# The End of the Neoliberal Era – Prof. James Galbraith

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**James K. Galbraith:** Vice-Rector, Dean, Chair, my friends, my dear friend, Yanis, let me begin by expressing my thanks for the great honour that you and your colleagues, and I'm proud to say my colleagues, have bestowed on me this evening. But I wish also to express a deeper emotion, a feeling of profound respect, a moral debt to the people of this country, to the Greek people, for the endurance and courage and determination that I have observed in so many of them over many years. Though I cannot claim to know Greece well enough, my ties to this country go back a long time. My first visit was as a child in 1961. In 1967, it was my father who intervened with Lyndon Johnson to save Andreas Papandreou from execution. An act of solidarity between academic economists that I don't think has a close parallel, at least not in North America. In 2010, I came to provide moral support. What I had to say didn't rise to the level of advice to George Papandreou. And at that time, I struck a friendship with our colleague Yanis Varoufakis, a friendship, intellectual and political alliance that deepened with the ongoing crisis and led to the five intense and star-crossed months of his tenure in the finance ministry in 2015. Those months resonate eleven years later in memory and controversy. Greece had suffered a catastrophic collapse in the whip's end of the world crisis. The government of that hour was elected to try to extract a better deal from Greece's creditors and from those who dictated policy terms, the European community, European Central Bank, the IMF, the finance ministry of Germany. It spoke for those who had suffered most, the pensioners, the dispossessed, the unemployed, the cleaning ladies. It stood for the proposition that elections, while not always decisive, should nevertheless have meaning and that the European community should be a partnership and not a strict hierarchy of the strong and the weak.

But the power dynamics of Europe and the larger world were insuperable. Herr Schäuble would make no concessions because he intended to impose similar terms on Rome and on Paris. The United States, for reasons of its own, which were not particularly creditable, chose not to help. In the final analysis, it wasn't about Greece. For my part, I was and I am proud to have been here to support my friend who did his duty to the Greek people as a true son of Greece. The ideas behind the terms, meted out by Schäuble, Lagarde, Draghi, Juncker, Dijsselbloem, and other functionaries of that moment, were not their own, nor were they specific to Greece. They were rooted in the general and universal doctrines of mainstream Marshallian-neoclassical-general-equilibrium economics, a set of ideas that had matured in the Cold War to underscore the superiority of decentralised capitalism and which had crystallised and taken an extreme form thereafter in the well-known end of history policy doctrines, the Washington Consensus as it was applied to what was called the third world and has become known as the Global South. But they had originated much earlier in the England of David Ricardo and Thomas Robert Malthus, a worldview of free trade behind the Royal Navy and of diminishing returns which assured that nothing could or should be done to succour the poor or save the Irish. At that time, the Ricardo Malthus worldview was well received in parts of the rising United States, that part that specialised in export crops like tobacco and cotton. A labour market similar in key respects, not everyone that was a capital asset market rather than a rental market, but similar in key respects to the modern textbook model existed in New Orleans and other towns across the American South. But north of the Ohio River, a different economics took hold. It was rooted in increasing returns. And not only in industry, but also in agriculture, where the yields improved as settlement moved out to better lands and as techniques improved. So in both agriculture and industry, there were falling costs. There were sales to a large and protected internal market. It was an economics of rapid technical change based on the development of new infrastructure, canals and eventually railroads, and also on industrial espionage, taking from the British whatever we could get our hands on. And it was an economics of rising wages and rapid population growth, fueled by high fertility and high rates of immigration.

This model had a name. It was called the American system. It was so named by Henry Clay. The American system was well understood by on the scene observers, including Friedrich List, Henry Carey, Erasmus Peshine Smith, Henry George, Thorstein Veblen, John R. Commons, Clarence Ayers at my University of Texas, my father, and Andreas Papandreou. In the UK, it resonated with Allyn Young, with Piero Sraffa, with my teacher Nicholas Kaldor. Its macro dimensions were given by Keynes, its technological dimensions by Schumpeter, and its financial dimensions by Hyman Minsky. It underpinned the reconstruction of North America in Franklin Roosevelt's New Deal, but all of this has been largely written out of the canon, erased so far as possible from memory, and to preserve the illusion of a single correct economic idea of a grand and unified equilibrium theory. The American North with its vastly superior economic system, won the American Civil War, despite losing almost all of the early battles. But the American South, aided by the intellectual upper crust on both sides of the Atlantic, won the ideological war. Thus, the English system survived the British Empire. This is not surprising. The arc of authority, I regret to say, the arc of authority in higher education is long and it bends toward money. Conformity has always festered academic success and in recent years, a rigorous system of rankings, the hierarchy of journals and departments has arisen to support what I call Galbraith's Law. And here I have to specify this is my law, not my father's. My father had several, but this is mine. And it states that the tought in economics has not been thought until the right person has thought it. The dissidents, misfits, malcontents are weeded out early, and if they escape into tenure, they can be herded onto reservations and slowly starved out. A process now, unfortunately, or sadly underway, very vividly in New York at the New School for Social Research. Thorstein Veblen was an ultimate academic misfit who understood how universities are run and who had been purged from several, and who, quite apart from his hilarious insights into class structures, had sharp observations into the technical industrial world. Three bear mention in context that I wish to discuss here.

First, somewhat contrary to Marx, Veblen saw how the industrial system imparts to the working person both a scientific mentality, attitude of cause and effect, the discipline of the machine, and through the power of sabotage, leverage over economic outcomes. That leverage, of course, gives rise to new mechanisms of control, which is just testimony to the fact that it exists. Second, Veblen argued that the function of business under capitalism is not to organise production, but to control it, to prevent a tidal wave of useful things, rising living standards, and inevitably, from the forces of so much competition, low profits and loss of effective control over the working population. So, he pointed out that actual production is not run by the business leaders, but by the engineers. And he argued that in principle, a Soviet of engineers could run the entire show, dispensing with a lot of dead weight in the leisure class. The result, to coin a phrase, might be called an affluent society. But let me suggest to you that while the English system still dominates our textbooks, the American system is still alive, and that a Soviet of engineers, well, I wouldn't suggest one actually exists, is not entirely a fantastic notion in certain parts of the world. The main case, a country where I spent some time as an advisor in the 1990s, an advisor to the State Planning Commission, is China.

What is China? Mainstream observers have dropped the illusion that was prevalent in the 1990s that China is becoming a liberal free market system on its way to becoming a pluralist democracy on the Western model. So they are torn between accusing China from profiting from violations of the rules, which amounts to a concession that the rules were not in China's interest in the first place or even more implausibly, the claim that communism succeeded in China, even though it failed everywhere else – some of the people making that claim are really in curious political positions, but I could go into that in more detail than I will not. A more coherent reality emerges if one takes China as a large-scale instance of the American system. An internal market fueled by urbanisation, an industry which grew initially under protection, but has now outgrown that, a high volume, low cost, relatively low profit rate model, which would, I think, have been instantly recognised by Thorstein Veblen, and it is just as antagonistic to the desired rate of returns that are customary on Wall Street or in the city of London as the rising United States, more than a century ago, was to the English.

Russia is the second case. Russia's also a country that I have had considerable experience with in the last 30 years. Unlike China, Russia was fully captured by the neoliberal mainstream, and it remained in thrall of those ideas through the catastrophic 1990s and into the 2000s. Indeed, they persist there today. They're still very powerful and influential. But Russia was mugged by sanctions. And these imposed policy choices that a Russia ruled by its oligarchs would never have made on its own. Capital controls, import substitution, an autonomous payment system, the renationalization or paranationalization of many industries.

But more importantly, relocalization, as foreign firms felt obliged to leave, leaving behind, of course, their capital equipment, their managers, their workers, their technical expertise, which was then sold to local businesses at very favourable prices. The pressure of military necessity on technical change these were gifts of the sanction regime. They came about not because sanctions were evaded and ineffective as many people have argued. If that were true, nothing would have changed. But a great deal did change. They came because the sanctions were effective and forced decisions that would not otherwise have been made. The effect on Russian academic economics is not yet clear, but the object lesson is available for anyone to see.

And then there is a third case with which we have become very familiar in the last few months and that of course is Iran. And Iran enters the list in two distinct respects. The first relates to energy, disruption of oil and other key resources from the Persian Gulf, delivers an object lesson in entropy economics. The foundational role of low entropy resources in the economic viability of everything else, and the rapid decline in profitability of high fixed cost activities when resource costs rise as they are doing now. And the second issue relates to technology. This is an old lesson for technologists of how a new technical paradigm, in this case, precision missiles and inexpensive drones, can drive an older established one, in this aircraft carriers whose dominance really emerged in the Second World War and peaked in 1945, and land bases which were the instrument of surrounding the Soviet world in the Cold War. And these can be driven out of business effectively by the new technology that has now emerged.

There are many such examples in history, but they don't show up in a neoclassical production function. Taken together, these three cases represent an emerging real-world multipolarity. China is today the largest economy of the world in purchasing power parity terms, about one-third larger than the United States. Russia is fourth, behind only India, a country with ten times the population. Iran, though much smaller in economic terms, has demonstrated superior military technology and a firm hold over the key energy artery of the world. And countries that have most aggressively practised the established remedies, privatisation, deregulation, debt break, fiscal policy, monetary inflation control, and who pretend to believe in a smoothly differentiable neoclassical technical substitution function, that is to say, one energy source for another – and I'm looking at you, Germany – well, the decline speaks for itself. Germany is evidently now trying to save its industry by converting itself to the state procurement of armaments, a model which evokes memories of the Soviet Union and does not bode well for the future. For an American, indeed anyone of my generation, multipolarity and a balance of power is nothing new. It was the normal condition of the world before 1989, and in the 1950s and 1960s, multipolarity was compounded by ideological diversity. There were various varieties of capitalism and there was communism. But for Americans and Europeans who came of age in the 1980s and 1990s, practically the whole present ruling elite and the dominant academics, the re-emergence of a multipolar world, even with only modest ideological differences, is a psychological shock. It exposes the so-called capitalist democracy as not an end state to history and that the world dominated by America is not necessarily eternal, and most of all, an entire strata of elite education, especially in economics, that fostered such convictions was and is problematic and even hollow. It further suggests that the promises of so-called development economics, the promise that development and convergence would be welcomed, even encouraged, were perhaps not terribly serious to begin with.

I'm not saying that the architects of that discipline were insincere, some perhaps were, others not, but that our larger societies were and are not prepared to accept that actual economic development on a large scale and outside certain front line states might actually occur. The American system, having been forgotten by the elites in the education in my country, comes as rather rude, an unwelcome guest when it reappears somewhere else. Among other things, it competes rather well with the system increasingly driven by the modern form of the Ricardo Malthus view of labour, updated by Marx. The use of digital dictatorship to reduce the affluent worker to a peon, a system that has been aptly described in one recent work as Technofeudalism. I do not, of course, claim that any of these cases that I've described are utopian. I'm not asking you to like them. My claim is simply that relative to the predictions of the mainstream in our profession, they are anomalous. And they are an anomalous in being far more successful than they should have been. And that it would serve us well to have an economics that can help us see why this is the case. What then should real world multipolarity imply for academic economics? In a book entitled, *Entropy Economics*, and published in 2025 by the University of Chicago to the discomfort of Milton Friedman's ghost – I have to say, Yanis, that I was not aware that my remarks and Friedman's so-called honour had reached a wider audience, but I can tell you that when I told, I sent a message to my old friend, William F. Buckley Jr., telling him I was giving this speech, it was the last few weeks of Bill's life, and I got an email back full of block caps and explanation points that said, congratulations, what a wonderful opportunity to repent – anyway, but in this book, Entropy Economics, Jing Chen and I present a radical simplification of the mathematics of value and production, the very foundations of economic theory. Following Nicholas Georgescu-Roegen, we move to dispense with equilibrium and redefine the essential rules of government and regulation and present an analysis rooted in the second law of thermodynamics that aligns economics with physics, biology, and other social sciences. But a great advantage is that the theory itself is low entropy. It is simple. It is intuitive. It is easily taught, I would argue, in a few hours. To adopt it, would not only enable the clearing out of the cobwebs of a discipline that should have been fading away from the time of Darwin, but has not been, but it would also free up departmental resources for more important, rewarding, and high-value pursuits.

What should this be? Here is a radically conservative thought. Why not restore the great scholarly fields of economic history? History of economic thought, comparative systems, economic policy, business history, as all of them once were vibrant and respected parts of our discipline and all of them have been very substantially downgraded, in some cases eliminated over the last 50 years. But they are ripe for rediscovery and renovation. This is something that we or our successors could do, and something that would fit very much in the traditions of this university. Of course, I do not predict that any of this will happen. Is it even possible that the present mainstream will recover control in Russia and move from academic enclaves, where I think they're still to a large extent confined, to the corridors of power in China, bringing both countries to grief over time. It is possible that academic economics in the West will drift on in increasing intellectual isolation, political marginalisation, which is already evident, and further embarrassing encounters from time to time with the challenges and crises, financial, energetic, technological, and military of the real world. But as an economist, with a lot of sunk cost in this discipline in which I have been labouring for half a century now, and in which, I follow in a tradition that goes back much longer than that, I would like to hope for better, as should we all, for otherwise, no doubt, sooner or later, some large language model will come along and take over, following the rules and patterns of natural selection that we should have built into our thinking long ago and we will be the species that is pushed out as not having been fit for survival. So if we would like now and let me suggest a slogan for the age that we should work to make economics interesting again. That would be a good way to start. Thank you very much.

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