

INTERVIEW WITH ANDREW CLARK

QUESTION: The first question I want to ask you is that a feature of the Governments foreign policy especially (inaudible) for this Common Fund concept and the access of Third World countries to developed markets and I just want to know how you see that policy meshing in with what you might call domestic economic policy. If it does mesh in with that?

PRIME MINISTER: It does mesh in with it. Our policies in relation to the Common Fund are based in a belief that the developing world needs to given a fair and reasonable opportunity to trade. Official aid will have had to increase many times to make up for the fall in world trade - fall in the terms of trade of the commodities that are important to the developing world over the last few years and many of these countries are dependent upon one or two commodities for their overseas income, for their development projects and its gets very difficult for them. The Australian economy used to be dependent upon wool, meat and wheat, it's now much more diversified but if something serious happened to one of those major industries, the whole Australian economy felt it. We, for a long while, have been a supporter of commodity stabilisation arrangements within Australia. We participated in international stabilisation arrangements; international wheat agreements, international sugar agreements, the Commonwealth Sugar Agreement. We in fact, through the Wool Corporation, run a stabilisation programme for the wool industry which is in a sense an example of what an international commodity arrangement can be and I think should be. It's been an economic operation, a properly viable commercial operation and it's been responsibly financed and we also undertake and support, as you know, promotion and research activities which in a sense is an example of what other measures could be in terms of the Common Fund; research and promotion related to the product. While the multilateral trade negotiations are pre-eminently designed to help the major industrial countries and while there is a major argument going on about the role of agriculture in those negotiations, commodities related to the Third World, developing world, are not really part of the MTN, they are part of the UNCTAD, UNCTAD negotiating conference and Common Fund. So, if there is to be an advance across the broadest possible spectrum of world trade you've got to obviously include industrial tariff matters, agriculture and Common Fund for commodities through the UNCTAD forum. Now, this is very much of concern to Australia because we are a very significant trading nation with a large proportion of our gross domestic product dependent upon trade and we are also very much aware that our trade has been growing most rapidly with many developing countries that are emerging in the process of industrialisation, the Koreas of this world, the ASEAN countries - where two-way trade has grown very greatly.

PRIME MINISTER: (continued)

So, we've got a broad based interest in all of these matters but of very particular national interest because an expansion of markets and growth of world trade is going to mean a great deal for Australia.

QUESTION: Do you think its fair, just looking at the two and a half years since you've been in government, to say that in the first year and in the budget you announced these changes which were aimed at an investment led recovery and then the tax changes and the alteration in the tax scale announced in the '77 budget and introduced in February led to a view of a consumer led recovery and now that the latest changes on foreign investment guidelines mean there should be a foreign investment-led recovery. Is that fair?

PRIME MINISTER: I'm very glad you asked that question because it just shows how false labels can be. Obviously a number of different factors can assist in economic recovery, but no one factor can establish, provide, achieve, recovery of itself and I think it was, broadly speaking, a press nickname - consumer-led recovery, investment-led recovery or overseas investment-led recovery. For economic recovery you've got to get all the basic underlying factors in your economy right: getting tax levels right, getting the appropriate climate for investment right, having inflation down, having industrial relations climate and a great many other factors are all relevant to recovery, they all make their contribution and the Government has never believed that one factor and one factor alone is going to achieve recovery. You've got to work at a whole range of factors look through all your arms of economic policy - get them all as right as you can, and that's what will achieve recovery but I did see one editorial the other day which was saying we are now moving towards a different kind of recovery which you have just mentioned in your question. It's just one factor of many and the economy would be better described if labels were avoided.

QUESTION: Is it fair to say that the Government is placing more emphasis on investment from abroad in helping to stimulate more local demand and towards a stronger economy?

PRIME MINISTER: I think I'd put it this way: ^{conditions} for a long while I have believed the world trading ~~commissions~~ are going to remain difficult and that view was certainly reinforced on my recent visit. You had a situation in which the British are leaning back on the reigns of their economy, interest rates have risen several points in a matter of two or three months. There will be a rising unemployment in Britain. I was told that there will be over 100,000 more unemployed in France by Christmas. We are approaching the 200 Yen dollar and there is more and more concern being expressed from the President downward about inflation in the United States. They are going to almost

PRIME MINISTER: (continued)

certainly have to lean back in places in relation to their economy. So the immediate prospects for a greater rate of growth in world trade, for a greater expansion of world markets, are not great. There are still too many basic faults in many economies which have to be put right. Now against that background, and against the background on which Australia depends very much on world trade, what can we best do to assist the Australian cause in a trading climate which is going to remain difficult. We have got some obvious advantages; we are a great resource producer, we have resources which many overseas countries, many developed countries and developing countries, need. How can we therefore make Australia more attractive than other potential suppliers? If we can make Australia more attractive than other potential suppliers we'll attract a larger share of whatever investment there is in these particular areas, and if we do that, it's one of the factors, not the factor, but one of the factors which will help Australia and Australian recovery and in that sense, it is the share of world trade and the structure of world trade that becomes very important to Australia, all against the background in which - not particularly optimistic about any significant increase in world trade which would help everyone.

QUESTION: Do you agree that since the election, and this is obviously referring to the trade question (inaudible) do you agree that since the election, the Government has definitely become, in its public statements, much more flexible on the protection issue. As I say, I'm referring that to the trade question and that not high protection in Australia - I know it doesn't apply to all commodities or all manufactured goods but to certain goods - that high protection is now looked on as a short-term, anti-unemployment policy and that lowering protection is now an official long-term aim of this Government.

PRIME MINISTER: You could have read that into the White Paper on manufacturing without any inconsistency at all. So that doesn't have to be a new view. In theory, barriers to trade are not good but we live in a very imperfect world and Australia lives in a world where there are very considerable difficulties, with non-tariff barriers against up to 40% of our exports and non-tariff barriers related to 7% or 8% of our imports. It's not generally realized that in the sensitive areas of employment, Australia has made a greater contribution to trade than any other developed country. ~~and~~ If you look at the textiles, apparel and footwear area, for example, we import much more per head, sometimes six or eight times more per head than other developed countries - North America, Europe, or Japan. I've used this figure before but if the ASEAN countries had the same per capita access to the North American and the European markets as they have to Australia, they would be selling an extra \$1,000 million worth of goods a year. Their exports to Australia have been increasing at about 40% a

PRIME MINISTER: (continued)

year for several years. Now, even though it starts from a low base, that rate of progression starts to build up to a very substantial amount and so I reject the view that Australia's markets have been unduly closed in the total trading environment in which we are living, our markets are much, much more open than many countries, more open than any of the European markets, taking trade as a whole. Again, we've got to take note of the fact that we're a market of 14 million people, we're not like the Sweden, for example, that lives next door to a very large trading bloc. We've got considerable transport difficulties in getting products overseas. So there are cost disadvantages for a large part of Australian manufacturing industry that's going to be with us and that needs to be taken into account and they need to be given a fair and proper opportunity to compete and our determination to provide the necessary protection for Australian manufacturing industry is in no way diminished, but we do recognize that a general lowering of barriers for trade will strengthen the Australian economy and at the same time strengthen Australian manufacturing industry. I don't think there is any inconsistency in having a present position that says in the trading climate in which we are living we've got to provide this protection but if we have a trading climate which opens up many markets to Australia which are now closed to Australia, that will so strengthen the Australian economy overall, that we ourselves can assist in the process of lowering trade barriers. What you have to do to protect your own industries depends very much on the trading world in which you have to live and a country Australia's size can't be a pacesetter. But we can throw open our markets and destroy all our industries but that doesn't mean to say we are going to get any better access overseas.

QUESTION: Would it be fair then to say that perhaps the Government's more flexible on protection policy because it is now in a situation to negotiate what economists call a trade-off device?

PRIME MINISTER: I think maybe the totality of the Government's approach is better understood and better perceived.

QUESTION: Overseas or locally?

PRIME MINISTER: I don't think there's been any basic change in attitude at all.

QUESTION: As everyone has been saying, if all over the world it's a pretty tough international climate at the moment, looking at the worst possible scenario for Australia, in other words, that you don't negotiate any greater access for us at the EEC or any other major concessions which would help us, what is basically the Government's fallback position over the next three years? How will Australia survive?

PRIME MINISTER: We'll go for our life in markets in whatever countries we can find them. Take the developing countries of Asia and the Western Pacific, the Koreas, Taiwan, Phillipines, in all of these areas two-way trade has been growing very

PRIME MINISTER: (continued)

markedly and I've got no doubt it will go on doing so. There's been a very great emphasis on the development of trade in developing countries, in new markets in the Middle East.

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There are some trade figures here to go from 1972-3 to 1976-7 to give examples of an increase in trade. The total trade increased from 164 million to 688 million or 320%. But the trade with Iran has increased 480%, Egypt 250%, Iraq 5,100, Kuwait 200, Saudi Arabia 290, United Arab...

QUESTION: United Arab Emirates, is it?

PRIME MINISTER: Yes, 200%, S. Korea 260%. Well, Southeast Asia, Korea, the Middle East, these are new areas of trade for Australia and we haven't been - they are not as much in the news as our, if you like, trade offensive against the European Community, but its again in the European Community we run up against two problems; non-tariff barriers that prevent us trading which doesn't happen in these areas, doesn't happen in Southeast Asia, and secondly, \$4,000 million worth of export subsidies competing directly with Australia's exports in third markets and both of those areas are of enormous importance to us. We can't get into the counter subsidy game with 260 million people, technologically the wealthiest and most advanced industrial group the world has ever seen. We have to try and get, through argument, through persuasion, sensible trading rules that stop Europe wrecking other people's third markets and it's just as important as getting entree into Europe for some of our commodities.

QUESTION: Just moving on to this tax area. In the long-term, do you agree with the ^{Asbery} ~~Ashbury~~ Report that the weight of tax, and this in the context of this Government inquiry into BAT, that the weight of tax should be shifted towards taxation of goods and services and away from the taxation of income?

PRIME MINISTER: We've made some moves in that direction by trying to lighten the burden of income tax and the reforms in that area are very substantial. I would like to put your question in a sense in historical perspective. Indirect taxes originally have the name for being regressive and unfortunate taxes because they would be on the basic necessities of life for people on a sustenance wage and it was out of that historical background that the philosophical objection to indirect taxes arose but Australia is not a sustenance economy and by world standards average incomes in this country are high and therefore a different set of arguments come to the fore. Indirect taxes have been low, still are low, and income taxes have been very high, and by some country's standards are still high. I think there is a very strong argument in that many people want a greater command over how they spend their incomes and if income taxes are lower and indirect taxes are higher, they have that choice. If income taxes overall are higher they don't have that choice.

PRIME MINISTER: (continued)

It's easy, to give you an example, if somebody wants to buy a V-8 motor car that with present emission rules might give 10 miles to the gallon around cities, that's his choice, and if he's paying more tax for the privilege through higher prices petrol and whatever, that's still his choice. He can get just as comfortable transport, much more efficient transport, in buying an economy vehicle and one that will get him there just as quickly and maybe a good deal safer. That's his choice - whether he wants to spend his income on using a lot of petrol and a great big heavy V-8 motor car or whether he wants to buy a different sort of vehicle. That's his choice. I think it's right to give individuals as great a command as possible over their own income as we can. I believe we are living in quite a different environment from one which prevailed in earlier days when the name of regressive taxes as related to indirect tax. That's not the sort of world we live in.

QUESTION: Referring to this recent decision on the resources tax. Why didn't the Government decide to impose the tax on Bass Strait Oil when a large part of the profits, as you know, I'm not talking about the question of whether the profits should be taxed, but when a large section of those profits are the direct result of a change in Government policy.

PRIME MINISTER: The companies know quite well that the extra return to the people of Australia can come through a levy just as easily as through a resources tax and in fact that's what's happening just at this moment. So the choice there is not whether the community is going to get a proper return for Government induced decisions in relation to that, it's a question of how they were going to get that return. So far as other resources are concerned, so far as uranium is concerned, you know quite well that we've made a decision that there will be 75% Australian ownership so you've got the question of royalties, you've got the question of royalties to Aborigines in the Northern Territory, you've got company tax, you've got income tax on individuals and we believe out of all that the community can get an adequate return, especially in relation to uranium because it is 75% Australian ownership. One of the major arguments against the resource tax is that if you did have it and you related it to Bass Strait Oil only, and to uranium which is what we have said, nobody outside in the investment world would have known or understood that the tax was related to those two things only, they all would have believed its going to be extended to all resource development and that would have been an inhibition on development but when you take the basis of royalties that states can put on for things that happen in state areas the foreign investment guidelines, the question of company tax and individual tax, the community can get and does get and adequate and proper return.

QUESTION: Looking at the mix of your federalism and your tax indexation policies, this is going back to how they were proposed in '75 or initially proposed in '75, they can be

QUESTION: (continued)

both together regarded as instruments for a radical alteration in the scope and structure of government and also as the key elements in your economic policy - can be regarded as both those things. Which is the most important to you?

PRIME MINISTER: I think you've got to take the policy as a whole and I wouldn't want to break up different elements of it and say one is more important than others because they are operating in different fields. Let me take a non-financial matter for a moment. You know the arguments that had gone on over seas and submerged lands for a decade, even more, and its bedevilled relationships between the Commonwealth and the States, it's even inhibited development because who's responsible offshore? And do the laws stand up? Do decisions stand up? More than a year ago we set about, in a major enterprise to resolve all these matters - offshore mining for minerals and petroleum, fisheries, criminal jurisdiction, navigation, all the areas affecting offshore relationships. Now we've broadly determined the pattern of what's going to happen, through joint authorities and through a series of agreements with the states. Very considerable progress has been made, the pattern of what we are doing in cooperation with the states has been set. I think they are very happy with it and over the course of the next 12 months, I hope there will be final agreement on the remaining matters but more work yet remains to be done by officials. The remaining areas are in a specific subject matter areas. So this has been a major cooperative enterprise now which has gone very well. We haven't stuck on the full letter of the power available to the Commonwealth under the High Court decision. We've said we've got a practical problem between governments which we want to resolve as practical people, and jointly we will want to pass laws with you which bring that about. Now we are achieving that and I think that's a very major advance. You never could have got to that position with a Commonwealth Government that was insisting on saying this is the letter of the law, this is what we are going to do. It's -- even in relation to treaties which is fully a Commonwealth power, the consultative processes, the willingness to put in federal clauses in the treaty, the willingness to have the states have their own observers present during the treaty-making process. All of these things are an example of cooperative federalism which is I think a very important development and I believe the Premiers would regard it as a very important development. So there are non-financial aspects of our approach which are often overlooked. They don't get headlines because we are not in conflict. In the financial area, we want the states to have more responsibility for the things which they themselves have to do. They've got to take that responsibility for themselves and if states are constantly to say that we can't do this because the Commonwealth won't give us enough money, then the authority and the erosion of state's powers will be a continuous and inevitable process and that's not

PRIME MINISTER: (continued)

something that I want to see, I don't believe it's something that the majority of Australians want to see. So policies which provide the possibility of the states having a greater financial responsibility for their own affairs is more consistent with the maintenance of state's rights than any other possible policy. I think some Premiers understand this very well and some others understand it but don't want it because they don't want to lose their excuse the Commonwealth as a scapegoat. I can't see why a Commonwealth should be a scapegoat for all the economic policies of states. One of the first things you need to look to in terms of the financial management of any government is what's that government doing with its own bureaucracy, what's it doing with its own employment levels and on the figures of our statistician and I don't believe those figures lie, in the twelve months to March, state and local government employment went up four percent. That doesn't to me indicate great financial stringency. If you look at the growth in the day labour forces of the states, construction projects and all sorts of things, the growth has been very great indeed. They can get the work done more economically, more effectively, by putting many projects out to tender and getting some competition into the business. Our day labour forces have shrunk very considerably over the last two and a half years and I'm not saying we've got to the end of that process. So, the financial aspects of the policy are obviously very important and the states spend, state and local government together, spend such a high proportion of total government, comprise such a high proportion of total government expenditure that what they do is obviously important for the totality of economic policy and it can become very difficult if you've got states running in one direction with the Commonwealth responsible for financial management, believing the direction should be different. I hope that one of the results from the financial pressures that have been put upon the states at the moment, through the last Premier's Conference, will be for the first time to get to act with much greater strength its responsibility in wage policies.

QUESTION: Just on the question of how the Federal Government spends money and how the states spend money, the Report of the Centre for Financial Relations, the Matthews Centre at the A.N.U., says that the states have shown themselves to be much more sensitive than the Commonwealth to the needs to maintain capital spending and other expenditures with employment-creating effects, although the Commonwealth has the primary responsibility for economic management the states have felt obliged to move into the vacuum created by the Commonwealth despite the dearth of capital funds.

PRIME MINISTER: I don't think they've felt obliged, we've urged them to do so because of the generosity of the payments under income tax sharing which have gone up very greatly and this year have gone up by 10% which is three or four percent in real terms. Increases in other years were just as generous. But quite deliberately, of you look at semi-government programmes, last year, the year before, and even this year,

PRIME MINISTER: (continued)

the increases in funds for semi-government authorities have been considerable. So, while the capital projects for the states themselves, which do become a charge on the Federal Budget, have been held very tight, and especially this year, we have said, look, you've got plenty of leeway from the general revenue grants, to divert some of that money to capital expenditure and you've been more than generously treated in relation to semi-government expenditure and we've done that quite deliberately because we know the importance of capital works in relation to activity in the economy. One of the difficulties in our scene, is the way our own budget structure, so much of it is already pre-empted in payments to the states, a lot of which goes to capital works so you know that's not just a state -- it doesn't appear in our book really as capital works but its capital works by the time they spend it a lot. Then so much of it goes to health and welfare, which is not capital works or overwhelmingly isn't and we have enormous payments in that arena which the states obviously don't have and against the need for financial restraint, to have a deficit that's responsible, to be able to finance that deficit in a non-inflationary way. The room for manouvre in a Commonwealth budget is obviously limited. That's another way of saying we would like to be in at position to spend more funds on capital works, but you can't go down that path if it means that overall your economic policies are going to be under mined. The overall structure of the budget and the budgetary aggregates is more important even than our desire to spend more funds in capital works.

QUESTION: You raised that question about wages, I want to go back to that in a minute, but just going back to taxes. What is your opinion of the vote on Proposition 13 in California, where they pegged back property taxes very substantially? Following on from that, do you think we should have more and more cuts in taxes?

PRIME MINISTER: We've got to try and make sure that our taxes are based in a way that they don't destroy incentive, they don't cause undue hardship and the examination that John Howard announced some time ago is designed to put us in a position of being able to make judgements about the overall equity in tax and made it plain its not designed to be taxing more in total. We have, as you know, made very significant reductions in taxation in some areas relating to companies, relating to individuals. It is sometimes forgotten that tax indexation provides a continuous cut year after year after year. It's designed to make government's honest, it puts a rod on a government's back. That was done very deliberately as an act of policy because we have seen the damage done when easy funds come to governments and so easily spent and too easily spent. The commitment for indexation is undiminished, let there be no mistake about that, it's half tax indexation for this year because of the size of the total income tax reform and to ease in the financial obligations as far as the Commonwealth is concerned. There was half indexation for this year but this year alone. So there is continuing tax reform built

PRIME MINISTER: (continued)

into what we've already done. There are clearly areas where the Government would like to be able to give further tax relief that would be -- well, I don't believe anyone expects them, we are in that kind of situation this year. I would like to make a word about California because I had a night there on the way through just before the vote and one night in California and speaking to a few natives of the State, it's perfectly obvious that that proposition was going to go through because many people -- there's been a land boom in California and property values for many people have gone up enormously and the property taxes have therefore gone up to such an extent that people are being forced out of homes that they might have been in for a lifetime. But incomes haven't gone up enough to cover the increase in property taxes and against that background there no doubt that that particular referendum was going to be carried. I think there are about 13, no 17 states, where there is the possibility for this citizen initiative in referendums, and I have no doubt that a number of other states would be moving along the same path.

QUESTION: Do you agree that that was a right, correct course to take?

PRIME MINISTER: I think governments have got to maintain control, we have a capacity for referendum. I'm not sure that citizen initiated referendums is really a good way of running a government, of running a country or a state. Ter There is a message in what happened in California for governments that seek to impose too high a tax in one area or another, and a very clear message but I don't believe in this country we've got to the position where property taxes have risen to an extent they have in California and the very extreme circumstances which have developed as a result, putting enormous hardship on thousands of people, also against the background in which they had a surplus in their budget of \$3 million for \$4 million, or it might have been \$3 billion or \$4 billion...it would have been \$3 billion or \$4 billion.

QUESTION: Just on..this tax area. Just taking the changes in the tax scale and the cuts that were announced in the '77 budget, the recent changes to Medibank and the abolition of the resources tax. It's fair to say that the Government's redistributing money to the higher, to the people higher up in the scale and I mean, is this being done to stimulate - because the Government believes this will stimulate investment and economic recovery for simple philosophical reasons or because this is the base area of the Government's promoting support?

(break in tape)

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PRIME MINISTER: (continued)

I reject the view that we've been redistributing income away from lower income people to higher income people. You've got to look at other things.

QUESTION: The basic points are the family allowance...

PRIME MINISTER: I'd reject the view that we've been redistributing income away from lower income people to higher income people. You've got to look at other things in addition. Family allowances was a deliberate measure designed to distribute away from middle and higher income people to lower income people because the earlier tax rebate or before that the tax concession was greatest advantage to people on high incomes, high marginal rates of tax and now of course, there is a very great benefit at a number of low income families, about 300,000 of them, who probably would have got no benefit at all because their incomes were not high enough to get advantage of the other arrangements. I don't believe the resources taxes are properly part of this equation because for Bass Strait Oil it's not a question of resources tax or no tax, it's a question of the levy which is in existence now or a resources tax, and we made the decision quite plainly that it's the levy. So far as uranium is concerned, you've got to have in mind that there is 75% Australian ownership, you've got a royalty situation, then you've got company tax and you've got income tax and I believe it is the community, through those mechanisms will get a fair and proper return from whatever the income is.

(break in tape)

If you look at the tax reforms that we did introduce, the percentage of tax payable by those with an income up to \$16,000 was a fraction under 62%. After the tax changes it was a fraction over 62% and the range \$16,000 to \$32,000, before the changes it was 25%, after the changes, a mere fraction below 25%. For those over 32,000, they were paying before the budget changes, a little under 13%. They are now paying 12 1/2%, it went from 12.7 to 12 1/2 percent. So there has been no basic change in the proportions of income tax collected from the different income groups in those scales and you've also got to have a mind of course that the tax threshold has significantly changed, that there are well over 200,000 families who as a result of the change, again in the low income area, were paying no tax at all, so to that extent, again, the reforms were helping low income people.

QUESTION: Dealing with each of these separately, I don't want to make this too long a question, but dealing with each of these separately, how much has your attitude towards economic policy been influenced by first the visit here of Mr. Wolff, the American trade negotiator, secondly, your recent trip to Japan, and thirdly, your recent trip to West Germany. Also I'm talking about your talks with Mr. Wolff, Mr. Fukuda, and Mr. Schmidt.

PRIME MINISTER: I don't think that the discussions with Mr. Wolff would have influenced economic policy to much extent. The main purpose of those discussions was to make our attitude to trade understood and to get the point across that Australia is not the closed market which he had implied it was in the press conference he had given in Singapore before he even got here. And that was why I had discussions with Mr. Wolff and also to emphasise the importance of agriculture in the multilateral trade negotiations. Since then, I've, well Mr. Anthony had assurances and the Government had, I've had personal assurances from Mr. Strauss and a matter that has not yet become public, a personal assurance in a letter from the President, that agriculture must be a part of the multilateral trade negotiations. Now that is the first time in which the President has given Australia that specific assurance. Would you like to get that letter. Well, that's the first time, I haven't used that before and it's a very recent letter. My visit to Japan, the motivation for that was exactly the same as the visit to Europe; concern with what's happening in international trade field, concern with what's happening in international economies. I've found an identity of view with Japan over a wide range of issues as a result. They are in the process of shifting their position on the Common Fund. I think, not insignificantly as a result of discussions that I had at that time but then experts on the Common Fund were in Japan were with me and I had very extensive discussions with Japanese officials after my discussions with the Prime Minister and they've had Government discussions about the Common Fund since -- I don't think the main basis or thrust of Australia's policies were altered as a result of that but I do believe, I know, that the communication that we have with Japan is much closer as a result. Our officials, their officials, when they are together in international forums get together and exchange views. The discussions I had in Paris with (inaudible) were relaxed and frank and open, as were the discussions down here. We got away from the large forum of about 50 people from either side sitting on it. But all sorts of issues have been remarkably useful. We are informed of what happens in the major discussions in which Japan is playing a role. I think the visit to Japan has put the relationship between two countries on a new basis because for the first time Australia was going to Japan to talk about major international issues of concern to both countries and not going to have a discussion or an argument, if you like, about bilateral matters and I might indeed have been the first head of government to go to Japan to do just that because generally whether it's Europe, or America, or Australia in earlier times, it was to talk about bilateral problems and I believe that Japan has appreciated that and they've responded to it very warmly and I believe very constructively. I've made no secret from the fact that I believe that Japan's policies are more right than wrong and Germany's policies are more right than wrong in the international context. There is no future in it if the stronger economies damage their economies in an effort to help weaker economies that ought to be doing things for themselves. The American balance of payments problem can't be solved by Japan. It can be solved with an energy policy and anti-inflationary policies and the United States knows that. Now this is not to say that there are not obligations on creditor countries such as Japan and Germany, of course there are and again I believe that Japan is wanting to show itself as a good international citizen.

PRIME MINISTER: (continued)

They are making not gestures, positive moves in terms of more official aid and they're making moves to try and reduce their overseas balances and those moves are sometimes frustrated because other countries don't do what they ought to do. If inflation in other countries goes on increasing at a rate which is much higher than Japan's or much higher than Germany's, the efforts of Japan, for example, to reduce its balance of payments surplus is made much more difficult. Again, the sorts of policies that Germany has pursued are ones that Australia would basically support. I won't name the country, but in one country, indirectly an allegedly responsible minister put it to me that there would be no problems if Germany reflatod to an annual rate of 11 percent. All that would do is to make Germany's economy as weak as the others.

(Side Two of tape)

...to be good trading partners and to contribute to stability in the international trading scene. They cannot solve the problems of weaker economies. They can't do for those countries the things that they've got to do for themselves.

QUESTION: I've been told that in the case of Germany, apart from agreeing with their economic policies, you're very impressed in a more direct, personal sense, with them and perhaps this may go back in history to the economic policies that were pursued by Dr. Erhardt, when he was their Economics Minister, which seem to be fairly similar to our own and I want to ask, that this be true, but the situation then of course was a very different international situation and do you think that it's realistic or even desirable to expect that the Australian work force could behave in the same way as the German work force.

PRIME MINISTER: Industry is structured differently, unions are structured differently.

QUESTION: Well, just the people are different.

PRIME MINISTER: And people are different, of course they are. But one of the things which was disturbing in the current push for wage increases outside the Arbitration Commission at the moment, is that some Union leaders would seem to have learnt absolutely nothing from the history of recent times. There is not the slightest doubt, in the view of this government, that the very rapid rate of wage increase has been a material factor contributing to unemployment and the higher wages are the more unemployment there will be. The success we will have in moving people back into employment will depend very materially on the degree of wage restraint there is in the trade union movement. Nobody can say that the totality of the budgetary policies, the tax policies and the wage policies of this Government are acting unreasonably or unfairly to wage earners in Australia. You've again got to look at it in the context of tax cuts, in the context of family allowances, and all the other things we are doing. The Arbitration Commission decisions have very significantly compensated trade unionists for increases in the Consumer Price Index, but in so doing there is not the

PRIME MINISTER: (continued)

slightest doubt in the view of the Government that the Arbitration Commission is contributing to a continuing high level of unemployment in Australia. Now I said at the time of the last election that from February unemployment would fall and it would go on falling. It has fallen, it has gone on falling but whether that process can continue depends on a number of factors. It depends upon world trade, the growth of world trade, Australia's share of that. It will depend upon our capacity to get inflation down further. It will depend very materially on getting greater stability into wage fixation and on the general level of industrial disputes.

QUESTION: I want you to be more specific about that. Can you tell me if you want the system of wage -- I know the Commonwealth responsibility as far as wage indexation is very indirect at most, but do you want the system... of wage fixation changed, do you want the across the board nature of wage rises which exist in Australia changed, do you want the market to play much more of a role in the fixation of wages?

PRIME MINISTER: I believe there have been advantages to Australia through the centralised Arbitration Commission system. Because of the position we are in there have been difficulties with the compression of margins for skilled labour and that's something which will have to be tackled at some stage but when you have...

QUESTION: Sorry for interrupting, but how would that be tackled, for example?

PRIME MINISTER: When it is tackled, I think it ought to be tackled through the Arbitration Commission. They've had margins decisions before, but I'm not saying that we've got to that stage yet because the wage/profit relativities are still out of kilter and the sort of across the board judgements that have been made in recent times are probably the only ones that we could have had, although we would have liked judgements at a lower level, and that would have helped very greatly. But the nature of the Arbitration Commission's decisions have led to a compression of margins and that obviously has long-term consequences which at an appropriate time would have to be tackled, and I would say that further progress has to be made in getting inflation down and further progress has to be made in the general objective of wage restraint. I had said something earlier about the states. The states have gone on employing more people, they haven't helped us, many of them, in the Arbitration Commission. I believe all governments know that too great a rate of increase in wages will lead to more unemployment, but some for political grounds don't want to say so. I believe that people who, whether it's a trade union leader or anyone else who wittingly or unwittingly deceives his own constituents, trade unionists, workers in factories throughout Australia, is doing a great disservice to that constituency in putting the sort of views that are so often put about wages

PRIME MINISTER: (continued)

and full indexation, or even more than full indexation. I don't believe the average worker believes it. The average worker I am certain knows that if wages go up too much there will be more unemployment. He is often not given an opportunity to express his view in a responsible way and I think the average trade unionist is way ahead of some of his leaders, way ahead of some political leaders, in these particular matters. I will give you, in relation to Carter's letter which was dated the 13th of June this year, in which he says: I will not consider these negotiations a success unless they lead us towards significant liberalisation of world trade in agricultural products.

QUESTION: But does he specifically refer to the question of agriculture being put in, I mean that hasn't even been established yet, has it?

PRIME MINISTER: In that relationship, yes. That sentence is in the context of a general paragraph about the MTN. "I will not consider these negotiations" that's the MTN. Now Strauss had said that before.

QUESTION: But this is the first time it's come from the President?

PRIME MINISTER: It's the first time, that I'm aware, that it's come from the President and it's come quite directly in a personal letter to myself.

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QUESTION: I know that one of the concerns of people who -- one of the concerns of the Government -- is that if and when there is an economic recovery, wages do not go up with that recovery like they always have and its not always like they would tend to do. In other words, if - that there is more demand that workers can flex their muscles.

PRIME MINISTER: Well, what I would hope, as recovery gathers pace, instead of wages going up unreasonably you have more people going into the work force. Again, Australians are going to have to understand that as there is a level of greater activity in this country the wage share of that can go in two directions: it can go into higher wages in those who are employed, or to perhaps a lesser level of wages for a much larger number of people.

QUESTION: Just to change subject entirely - you've been in office nearly as long as Mr. Whitlam. What do you think was his major contribution to Australia?

PRIME MINISTER: I think I'm too close to Mr. Whitlam to make a judgement about that and I haven't really -- well, putting it in that way, you're asking for a positive contribution.

QUESTION: I'm not necessarily - I'm asking for a...

PRIME MINISTER: The major damage was a destruction of a healthy economy.

QUESTION: Could I ask now if there was a positive contribution?

PRIME MINISTER: If you can say that a situation of complete and utter turmoil in which Australians reassessed their values and reassessed their sense of direction is a positive contribution.

QUESTION: That's all you are prepared...

PRIME MINISTER: Well then he achieved that. I think I'm too close to Mr. Whitlam. There are obviously other things, and looking back over the record, which would have to have merit and I don't want to be ungenerous about somebody who is departing the political scene. You might find this an odd remark what I am just going to say -- my mind has always focussed on the future. What's past is past, what's past is done with and it can't be altered and it's what we can do to effectively influence the future which is important to all Australians wherever they may be. The times when you give a proper judgement on the Whitlam years, I'd have to consciously think back with overall the initiatives that are taken and give you a considered reply but when things are past they move out of my mind very quickly.

PRIME MINISTER: (continued).

There is so much in the present and so much affecting the future that I devote all my energies to that.

QUESTION: As you know, you are constantly criticised as being too centralised, too dominating, in the process of government, that is you personally, and you've publicly rejected that charge quite often, once again. So I don't want to go over old ground, as you say, but I want you to be more specific in rejecting that charge.

PRIME MINISTER: Well I don't make statements about policy before the Government's made a view. So therefore you don't find me expressing views that are contrary to the views of the Government and the occasions when I might get defeated in Cabinet therefore aren't on the public record but the Cabinet is a cabinet of people who've got forthright minds and they express them forthrightly and I don't respect a minister who isn't prepared to argue for what he believes and the ministers know that very well indeed. Somebody would have to be inside the Cabinet room and know the nature of the discussions and the nature of the arguments that go on to really understand the way the system works. But that's what its got to be, but there is a collective responsibility. It's my responsibility to make sure that I don't, and a very significant one, to make sure that in a sense that I don't have an identity outside the identity of the Government because then you start to have two views - Fraser's view and the Government's view and that would be damaging to any Government and I don't intend to let it happen. But I think you've only got to look at the nature of the people in the Cabinet and in the Ministry as a whole. It's a Ministry of very great talent, it's a very young Ministry, maybe the youngest in Australia's history and there are very few over '50's in the total team. I don't think I can be more specific than that. It's a collective operation. Maybe there are one or two things that can be said. There was one occasion, I've forgotten the subject matter, but a Minister announced something and the headline was "Fraser does this.." or "Fraser does that..". There is a habit in the media of personalizing decisions, it's a Government decision, it's gone through Cabinet and oh no, it's Fraser's decision. I'm not going to name the subject matter because the Cabinet made it, the decision, while I was away. I still regard myself just as much responsible and bound by that decision as any other member of Cabinet. Life goes on and when I'm out of the country and unlike Mr. Whitlam I told the Cabinet to go on getting work done. I don't want things to be set aside when I'm out of the way - there will be too big a list for me to deal with when I come back. And that applied in particular over this last trip and Doug Anthony had specific instructions to

PRIME MINISTER: (continued)

go on with the job of getting business through Cabinet and he did. But there was one decision announced and later on the commentators said "personal decision of Fraser's". Well on that particular matter it was a decision taken by Government when I wasn't even in the country. Now this kind of reporting gives an impression that Fraser makes a decision, Fraser makes a decision, but the decisions are Government.

QUESTION: The other claim that's been made in public in criticism of you is that certain sections of business can get decisions made by Government from the top without going through the conventional public service channels and there's two examples of that last year; one was the reference to the TAA, on Sir John Lysaght's, on steel and iron, and the other one was the reference to the TAA Sir J.C. Williamson's or it must have been IAC, not J.C. Williamson's while the inquiry into the arts was going on.

PRIME MINISTER: I happened to be responsible for the arts at that time and quite plainly if I was responsible for the arts and there was a problem in relation to J.C. Williamson's, as there had been, should we do something about it or should we not, as the Minister responsible for the arts I would have thought I should have taken some action to get advice in relation to it so the Government could make a decision and that's what happened. In relation to other matters; if people see me, I will say to the Minister, what's happening, what's the Department doing about this? And you generally find that they are well advanced in the process anyway. Now, I hope it's not leading to a position that the Prime Minister's got to stay in his office and not see anyone, not speak to anyone and not to be able to feel or hear outside what people outside this city, outside the Public Service are saying because I think that would be extraordinarily damaging. It would be very insular and obviously people put views to me and I am going to make sure that I remain in a position in which they will go on putting views to me whether it's going into a pub and seeing what the blokes in the bar are saying there or whether it's an industrial or financial concern that's got some problems. I think I need to be capable of hearing what's said.

QUESTION: Since the election campaign when you made that comment about the Royal Commission on Human Relations, I think I'm right, I may not be right but I think I'm right in saying that you've made virtually no comments about what is loosely termed the social area of politics, no public comments that is, or no important public comments. Is there any reason for that personally? And secondly, I want to ask you a specific social question, that is, what is your attitude towards the legislation legalising homosexual acts between consenting adults in private?

PRIME MINISTER: There is legislation that's gone through the Parliament...

QUESTION: The Federal Parliament? As you know it's a national - happens nationally and I think there's only legislation to the South Australian Parliament.

PRIME MINISTER: Well, it's a matter for the States and State Parliaments.

QUESTION: What is your attitude though, you must have an attitude?

PRIME MINISTER: I've on a number of occasions made statements to the effect that people ought to be allowed to lead their own lifestyles so long as they don't impinge upon the rights and position of other people or affect the lives of other people in a way that is unfortunate or undesirable. I don't alter that general comment at all.

QUESTION: Can you answer that specific question about homosexuality?

PRIME MINISTER: Well, I think it's covered by what I've said. I don't see this is an area in which the Commonwealth needs to buy into what happens in the States. See, I have written to the Premiers on the Royal Commission on Human Relationships and asking them their views in relation to it and I don't think there have been responses yet, because so much of that, or the results of that, will depend upon State (inaudible) action and state legislation and before the Commonwealth wants to state a view we want the reactions of the states, we want the reactions of the community. Now this is a classic example of what I believe it's damaging, if I, Fraser, state views about things and the Government at a subsequent stage comes to a view. I don't believe I should, and in relation to that Royal Commission we need to assess the total position, the total reaction, then the Government will make a deal about whatever it ought to do in the areas (inaudible).

QUESTION: This is a social area - it's one where traditionally Parliaments have had, as you know, vote on conscience, so therefore it's not a Party matter, or isn't necessarily a matter of Government policy.

PRIME MINISTER: The Commonwealth Parliament has dealt with that matter so far as Commonwealth arena is concerned. The rest is up to the States.

QUESTION: Can I interpret your previous statement as saying that you don't necessarily approve of the act, but you would approve of the legislation that would not make it a criminal offence. That's what I'm really asking you.

PRIME MINISTER: No, I don't believe it should be a criminal offence...with certain obvious safeguards.

QUESTION: Assuming there is some strong economic recovery in Australia, which means without in any way becoming profligate, the Government doesn't have to be as careful or as worried about day to day expenses as it does at the moment.

QUESTION: (continued) What are the areas which haven't been nominated at all yet, where you would like to see a major initiative in Australia, which would obviously cost money, I'm not saying how much it would cost but a major initiative?

PRIME MINISTER: I think one of the things that would assist Australia in many ways is to be able to do more to improve the basic infrastructure of this country. That not only helps citizens in their daily lives but would help business to be more efficient.

QUESTION: Can you be more specific?

PRIME MINISTER: Ports, harbours, communications, the infrastructure financing guidelines in the proposals that are now being examined, Commonwealth/State officials coming out of the Loan Council decision are (inaudible) in this kind of direction and these are things which help industry, make Australia more efficient country, run on a better basis, make us better able to compete. This is the kind of area where greater expenditure, when that's possible, will I believe do the greatest good for Australia.

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