mean. Don't get lost in the weeds.

But it turns out that when you look at this as we're about to do, you will discover that the national debt is a wonderful thing for corporations and rich people, but not for you. And not for me. For us, it's an immense ripoff. It turns out, as I will show you, that it's just a disguised tax. You might call it a postponed tax. I'll explain all that, and then you'll understand why we are as a nation in many trillions of dollars of deficit this year. On top of much more in the way of trillions of dollars of accumulated national debt. And we are not in any way unusual among countries in doing this. It is a big capitalist problem. When capitalism came into existence, there were already national debts. But capitalism, far from solving or removing or fixing the problem, made it infinitely worse. Here in the United States, for example, one of

the biggest sources of government borrowing reveals what's going on. Let me tell you about it.

When governments do something that is unpopular, that large numbers of people and maybe even majorities don't want and don't like, that's when they borrow. I'll give you an example. The biggest amount of borrowing is typically happening when the United States – and this is not again, unusual among countries – goes to war. Wars are often things Americans don't want, don't like. Or maybe at the beginning they do in patriotic fervour, but not for long. Governments kill people. Governments hurt people and governments in war, they don't just kill people and hurt people in war, but they cost a lot of money. So the question becomes, in every war, for example, right now the war in Ukraine, which is fought by Ukrainians and Russians but is funded by the United States on the Ukrainian side. And ditto the war in Gaza waged by Israel but paid for and funded and weaponized by the United States. The government of the United States pays for these wars, huge amounts of money. Israel and Gaza, for example, and Ukraine, if you put them together, have cost us already over \$100 billion. The government could raise that money by taxing us. If they dare do that, which they don't. But if they dared, then we would be reading in the newspaper not only the grisly details of death and destruction in Ukraine and in Gaza, we would be also reading stories that would explain to the American people that if that's to be paid for by taxes, it'll cost us \$300 to \$400 per American citizen – that's about \$1200 to \$1500 per family per year. If you think there's opposition to war now, I can assure you that opposition would be ten times larger if the people who are paying for it understood it because they got a tax bill. So governments don't do that. They dare not. Instead, they borrow the money. Because that way they can talk about the war and not have the danger that people understand what it costs and what part of that cost each of us are going to be asked to pay.

Okay. Why in general, even when there isn't a war, do governments borrow money as they do? As the United States government has done all along for a long, long time. And the answer is our system. And in the time remaining in the first half of today's show, quickly, I'll tell you what it is about our system that makes it work like that. Taxes are paid by corporations and by individuals. Neither of them wants to pay the taxes. Both of them want all kinds of things from the government. Corporations want lots of services and lots of subsidies and lots of help marketing their goods and getting their inputs and hiring their workers and teaching their workers in schools. They want the government to do a lot, but they don't want to pay taxes. And the mass of people don't want to pay taxes, but they want the government to help them with a good hospital system, a good road system, and lots of other things. So you got the two sources of taxes, corporations and individuals who don't want to pay, but who have huge demands they put on the government.

This is crazy. If the government is going to do what people want, it has to raise the money. If you don't let it raise the money, it can't do what you want. Here's the solution. Politicians figured it out. You can give people what they want and not tax them by borrowing instead. And that's the reason we have the deficits we do. It's a dysfunctional system we live in. After the break, we've come to the end of the first half of our show. I will go into showing you who

benefits and who loses from this irrational way of organising modern capitalism. Stay with us. We'll be right back.

Friends, as you know, any project like this takes money and we don't want to bore you or burden you. On the other hand, you, our audience, are the source of our funding, and we wouldn't have it any other way. If you can, please consider making a donation. It will be enormously appreciated.

Welcome back, friends, to the second half of today's Economic Update. We're devoting today's program to these questions of deficits and national debt. To make sure that we all understand the basics and are not fooled by the way that politicians, academics, and the people who should know better – government advisers. The way they tell the story, it's lost in details that make most people's eyes glaze over before they change the channel. But in fact, it's crucial to your life and mine. And that's why we're doing this. Okay. We left off, as I explained, that governments borrow because it's the politicians' cheap way out. That is, the politicians can give us no increase in taxes. You notice how they stumble over each other, promising that. Meanwhile giving corporations what they want and giving the public as much as they can what they want. Why did they do that? Well, clearly, from the public, they need votes. And beyond a certain point, you can't tax people without them coming back and not voting for you. They've all learned that lesson. Corporations are a little different. If you tax them, they won't give you money, donations, or pay from the lobbyists that do your job, give your party the money it needs for expensive TV ads, thereby jeopardising your election. So the corporations know you're going to take care of them by not taxing them. And the corporations repay your kindness. They give you big donations. The big contributions. And what do the politicians use them for? To not explain, or rather to explain falsely what's going on here, to hide from most of you what is in fact going on.

Here is the key point. Corporations get out of paying their fair share, just like rich people do. All tax studies show you that. Take a look. I've done it on this program countless times. You should know. Corporations get out of paying taxes. Many of the biggest corporations pay no taxes, year after year. The tax code is written to enable them to do that. The same is with rich people. The most important single economic act of Donald Trump's four years in office was the tax cut of December 2017, which was an enormous gift to corporations and the rich. And that's the normal behaviour. And Mr. Biden didn't undo that. Basically left it in place. Okay, so the corporations get a tax break and the rich do. And in return they fund the politicians who do that, and they give those politicians enough money so that they can run glitzy ads and hire lots of public relations people to make sure you don't understand what deficits in national debt actually mean.

So here we go. When the government borrows, who do you think it borrows from? Has a government agent recently visited your home and asked you to lend to the government? Of course not. You have no idea about that because that doesn't happen to you. But if you're a big bank and you're a big corporation, you deal with the government and buy bonds, i.e. lend them money all the time. It's a normal part of big corporation activity. It's even a normal part

of rich people's portfolio at their stockbroker. Buying and selling government bonds. So here's the point. The corporations don't have to pay taxes, and the rich don't have to pay taxes because the politicians arrange it for them. Then of course, the government doesn't have those taxes. So what does the government do? Borrow. Because it's not raising taxes from corporations and the rich. But from whom does it borrow? Here we go. Corporations and the rich. They are the major lenders to the government. What they lend to the government is what the government did not tax from them. If the government had taxed that money from them, the government wouldn't need to borrow. And if the government didn't need to borrow, we wouldn't have deficits and we wouldn't have a national debt. So when you hear about deficits and debt, here's the key point. It's a sign that politicians have caved in to corporations and the rich. And we know how they do it. First of all, the tax laws are written to favour them. Then there are trillions – we've done the research – of assets held by corporations and the rich in places called, get it, tax havens. You know why they're called tax havens? And they include places like the Caribbean Islands or the state of North Dakota, or all kinds. Or maybe it's South Dakota. One of them. There are all kinds of tax havens where you can go and hide your money and not pay taxes.

That's the game, friends. The government says to corporations and the rich, you don't have to pay. Instead, you can lend the money to us. And of course, for corporations and the rich, this is a no brainer. Rather than have your money taken as a tax, like we all do in our weekly check, instead of being taxed, you give that same amount of money to the government. Same government. But it's a loan and the government pays it back, plus interest. And where will the government get the money to pay back the lenders plus interest? Well, from you and me, because we can't play that game. We don't have the money to lend the government. It is a scam and a ripoff. And it always has been. It is one of the greatest gifts modern capitalist governments give to their corporations and the rich. And if you haven't understood it, you now understand why you haven't understood it, why it hasn't been made clear. Don't get lost in the details. That's the core reality. Politicians can no longer push more taxes on the mass of people. There would be more of a tax revolt. We've already seen it. And the corporations and the rich tell the politicians: you dare tax me, I'll give more money to your opponent and you will be out of here and replaced by a politician who will recognise how he or she got in the office and never do that again.

That's the game. And so the politicians borrow from the corporations and the rich. To whom they give, in effect, tax exemptions. When I say, don't get lost in the details, let me bring a couple up to you so you understand how the game is even played beyond what I have just told you about deficits and national debt. I'm going to start with two ways of taxing you without calling it a tax. Here's the first one: the lottery system. This is cute. You go to the mass of people and you say, give me your money. But you don't call it a tax. You say, buy a lottery ticket. Here is a piece of paper, costs the government nothing. You give us \$2, \$5, \$10, whatever the ticket costs. And for the next few hours, maybe even a few days, you can have a fantasy about what would happen and what you could do if you won. Meanwhile, the government very carefully takes hundreds of millions of dollars every month out of the pockets of the mass of people. And gives very little back. Big prizes, but only to a handful of

people. The net money raised by the government is fantastic. And if you look at who buys lottery tickets, yep, it's the poorer people, the middle class and the lower. Rich people don't buy lottery tickets, and corporations don't either. It's a tax. But by calling it a lottery, the government gets away with it. Corporations again giggle as they keep, in the hands of the government that serves them most, the bulk of the money paid for by people who buy lottery tickets.

Here's another one: tariffs. That's a tax put on things coming into the United States from abroad. Mr. Trump was famous for saying he's going to slap the Chinese with tariffs, which he did. Then Mr. Trump said something, which is embarrassing. He said that the Chinese are going to have to pay these tariffs. No, Mr. Trump, you clearly never took an economics course. Or if you did and didn't pay much attention. Tariffs are not paid by the countries from which the goods come. Tariffs are paid by the Americans who bring them in. Tariff is just a name for a tax. We pay tariffs – taxes – to the U.S. government. When Mr. Trump imposes a tariff. Or Mr. Biden or anybody else. So in addition to the scam of deficits and national debt, you have the scam of lotteries and the scam of tariffs. And if I had more time, I'd go further. Don't be fooled. Know that the cause of this problem isn't the spending that the government does. The problem is the tax evasion that corporations and the rich pay the politicians to make legal. And it's all handled in these lovely buildings in Manhattan, where government agencies get together with the biggest financiers to negotiate the deficit financing that produces the national debt. We call it national – and you know why? Because in the end, the tax is not paid by corporations and the rich. When they lend instead to the government, we all will pay the taxes and our children will pay them back those loans. They never pay their taxes. We do! And if we allow it, as a people, and I say this right around the time of July 4th, our national independence celebration holiday. If we allow this as a people, then in the end, it's not just shame on them who pull this scam. The government officials, the politicians, the academics, the journalists who keep going and talking about this without explaining clearly what the scam at the core of it is all about – it's not just shame on them. It's more than that for allowing it to go on as long as we have, some of that shame rubs off on us. Thank you for your attention and as always, I look forward to speaking with you again next week.

**END**

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