Controversial Keynesian economist and liberal thinker John Kenneth Galbraith who died in April at the age of 97 would not have approved of Australia's workplace reforms, nor its penchant for tax cuts, or lack of infrastructure spending.

He constantly challenged the absolutism of the so-called free market that left his adopted country, the United States, with tens of millions of people unable to afford health insurance.

Profile: JK Galbraith, economist and author

JK Galbraith: the great man's legacy

"JKG", or "the great man" as he was often called, used his wit and intellect to sear the conscience, writing 30 books including *The Affluent Society* and *The New Industrial State*, in which he coined the phrase "private affluence and public squalor". In this exclusive interview his son, James K. Galbraith recalls some pivotal insights he gained from his father and discusses the great man's attitudes to government involvement in the economy.

JK Galbraith was a Canadian farm boy who at the age of 32 was placed in charge of price control in a profiteering economy following the Japanese attack on Pearl Harbour, Hawaii – an attack which thrust the United States into World War 2. Galbraith went on to advise an Indian government experimenting with a planned economy and served as the US ambassador to New Delhi. He tried unsuccessfully to get President Kennedy to pull out of Vietnam.

Education was prized by the Galbraith family, despite the strictures of the Depression which he escaped by moving from Canada to the University of California, Berkeley. John Kenneth had married the well-to-do Catherine Merriam Atwater, whose family migrated to the US in the 1630s and whose father was a Long Island lawyer and honorary consul for Siam (now Thailand). The law practice evaporated after the crash of 1929. According to James, now professor of public affairs at the University of Austin in Texas, neither JK nor Catherine had any problem with large expenditures – particularly when it came to tuition. But small expenditures, such as taxi rides, were another matter.

They had four sons, one of whom died in childhood. J. Alan Galbraith is a partner in a prominent Washington DC law firm, Peter W. Galbraith has been a US envoy to Croatia and is a commentator on foreign policy and James K. Galbraith is a prominent progressive economist. Following is Monash Business Review's exclusive interview with James K. Galbraith.

Australia is pursuing a wrong course with its workplace reforms. The idea that if you cut wages and take away rights for workers in order to make society more prosperous stems from a characteristic habit of blaming working people for almost everything that goes wrong and particularly for inflation. To think like this, government leaders have to consciously forget that things like oil cartels and wars do happen and suppliers can profiteer and, in fact, are often in a much better position to profiteer than workers are.

One of dad's strong disagreements was with Ronald Regan's supply-side economics and the notion that if the economy was healthy, even the poor would be better off. Dad characterised this as: "If you feed enough oats to the horse, some will pass through to feed the sparrows." In other words, the so-called "trickle-down economics" doesn't work.

He was also rather disparaging of the interest rate as an economic instrument. Many people focus an enormous amount of loving attention on interest rates, but high interest rates have accomplished very little. Dad's theme for half his lifetime was the thought that governments should manage the balance between what the public and private sector does.

Dad's great phrase, "private affluence and public squalor" is really emblematic of this particular line of argument. That's where his heart was when he thought about what public policy ought to be doing. Back in the 1960s, that led to conflict between him and President John F. Kennedy's other advisers over whether there should be a tax cut – which he always opposed.

The reason he opposed tax cuts was that he felt it would lead to a kind of Keynesianism that would be too easy and too cheap, where every time you had a slowdown people would say, "Oh, just cut taxes!" and there would be a new wave of consumption expenditure. You'd never get around to dealing with the social side.

If Australia pursues its workplace reforms the possible effect will be to force unemployment up rather than down. I feel the policy is a political gesture to small business interests. While it may seem attractive to people who take the small business owner's point of view, it's really very parochial and will not work for the economy as a whole.

Look, attacking the worker is never going to result in full employment. Australia's growth is good, despite – or in fact because of – the country having the highest minimum wage of the Organisation for Economic Co-operation and Development (OECD) nations. Research by the OECD clearly shows that countries with more egalitarian wage policies actually have less unemployment than countries where the spread is less equal. There's lower unemployment in Norway and Denmark than Spain and Italy.

It is not clear why in Australia reducing unemployment is a selling point for workplace reforms when unemployment is already fairly low. The effect of workplace reforms could be to force unemployment up rather than down.

When there's an enormous gap between the worst-paid job and better-paid jobs, people basically won't take low-paid jobs because they want to hang around and try to get one of the better ones. The loss associated with having a menial job is too great. But if the gap is relatively small, people take all the jobs available. They take them quite willingly so you have many more hours that society as a whole is working and the overall living standard actually rises. That's a great advantage of the old Australian system.

Dad was always a partisan of a policy of high employment or full employment and I've never seen any persuasive reason to deviate from that line and this is in the face of an economics profession which for 30 years was dominated by the idea that if you let the unemployment rate fall beyond 6 per cent in the US, the result would be runaway inflation.

That was a silly notion, which was propagated by (the free market monetarist) Milton Friedman back in 1968 but was swallowed lock, stock and barrel by an overwhelming majority of economists. It was only really disproved in the late 1990s and in 2000 when the US economy experienced three years of unemployment below 4 per cent and nothing happened to inflation. It was a sweet moment of vindication for me, personally, as someone who had a lot at stake in standing out against this particular orthodoxy – the kind of Darwinian ruthlessness which says that if you deprive enough people of employment the others will somehow run faster.

When you're small, the big things you remember are disruptions and transitions. I remember when I was four years old being taken off to Switzerland and deposited with my brother Peter in a chalet for a long time under the care of a capable housekeeper. Dad had gone there to work on a book, which turned out to be the book that made him famous called *The Affluent Society*. I'm very proud of the fact that it was dedicated to me and my brother Peter.

My parents then disappeared and went to India. Dad was having lunch one day with the great Indian statistician Prasanta Chandra Mahalanobis and discussing India's second five-year plan (they were experimenting with a planned economy).

Mahalanobis said some American advisers were coming and they had engaged Milton Friedman.

My father snapped at Mahalanobis: "Getting Friedman to advise on a five-year plan is like putting the Pope in charge of a birth control clinic!" Mahalanobis replied, "Well, why don't you help us?" That opened up another phase in his life. He spent three months in India that time. Four years later John Kennedy became president and the job that dad sought and got was the ambassadorship in New Delhi. Dad had taught John Kennedy and his brother Joe – who was killed in World War 2 – at Harvard in the late 1930s, so he became a well-known figure around the Kennedy White House.

In the US today it's not the Democrats but the Republicans who are the great Keynesians. In 2003 to 2004, President George W. Bush combined tax cuts, a war and as much domestic spending as Congress cared to appropriate in order to get budget deficits up big enough so he would have strong enough growth to win the election. Chief White House economist Greg Mankew said: "This is the best recovery money can buy."

They were not in doubt about the need to apply Keynesian principles to get through the election. The difficulty is that Keynesianism is not about getting through the election but about reaching full employment prosperity and staying there. That requires something considerably more intelligent that simple pump-priming.

Keynes was prepared to have pump-priming when necessary to relieve mass unemployment. He felt it was better to build houses, trunk roads and lay down telephone lines than give people welfare. But the single greatest failure of American governance in the past 30 years has been the triumph of the idea that the market does the planning and the role of the state can be essentially reduced or, practically speaking, eliminated.

We have curtailed drastically the area of public infrastructure investment. But as bad as the curtailment of expenditure is, a greater failure is the curtailment of thinking and planning about these things. Ronald Regan's "new federalism" which cut back on federal expenditure and dumped things on the states that they couldn't handle, forced them to cut spending.

The result is that we're living on the old public capital stock. We're living on roads that were conceived 50 years ago, rail beds that haven't been upgraded for two generations and, in the case of environmentally important investments, we simply haven't been doing them – which is why New Orleans was destroyed. This was a failure to maintain environmental barriers, a failure to build and strengthen the levees. This is a fantastically culpable breach in the necessary business of government in an advanced society.

One of the biggest issues today is how we are going to design an environment that's sustainable for the next 50 years. That will take much more spending by central governments on public infrastructure than has taken place in recent years.

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James K. Galbraith was in conversation with Thomas Liddle.