



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING, MP
INTERVIEW WITH KERRY O'BRIEN, LATELINE, ABC TV
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KOB: Mr Keating, welcome to Lateline.

PM: Thank you, Kerry.

KOB: Whatever else we talk about tonight, I know it won't surprise you that interest rates comes first? You have repeated time after time in the past few months that none of the fundamentals in the Australian economy justify a rise in interest rates. But the bond markets continue to go mad, the bond rate is up from 6.5 per cent in February to nearly 10 per cent today. How long can you resist that pressure with all of the psychological instability that it builds into the market place and into Australia's business community, and for Australian consumers for that matter?

PM: Well I think it builds a bit into the market place, but I am not sure it builds that much in the business community. I think what has happened here has been triggered off by American activities. The United States federal funds rate got down to 3 per percentage points. At our lowest we are at four and three quarters. That is, one and three quarter percentage points above the Americans. They had their economy far more fully employed and there was pressure in the US financial markets to say, look, these rates are too low. Three or four moves by the US Federal Reserve Board brought them up.

KOB: And they are expected to keep going up.

PM: Well, I don't know about that. And, we are at four and three quarters, so our business lending rates, this very day, is somewhere between 6 and 9 per cent. That is, 6 to 6.5 per cent if you are in Bills, 9 per cent if you are getting reasonably preferred rates. Now, we are talking about an underlying rate of inflation of 2 per cent here, Kerry. So, that is a real rate of interest somewhere between 4.5 per cent and 7 per cent. Now, that is not low. This is not easy money. This is business lending, 4.5 to 7 per cent real. So, I think a few people in the markets should dwell on some of those facts and just remember those things.

- KOB: Yes, but they are not are they? I mean, they would know that, they would know that as well as you do. That doesn't seem to influence them at all.
- PM: They have taken the US scene as our own, and it is not our own. I mean the fact is we are doing much better on growth. One of the problems we always had in Australia is wage push inflation. Wage is growth, average weekly earning growth in the year to March was point 5 per cent, half of a per cent.
- KOB: Yes, but you see you have been trotting these figures out in one form or another for months. The message has been substantially the same. They are not taking any notice of you.
- PM: Kerry, you have got to go back a long time to remember a conjunction of these sort of circumstances. We have had inflation decelerating.
- KOB: I know. You know, they know. But the bond rate is still going up, they are still saying that they know you are going to have to increase interest rates by three quarters of a per cent to one per cent.
- PM: I mean, here's the Government, the labour market, the trade unions, the business community, everybody, has got inflation down statistically to one per cent, with an underlying rate of about two. Of all places we have got the financial market saying, oh, hang on, we think it might be 4 per cent or 5 per cent, and we are pricing our instruments accordingly. The problem with that sort of an approach, were the Government to simply say, "well that's right, don't take any notice of us or anyone else in the business community". The problem with all that is that it starts generating wage claims. People start saying, well hang on, if mortgage rates are rising, if the wage restraint I have given has been useless, if there is nothing in it for me but higher interest rates and higher costs let's go and claim it in the market place.
- KOB: So, you are saying that if interest rates do go up they could trigger another push for wages?
- PM: I am just saying you wouldn't want people in the bond markets, you are talking about bond market dealers. Now, these are people in super funds, managing a bond portfolio, probably somewhere between 25 and 40 years of age, maybe been through one economic down-turn, maybe, never really had any grip on inflation fighting as a concept, telling the Government, the ACTU, the trade unions, the business community, that they know better about inflation than we know.
- KOB: How long can you continue to stare the markets down?
- PM: Well, the Government, we, have made our position very clear. While the fundamentals are as we have them, then we don't see a need to shift short term rates. Now, as the recovery goes on, Kerry, and there is simply more growth and more investment and a bigger demand for funds, the price of money may rise. But that is not here yet. You have got to remember this, this is before the investment phase, the large investment phase. I mean, you have got people in markets wanting to lift interest rates actually before the investment comes.

KOB: Absolutely, and that is a problem in itself, isn't it? I mean, you say that the business community is not terribly fussed at this moment, but Ian Salmon, the head of the Business Council and also perhaps Australia's biggest investor expressing real concern about the implications of all of this right now. We hear Bert Evans representing the metal trades sector, an important sector, saying that this could have deleterious affects, so they are concerned. I mean, in terms of the psychological impact.

PM: I am not saying that people mightn't be concerned about it, but the point is, facts are facts and a truth is a truth. Wages growth is half a percentage point for the year. I mean, you have got to back 30 to 35 years to find something like that.

KOB: Do you believe that an increase is still months away?

PM: Well, I'm not here to be giving you a calendar ...

KOB: You have gone to ...some degree in the past

PM: Look, I am not here to be calibrating interest rate movements and timing versus activity. But I will just make this point, we have seen a substantial appreciation of the Australian dollar now over the last four or five months. And this again, what does it do? It does two things. It makes imports cheaper which makes a more competitive environment, and therefore keeps downward pressure on inflation. It takes some of the price surge out of commodity prices going to the primary export sector, it moderates growth, it moderates surges in income and it provides more price competition in the economy. This isn't a further bull point for inflation. That is, for low inflation. So, when you look at all those fundamentals they are looking pretty right.

KOB: Do you believe the reports that the Reserve Bank is becoming more concerned about protecting its credibility on the issue of controlling inflation? How does it get back ahead of the markets and convince them of its resolve to keep inflation under 3 per cent, and that resolve is still strong without actually putting rates up?

PM: I noticed some report yesterday, or today it might have been, saying that people in the bond markets are worried about the Government and the Reserve Banks resolve on inflation. Now, I am just saying to you, these are by and large people in the 25-30 age bracket.

KOB: Their age bracket doesn't matter.

PM: But these are people who have not been through two or three economic cycles. That's the point I am telling you.

KOB: But that doesn't matter does it, if they are the people that are calling the shots?

PM: I am telling you, about inflation, you have got to live through the surge in inflation in Australia in the '70s, that ... of very high inflation rates to understand what has happened here. There has been a break in inflationary expectations and we have seen a rapid deceleration in inflation. The Reserve Bank and the Government put cash rates up to 18 per cent for over 18 months. So, if that is not resolve, Kerry, what is it? What is resolve? Can I just say that we have just done another Accord,

another Accord, \$8.00 for the bottom third of the workforce for the next two years, which is again consistent with that very low inflation rate.

KOB: If business and consumer confidence clearly become affected by this, and if the instability is on-going, your hand will be forced won't it? Regardless of political problems?

PM: Well I don't know. The point is we will see how activity goes. That's the point. That is, growth and investment and demand for funds, but we will always keep a weathered eye on inflation. That is, we will keep our low inflation objective always in place in operating monetary policy.

KOB: Is it your anticipation at this stage that there will be no sign of heat on inflation, of undue heat in the economy for at least several months?

PM: I can't see it anywhere.

KOB: You don't expect it?

PM: I can't see it.

KOB: For months to come?

PM: We keep getting national accounts data and every quarter wages growth moderates, inflation decelerates, you know. The Government has always, always got an eye on wage claims, always. And it will always keep an eye particularly in an upswing in the cycle.

KOB: Politically it is a frustrating bind for you, isn't it? The Opposition has been harping about a rise for months. A rise at some time does seem inevitable. The minute that rates go up they rekindle the public's painful memories. That is, business memories and home owners memories of that awful spiral up to 18 per cent plus. And the minute they have gone up the speculation will start again, won't it, about the next rise after that? I don't know how you deal with that politically.

PM: Well just cast yourself back three to four weeks. What was the Opposition saying, Mr Downer then as Shadow Treasurer, he was saying he couldn't believe the growth forecast in the Budget, they were too optimistic. Remember the attack on Budget night? That growth, there wasn't enough of it. The Government had overestimated the growth forecast and we needed more of it but we weren't going to get it. Now, we have got the growth, what's his line today? The growth doesn't matter, what his line today is is interest rates.

KOB: At some stage interest rates are going to go up, and when they do you have got a political problem, and the minute they do the cycle starts again too.

PM: Kerry, I can talk over you to, if you want me to.

KOB: Yes, go for it.

PM: The Opposition is just into opportunism, three weeks ago there is not enough growth and the Government has cooked the figures.

KOB: Yes, you said that.

PM: When the national accounts come out at 5 per cent growth, there is now too much growth. They are barracking for the markets, the financial market, this narrow financial market, they are barracking for the market against the interests of the country. That's what Alexander Downer is doing.

KOB: But you have still got a political problem which surely you must acknowledge that when interest rates do go up it will trigger very painful memories and it will also - immediately they go up - there will be another cycle of predictions about further rises.

PM: But, Kerry, were interest rates to rise at any time, at any time, off a cash rate of around 5 per cent, you are drawing a very long bow to be talking about 5 per cent and 18, aren't you?

KOB: Yes, but you are dealing with psychology as well aren't you? You are dealing with perceptions and you are dealing with memories, and they are painful memories.

PM: At the moment, they are good memories. I mean, you have got low housing rates of interest.

KOB: Although you say yourself the real interest rate is high?

PM: But you have had a huge increase in disposable income from lower interest rates, and that's one of the reasons why we have seen a boom in housing starts.

KOB: But you do acknowledge that real interest rates are high compared to other countries?

PM: I say that real interest rates, there is no easy money in Australia, with real rates of interest at the figures I nominated earlier.

KOB: I take it you are still confident of meeting those all important budget targets on business investment. How early and how strongly do you expect to see it flowing in the new financial year?

PM: Well, the conditions have never been more propitious and what you find with these sorts of economic conditions the text books work. I mean, you get the investment and you can see it in the expectations data.

KOB: But, we've been waiting and waiting and waiting and I know that the signs appear to be good, but how strongly and how early in the new financial year do you expect to see it flowing?

PM: Well, I think the budget forecasts will be met. The thing about this recovery as the Treasury said in Statement Two, it's had a rolling nature. It started with government consumption, then private consumption, then housing and then investment. So, it has had a four phase roll in quality to it and I think that's fine.

KOB: But, have you got any sense of whether that's going to come as a great spurt or whether it's going to come in a kind of steady flow over the 12 months. I mean, what are the signs that you and the Treasury are going to be looking for to reassure yourselves that that business investment is going to be of the order that you want and so desperately need and what scope do you have for further action if, in fact, it doesn't appear to be coming in the way it should?

PM: Well, we'll take the partial data which comes through monthly and we'll take the anecdotal evidence as it comes through and we'll see, I think, there investment reflecting the budget forecast.

KOB: Debate continues about the issue of public sector infrastructure spending and the kind of infrastructure we have and should have and you know backwards the arguments that core public sector infrastructure feeds business investment because it assists private sector productivity as well as creating jobs. Yet, public sector infrastructure is at its lowest level since the war. It was 7.5 per cent of GDP in 1984-85, it's been declining ever since apart from the blip of 'One Nation'. 1994-95 it's going to be down to 4.4 per cent of GDP. Haven't you got to arrest that decline and if you can't increase deficits, haven't you got to raise taxes to do so.

PM: No. Well, the first point is this. In the 1980s Australia was caught in a classic squeeze of a sharp decline in national income coming from the worst commodity prices since the depression. That was the 1986 crash in the terms of trade which brought on the 'banana republic' stuff. We made a very rapid adjustment to fiscal policy to make a public sector contribution to national savings. If you have a savings problem as we had of that dimension, then, you can't have a gold plated infrastructure.

KOB: True.

PM: So, therefore, we cut our cloth accordingly.

KOB: Without raising tax ...

PM: Now, the implication of your question is, well, maybe this will inhibit at some point national efficiency. Well, it might Kerry. It may have already, but that is the price you pay when your national income is down and your savings are not what they ought to be to cover your investments.

KOB: It's also the price you pay when you continue on this path of lower taxes which both sides of politics in this country are continuing to walk down.

PM: But, there's another part to this. There is another point I want to make to you and that is the Government has just now changed the tax treatment of infrastructure bonds. Now, I think, this will open up an opportunity for savings from the big public savings vehicles like the superannuation industry and particularly award superannuation to invest in, that is, optimal private sector provided public infrastructure. Now, I think, this is going to make a very large difference and you'll start seeing state governments starting to focus. I mean, you'll soon hear State Premiers and Treasurers starting to beat their chest about this project and that, it will be because of the Federal Government's policies in respect of these and tapping that great pool of savings which is now in award superannuation which, of

course, the Liberal Party has always opposed. That is, occupational superannuation for the workforce. A decade ago we had about \$17 billion in super funds. We've now got over, I think, \$330 billion and that money is looking for a home and some of it can look for a home in Australia in privately provided public infrastructure.

KOB: And yet the unease continues within your own party about the levels of taxation and the levels of infrastructure that the Government should be funding and Duncan Kerr's comments, your Justice Minister, a Cabinet Minister (sic) in Tasmania, recently underscored that yet again. Australia is now the lowest taxed country in the OECD - the so called western world - total revenues as a proportion of GDP were 27.8 per cent in 1986-87, they will be about 23.7 per cent in the next financial year, that means \$16 billion decline next financial year - \$16 billion next year that you do not have. \$5 billion more than your whole deficit. You now seem to be in a political straitjacket on taxes.

PM: Yes, well, let me get the advert right, Kerry. This is a low tax government. Let me say proudly, this is a low tax government.

KOB: To the point where you can ...

PM: No, let me finish it. Lower tax than anything we have seen from the Coalition and a bit lower at the moment because of the loss of receipts coming from the recession and the impact of the recession.

KOB: They'll go lower again because they are talking about various tax concessions on things like business exports and so on.

PM: Who are?

KOB: The Opposition.

PM: Well, the Opposition has already got an \$8 billion gap. I mean, here's Alexander Downer running around today saying "oh well, we need a tighter fiscal policy so we don't have these interest rates effects." I mean, the hide of him. And, he's out there with an \$8 billion problem and he's been in the job three weeks. I mean, the Financial Review yesterday sketched out the \$8 billion gap that he and Mr Costello already have.

KOB: The point is ...

PM: So, there's no point in making a reference to them. They are not going to be any help.

KOB: All right, but you're both in a political straitjacket on taxes aren't you and it's a problem of your own making?

PM: Look, Kerry, no, no.

KOB: It's almost impossible for any political party in this country today to actually increase taxes substantially.

PM: Let me just make this clear to you. I believe this, that when public sector spending in the 1970s rose under Malcolm Fraser to nearly 31 per cent of GDP, under Malcolm Fraser and John Howard, and revenue rose accordingly, it dislocated private investment in this country. It dislocated employment and that's why in the first seven years after that government there was five times more employment growth than there was in the previous seven years. Now, if the aim of the game is to get people into jobs and to make this place productive, principally that's got to go into private sector investment. I don't believe that a great, I mean, this sort of line which percolates around parts that are left in this country, that basically, they are now using the line 'we've got to be economically efficient, therefore, we'll go back to what we always believed - having a huge, a large anyway, or a larger public sector is the way forward.'

KOB: It includes people in your own Cabinet.

PM: No, it does not include many people. That is the point.

KOB: All right. Can we look now at industrial relations and the first big challenge that you nominated for this term of government was labour market reform. You initially pleased business and angered the unions with the goals that you and your Minister Laurie Brereton articulated. By the time your draft legislation became law, you'd made 140 amendments. The unions were happy and business was angry. Now you've made further changes, but will the package deliver the goods and how will you measure its success over the next year or so? What will your benchmarks be going to the electorate at the next election?

PM: The number of private enterprise agreements. That is, the number of enterprise agreements in the private sector that are undertaken from the time the legislation was introduced until the election.

KOB: Well, what about the quality of those agreements. You can wave around on a piece of paper any number of agreements, but how do you measure the quality of those agreements?

PM: Well, I don't think you can just say that. I mean, here we are now talking about an \$8 a week increase for those who can't access enterprise bargaining and we are talking about it for really, the bottom 20-25 per cent of the workforce. I mean, we are already in a position where the great bulk of the workforce is going to be adjusted by a flexible system of enterprise bargaining and award flexibility courtesy of this Government's changes with the ACTU. And, I think, as we see those proliferate and let me say, some of these State Governments that actually say "oh, hang on, our legislation is better for enterprise flexibility" look at the number already of enterprise agreements in the Federal jurisdiction under our legislation and, say, the number in Victoria or the number in New South Wales. I mean, they are infinitesimal.

KOB: All right, but I come back to the quality and presumably your ultimate goal with all this is increased productivity. Now, labour market economists are talking about an expectation of productivity in the next 12 months of something like 2 per cent. Surely your goal would have to be higher?

PM: But, what employment? I mean, what have we got at the moment - 5 per cent GDP growth and roughly 3 per cent employment growth, or 3 and 1/4, so we've got 2 per cent productivity. If we want more people back in the workforce the standard measures of productivity are always going to drop, always going to drop. But, we've got a more fully employed country. So, what we want is ...

KOB: But, have you got a work force that is competitive, that is seeing boosts in exports ...

PM: Well, with 1 per cent inflation I'd say that's right. With exports, despite the fact that we've got 5 per cent growth, exports are out-pacing imports by 11.2 per cent to about 9.5 per cent. What you'll see, you made the point, will they be good agreements, if that's what you're saying?

KOB: Yes.

PM: Well, that's up to business isn't it? Business has been saying to the Government now for half a dozen years 'let's make the system more flexible'. And we are now saying ...

KOB: You say that's up to business ...

PM: It's up to business and their employees.

KOB: You've got a report coming to you in the next couple of months from a task force which was tasked by your government with measuring the quality of Australian management. They've already issued enough interim reports for you to have a very clear picture of their views of Australian management. Their fundamental view of Australian management is that it is extremely poor, that it is archaic, that it is still operating in the 1950s, that it is too hierarchical, the quality of Australian management is poor. You're saying that you're trusting that management to deliver you quality enterprise agreements.

PM: Well, so, what are you arguing?

KOB: You're saying that you've got no way of measuring the quality of these agreements, it's up to management. And, yet, management, you're being told, is not good.

PM: But, then I say, what are you arguing, we go back to a centralised wage fixing system?

KOB: No, I'm asking you how you're going to measure, as the Government which wants to see these outcomes, how you're going to measure the quality of these agreements.

PM: Kerry, look, opening this economy up, a decade ago has changed the face of Australia, including corporate Australia. The first wave of managers went very quickly. The second wave of managers came on, tottered around the scene and the market cleaned them up. We're into the third wave now and there are some good people there. But, we will continue to take time to make this a more sophisticated management scene, in this country. But, I do believe that there is now a productivity culture out there in business where the good manager spots the

opportunity to lift productivity in the business and to split the higher earnings between profits and wages. Now, I think that's on and you can see it in the numbers and you can see it in the inflation rate and you can see it in the growth numbers.

KOB: We are, of course, rapidly running out of time and I've got far too many things to talk about. On Telecom, I know you've said that Telecom is not on the Government's privatisation agenda but do you also rule out beyond the next election the stripping of Telecom's non core assets? And, if, as Frank Blount, the head of Telecom says, Telecom's core business revenue is going to decline, how will Telecom fund its expansion overseas which is, presumably, the only way it can maintain its place amongst the world's major telecommunications carriers?

PM: Well, as a general policy what we've done is set up a competitive environment for Telecom. We've established a second carrier - Optus has now made substantial market inroads - and one of the things we're doing over the next six to twelve months is looking at the future of telecommunications policy and where we go after 1997 in terms of opening up. So, that's the model. The ownership of Telecom, therefore, isn't especially important other than that it's subject to the competitive disciplines of that particular competitive market place. Now, by and large that's been happening. We've seen a tremendous improvement in productivity, a very large decline in tariffs and, by and large, I think Telecom is finding it can fund itself, it's going in and it's making innovative deals around the place with various private sector organisations.

KOB: So, its ownership is not important?

PM: Well, I think in terms of whether you deliver better services at lower prices, what has been important is the absence of a competitive environment until the government's reforms...

KOB: So, it doesn't matter if it's publicly owned or privately owned?

PM: Not of its essence, no.

KOB: Then why don't you sell it?

PM: Well, it depends what environment the government has chosen. The government has chosen to have Telecom in public ownership and to set up a competitive framework with a duopolist. Now, we are now considering where the duopoly goes after 1997.

KOB: So, its future is a question mark?

PM: Well, Telecom's future is a question mark in that environment. That is, can it be as certain of its future in that environment as it was before, say, 1990? Of course it can't. But in terms of its ownership, though, that's a different question again.

KOB: So, the issue of whether this government might ultimately sell off its non core assets is also an open question?

PM: Oh, no, that's not an open question. I mean...

KOB: You would close off that option?

PM: ...But it depends what a non core asset is. I mean, Telecom has made all sorts of corporate arrangements in the last year or two, so..

KOB: Is it important for Telecom to stay together, as it is now?

PM: Every last little tiny piece of it?

KOB: We're not talking tiny pieces, the substantial elements?

PM: No, every last piece of it? No, it's not. But, as an institution, yes.

KOB: But, if it requires substantial capital funding...

PM: From the Government?

KOB: Capital funding per se.

PM: It's not going to get it. It's not going to get it from the government.

KOB: It's not going to get it from the government. Where does it get it, then?

PM: No, it will be provided by Optus or somebody else. In other words, the market will fund the capital the market needs from some other source. In other words, Telecom will be able to grow at a rate where it can replenish its capital. If it can't grow quickly enough, it will be taken up by other contributors in the market place... In this case, Optus, the resellers of services and any future - we've now got Dataphone - in part, obviously, the capital requirements in the Australian telecommunications market are going to be taken up by other suppliers.

KOB: Your comments to journalists in Paris about whether or not you've become bored with politics, sick of the Opposition, sick of the media and so on have fanned speculation that you've got an almost terminal problem of maintaining consistent interest and energy in politics. I wonder how you address that and perhaps you can tell us exactly what you did say?

PM: Well, there were a dozen journalists there and only one of them took that view, so there you are.

KOB: What were you saying?

PM: We were in...

KOB: It arose because journalists were pursuing, as I understand it, were pursuing the signals that they are hearing within the government ranks about concerns amongst some of your colleagues that you've been privately indicating to people that you are bored.

PM: I've never privately indicated that and it never arose in that context at all. We were in the Australian Ambassador's residence and a little squad of journalists were

taking in the view of Paris and, of course, I got on to one of my subjects, architecture and what have you... and they, sort of, went along nicely from there. Kerry, look, I can't remember a time that has been, for me, better than recently. We won an election; the Opposition said we'd have a double dip recession and a depression; we've got five per cent economic growth; we've got one per cent inflation; we've put through a huge piece of cultural and property law with Mabo; we've now introduced a White Paper, which I think most Western governments would be proud of, to try and reform the labour market; we've made tremendous advances in our reach into Asia and also with APEC, the development of APEC which is developing further and will do in Indonesia in November this year; we've got the whole Council of Australian Governments agenda on competition policy... You know, I don't think I could have, if you had been writing the script back then in March 1993 I don't think it could have been better. And, perhaps I illustrated this best by my cracker night analogy in Brisbane recently...

KOB: OK...

PM: ...Where I didn't think I sounded bored at all.

KOB: There's a dangerous political acceptance...

PM: Can I just interrupt you and say, though, that in the cracker night analogy, of course, I never even mentioned Alexander Downer, I never even gave him Tom Thumb status at the time.

KOB: Well, he snuk up on you, didn't he? There is a perception amongst some of your colleagues that you'll go some time in the next term. But, that, of course, does give the Opposition more scope their aura of instability coming up to the next election. Are you committed...

PM: The Opposition developing their aura of instability? Let me just get...

KOB: Are you committed to serving another full term after this one?

PM: The answer is, I am. I am. But, the Opposition which has John Howard, Andrew Peacock, John Hewson, two deputy leaders, Peter Reith and the former deputy, all sitting on the front bench along with two other leaders and two fizzers, McLachlan and Bishop and they're talking about instability?

KOB: Yes, but it's a new ball game with the Opposition now, isn't it? And, even though the poll figures that we've had in the past few weeks would reflect, to some extent, a honeymoon, that immediate sharp lift in their stocks and drop in yours, surely, was a strong knee jerk message from the electorate that a lot of people out there would still like to give you... They'd still like the luxury of giving you a kick in the teeth, figuratively, of course, that the only thing holding them back was their rejection of John Hewson's damaged leadership and that Alexander Downer is going to be a much tougher target for you to hit?

PM: Do you really believe that, Kerry? Do you really believe that?

KOB: Well, he's been doing pretty well so far.

- PM: Has he? I mean, he said he was for clean politics, his first utterance against me was that he wanted me to clean up my act...
- KOB: But this is your critique of him compared to public perception of him.
- PM: ...No, no, he jumped straight in to prostitution with MPs in Parliament and encouraged - he became the Sultan of Sleaze within about two weeks. Then he said he was in favour of blocking off foreign investment in this country. Can you imagine it, with a current account deficit of \$16 billion, with us going out to the rest of the world, he's opposed to us investing in other parts of the world. I mean, this is someone who was telling us a year earlier that we ought to open the flood gates and remove the Foreign Investment Review Board. I mean, this chap will say anything, anywhere.
- KOB: And you're not going to acknowledge...
- PM: If you think I've got a problem with that, Kerry, it's like hitting balls coming in slow motion.
- KOB: On the republic, how long can you sustain the debate without saying anything new, without starting to come to grips with the substantial debate, I mean, where do you expect to take the debate between now and the next election?
- PM: I expect to take it to a referendum sometime between now and the year 2000, 2001. That's where I said we'd take it, at the last election, that's where we will take it. And, all these people who want to run backwards - there they were the other night, the monarchists, singing the song, the anthem of another country, including the leader of the National Party, God save the Queen, there he was, clinking his glass...
- KOB: Yes, but, this is still at the rhetoric end, isn't it? I mean, at some point you've got to develop your line on the republic to the next stage. When do you do that? How do you hold off from giving people a more substantial signal about where you want to go?
- PM: Well, what we're doing at the moment is considering the report which Mr Turnbull and his committee prepared for us and for the public. We're wading through those issues and we're looking at, first of all, getting some testing of opinion and how and in what way our institutions ought to be shaped for Australia to become a republic. It will be very direct, well thought through, forensic, so don't have any doubt about that. But, again, all in good time.
- KOB: I'm jettisoning questions all over the place, here. Bob Hawke's book is due out in the next few months and I understand that he's already indicated semi privately that it includes material that could damage your prime ministership. I believe he recounts in the book his version of your private conversation with him after that...
- PM: He told Malcolm Fraser and Malcolm told me and he's told you and...
- KOB: ...That he expects, according to Malcolm Fraser, that he expects that there will be material in that book that will bring down your prime ministership. And, I believe, that he recounts in the book his version of that conversation that took place

between you and he after the famous Placido Domingo speech in which, he says, you referred to Australia as 'the arse end of the earth'. Did you say that, and if you did, what were you saying about your attitude and your commitment to Australia?

PM: Kerry, I've been in public life, at the end of this year, 25 years. I've served 11 as a minister and over two as prime minister. I was amongst the group that changed Australia from the Rip van Winkle years of Menzies when Australia was shut up behind tariff barriers under do nothing Coalition governments, the government that gave Australia a future in the Asia-Pacific and has remodelled it as no one could have expected a decade ago. That's my commitment to Australia and if anybody doubts that - I mean, I don't believe one can exercise that kind of energy and pride in this country and have any doubts about one's commitment to it.

KOB: But, did you in that conversation refer to Australia as the arse end of the earth?

PM: If Bob's got a book... Let's wait and see what his book says.

KOB: The point is, if he makes that stick, if enough people in this country believe that you described Australia as the arse end of the earth do you acknowledge that that is, potentially, very damaging, politically, for you?

PM: Kerry, I don't know what's in the book but I've always made it clear to my colleagues, when we're way out of the world trading milieu, away from the flux of the Northern Hemisphere, as an island continent in the South Pacific, we're always going to have to do better. I've always told them that, always.

KOB: Well, we're well out of time, thanks very much for joining us.

PM: Good.

ends.