

## **Election Debate: John Howard, Prime Minister (LP) and Kevin Rudd, Opposition Leader (ALP)**

***Great Hall, Parliament House Canberra, 21 October 2007***

DAVID SPEERS: Welcome to the Great Hall of Parliament House in the nation's capital for this National Press Club election leaders' debate. I'm David Speers, political editor of Sky News. Please welcome Prime Minister John Howard and Opposition Leader, Kevin Rudd.

Gentlemen, good evening. We also have five senior journalists with us tonight, Peter Hartcher from the 'Sydney Morning Herald', Laurie Oakes from the Nine Network, Allison Carabine from Radio 2UE, Paul Kelly from News Limited and Chris Uhlmann from the ABC and we have a big audience invited by Liberal and Labor in exactly equal number.

They are here to observe, not to take part. The two leaders and their parties have agreed on the rules for this debate. We hope it will be fair and balanced but also a genuine debate tonight, not just prepared speeches, giving you at home a chance to decide who should lead Australia over the next three years.

After opening statements, we'll move into some free-flowing discussion. Then we'll take questions from our journalists and, before the closing statements, the two leaders will have an opportunity to question each other, which should be very interesting.

The Prime Minister won the coin toss and has elected to speak second, sending Mr Rudd into bat first. Mr Rudd, your two-minute opening statement.

KEVIN RUDD: Thanks, David. Mr Howard, ladies and gentlemen. This election is about the future. It's about the future of our families and the future of the nation and the case I'm putting to the Australian people tonight is that Australia now leads new leadership for the future.

Mr Howard has said that working families have never been better off.

I disagree with him and I disagree with him fundamentally because the working families that I talk to right across this country of ours say to me, they're under real financial pressure, from rising interest rate payment on their mortgages, from soaring rents, soaring grocery prices, petrol prices and, of course, the cost of childcare as well.

But these same working families are also saying that they have deep concerns about the future of the nation as well. They're looking for a new direction and that's why there is a stark choice - either a new direction under new leadership from myself, or a continuation of the same under Mr Howard.

If elected, I intend to take our nation in a new direction. I intend, if elected, to abolish WorkChoices. If elected, I will act on climate change by ratifying Kyoto. If elected, I will act on the housing affordability crisis.

If elected, I will act on the childcare affordability crisis. If elected, I will implement an education revolution. I will take responsibility for our nation's hospitals and end the buck-passing.

And I will implement an exit strategy for our combat forces from Iraq. These are important measures. The greatest risk which our nation faces is this - the Coalition being returned to office and nothing, repeat nothing, changes.

No action on climate change, no action on our hospitals, no action on our schools and no action to help working families under financial pressure. Except one thing changes - Mr Howard has said that he will hand over to Mr Costello as prime minister, without Mr Costello facing the Australian people.

But Mr Costello will make WorkChoices even harsher. I conclude with this. Right now - I've put before the Australian people a long-term plan for the nation's future. I fear Mr Howard has put before them a short-term strategy to win the election.

I submit new leadership for the nation's future.

DAVID SPEERS: Thank you Mr Rudd. Mr Howard, your opening statement.

JOHN HOWARD: My fellow Australians, I agree with Mr Rudd on one thing, and that is this election is about the future of our nation. But my view of the future is very different from Mr Rudd's, and it is based upon the fact that I have a fundamentally optimistic view about Australia's future, whereas Mr Rudd has a fundamentally pessimistic view about our future.

See, Mr Rudd believes that our current prosperity as a nation is entirely due to the resources boom. Whereas, I believe that our current prosperity as a nation is due to the fact that, over the past 10 to 20 years, we have built in Australia a new society.

We've built a society based on greater risk-taking, on more entrepreneurial flare, a society that has been built on the efforts and rewarded the hard work of millions of Australians, of men and women in small business that have mortgaged their houses and have taken risks and employed Australians by their tens of thousands.

I believe that what we have done over the past 10 or 20 years is to bring about a unique blending of all the good things of the old Australia, the fair go, but we've also embraced a new mood, a new optimistic mood.

And I believe we are strong and prosperous as a nation because we have been courageous and dedicated in undertaking economic reforms.

But in the process, we haven't thrown out the fair go. For example, Australia has the second highest minimum wage of any of the developed countries in the world. It is wrong to say that Australia's prosperity is due entirely to the mining boom.

Growth is more widespread than the mining industry. The fall in unemployment has been across the board and it's quite wrong of Mr Rudd and his colleagues, every time there's a magnificent unemployment figure reinforcing the fact that we have a 33-year low in unemployment, to say it's all due to the mining boom.

That sells short. It insults the achievements of millions of Australians over the past 10 to 20 years.

DAVID SPEERS: Mr Howard, you have two minutes.

JOHN HOWARD: And what we need to do is preserve what we have achieved. We can't turn backwards. We can't lose our commitment to growth. We should not be frightened of growth. We should embrace it and we should maintain policies that continue growing Australia. We must maintain our economic reforms and we must seek to drive unemployment even lower than it is now.

DAVID SPEERS: OK, Mr Howard, we'll have to leave it there and move on. Let's get into some real debate now. A chance for some free-flowing discussion. Before we do move to our journalists' questions. Mr Howard, you are the second-longest serving Prime Minister in Australian history. You've been in the job a long time, 11.5 years, a lot of Australians are saying it's time to give someone else a go. Isn't there some merit in the idea of fresh leadership?

JOHN HOWARD: Well, only if it's better and if it's fresh. I don't think it's better to turn backwards on the reforms we've undertaken over the past few years.

You see, Mr Rudd is talking a lot about new leadership, yet his ideas are very old. I mean he essentially has a Donald Horne lucky-country view of Australia. He thinks that it's all due to providence having given us resources and nothing else that we are successful despite ourselves.

Well, I think that is a very pessimistic view of Australia. The other old view he has is that he wants to return control of workplace relations to the union movement. Now, I believe trade unions have a legitimate role in Australian society but I don't think it should be a controlling role.

And I think it's a very old, outdated idea to bring back an industrial relations system that would return a monopoly of the bargaining process in our workplaces to the trade union movement when only 15 percent of the private sector workforce of this nation belongs to a trade union.

DAVID SPEERS: Mr Rudd, a response to that?

KEVIN RUDD: Well, Mr Howard says that, um, the achievements in the national economy - by implication - are because of the achievements of his Government and the achievements of those within the country as well who are working hard in their jobs.

When I travel across this country, I find a spirit of enterprise and enthusiasm and that's why I'm an optimist about Australia's future as well. But I'm also a realist and when Mr Howard talks about record levels of growth, he ignores the fact that, right now, globally, we're experiencing record levels of growth.

Mr Howard will soon talk about the level of unemployment in Australia, but won't mention the fact that, globally, the unemployment level is coming down and is now at record lows since the series was first collected.

You see, these global factors impact hugely. The rise of China, the rise of India in our own neighbourhood, the governor of the Reserve Bank has told us that percentage of our gross national income is coming directly out of the resources boom. That's \$80

billion. But here's the challenge - with all that money, why haven't we invested it more wisely?

That has produced, according to Saul Eslake of the ANZ, \$380 billion of extra revenue to the Commonwealth, but where's the investment in the future, where's the investment in dealing with climate change and water? Where's the investment in our education system to make it the best in the world? Where's the investment in our national hospitals?

My charge is this - these opportunities have been squandered by the Government and the resources boom has given us a great opportunity to build a long-term future for Australia and that's why I submit we need new leadership.

DAVID SPEERS: Mr Rudd, let me put a question to you. Most people would agree the economy is in pretty good shape. Now, despite your talk of new leadership or fresh leadership, you are agreeing with a lot of the Prime Minister's ideas, most recently tax. So why should we risk throwing out a Government with a proven record when you seem to agree with a lot of the things they do?

KEVIN RUDD: Well, the question of macro economic policy, I've always said I'm an economic conservative. That means Budget surpluses. It means ensuring the independence of the Reserve Bank and it means ensuring it's the continuation of its inflation-targeting regime.

Why? To keep downward pressure on interest rates. But you know something? Economic management goes beyond that and it goes to the question of how do you build long-term prosperity for when the mining boom is over?

You see this mining boom we're having at the moment, we're already told in a research paper from the Reserve Bank there've only been two like it in the last century in Australia's history and we know from economic history that one day it comes to an end. So the big question for responsible national leadership is how do you prepare for that day?

And where do we differ? We want to invest in an education revolution to equip our young people with the skills necessary for the future, invest in a high-speed broad band network, the information highway of the 21st century, and invest also to make sure that we are dealing with the critical challenges of climate change and water, because, if we don't act there, the impact economically on the nation is huge.

So you ask where the differences lie? They lie in each of those categories and the differences are stark.

DAVID SPEERS: Prime Minister, a response to that?

JOHN HOWARD: Well, could I just say in reply to Mr Rudd that being an economic conservative is more than a slogan in a TV advertisement.

It's actually believing in things, both in Government and in Opposition. And it's voting for things that represent economic conservatism or sensible economic policy. Mr Rudd says he's an economic conservative.

He wants you to believe now, on the eve of an election, that he would keep the Budget in balance, yet he voted against that as a member of the Opposition. One of his first acts when he came into Parliament in 1998 was to vote against a tax break for private health insurance.

He voted against taxation reform. He said it was fundamentally unjust. He voted against welfare-to-work reform. He's voted against all the major reforms that this Government has put up. By contrast, when I was in Opposition, and sensible economic reforms like tariff reform and financial deregulation, were put forward by the Hawke and Keating governments, I supported it, because I actually believe in economic reform.

I've believed in it all of my parliamentary life. Mr Rudd is an election-eve convert to responsible economic management, because he knows that he has to persuade the Australian people that he would balance the books and be a sensible manager of money.

Well, he didn't do very well with his tax policy on Friday, which, when analysed by Peter Costello, who is here with me tonight, displayed a situation where average families would be \$600 a year worse off under his policy than they will be under ours. So I say to Mr Rudd economic conservatism is understanding tax, it's understanding economics and it's practising what you preach and not just announcing a glib slogan in a slick TV advertisement.

DAVID SPEERS: OK, we will get into the tax issue a little later so, Mr Rudd, you'll have your opportunity to respond on that particular point. Mr Howard, a question to you and Mr Rudd referred to it in his opening statement - it's the one of leadership. Now, you have said that you will go after the next election, should you win. But you can't guarantee who will take over as prime minister. We all know that, in leadership questions, nothing is certain. So isn't a vote for the Coalition a vote for the unknown?

JOHN HOWARD: No, it's not. Look, it's obvious to me and it's obvious to all of my colleagues that Peter Costello will succeed me, well into my next term, if the Government is returned.

See, one of the differences between me and Mr Rudd is that I have a fantastic team and most of them are here tonight. And I can say with certainty that we have worked as a team over the last 11.5 years.

I mean, Peter Costello and I, together, have worked on building the Australian economy. Alexander Downer as Foreign Minister has been at my side through all the challenges and travails of terrorism and all the very big challenges on foreign affairs and defence that we've had over that period of time. But, look, I am being very forthright about my future.

I'm saying to the Australian people that, if I am returned, there will be a transition and that transition will be to Peter Costello and he's done a wonderful job in managing the Australian economy over the last 11.5 years.

But what is important is that there will be a continuity of policy and the reason there'll be a continuity of policy is that we are true believers in fiscal conservatism, in steady

economic policy. We are committed to growth policies. We haven't just embraced them as some kind of election-eve carrot.

DAVID SPEERS: We'll have to move it on. A response quickly to that, Mr Rudd?

KEVIN RUDD: On the question of economic conservatism, let's go to the authority of Ian Macfarlane, a former governor of the Reserve Bank. read his Boyer lectures. He said, last time I looked Ian's not a member of the Labor Party, he said there's a bipartisan consensus of the disciplines of ensuring we maintain budget surpluses and ensuring the independence of the Reserve Bank is maintained.

Mr Howard referred before, to my record in terms of demonstrating whether I'm an economic conservative. Mr Howard's record makes interesting read on this as well. Mr Howard when you were treasurer of this country, four of the five budgets that you were responsible for, were budget deficits.

When you were treasurer, interest rates reached 22percent. When you were treasurer, unemployment was 10.4percent. When you were treasurer, inflation reached 11.4percent. When you were treasurer, there were serious problems in terms of the recession, a recession which went deeper than the one a decade later in the early '90s. If we're going to talk about credentials and experience to demonstrate our economic conservatism, Mr Howard, let's put all the facts on the table.

DAVID SPEERS: Mr Rudd, the union issue has to be addressed by Labor. In the Australian workforce union membership has fallen to 20percent. In your party, every MP has to be a union member and your frontbench is made up of a lot of former trade union officials. Can you tell us here tonight that that's not out of whack with community standards?

KEVIN RUDD: Well, I tell you what's a bit out of whack with community standards, as Mr Howard referred to his Cabinet before, seven out of ten of Mr Howard's Cabinet are either lawyers or former Liberal Party staffers.

I mean, if something is out of whack in terms of an unrepresentative group of the community, a cocktail of lawyers and Liberal Party staffers would have to be high up the list.

To go back to the question of unions, on seven out of ten, given this is the number in vogue, last time I looked on the question of support of Mr Howard's Cabinet and the future leadership question involving Peter Costello over there, 7 out of 10 of Mr Howard's Cabinet ministers, a month or so when APEC was on, seemed to want him to go.

On the question of unions, I'm proud of the team that I lead. They're a great bunch of people. They've got a range of experience. I've have people who have been university lecturers, economists, people who have acted as small business operators, a former rock star, myself, an unemployed diplomat who speaks Chinese.

We have people who have experience in local government right across the spectrum. And sure, there are people who have worked in trade unions, and when it comes to

trade unions and I look at the experience of people like Bernie Banton in the James Hardie case, where did he go for help and support when his employers let him down? They went to Greg Combet. They went to the union to try and get justice when justice was denied. so I'm proud of the work which those representing working families have delivered for those in need.

DAVID SPEERS: Mr Howard, your response to that?

JOHN HOWARD: Well, the reality is that lawyers vote both Labor and Liberal and to suggest there's some comparison between the fact that I've got a few lawyers on my frontbench and the fact that 70percent of your ministry, if you become prime minister, Mr Rudd, will be former trade union officials, is completely felicitous.

I haven't found too many trade union officials who openly support the Liberal Party. They wouldn't be game to because they'd be intimidated within their own union.

I haven't found too many unions that give equal financial support to the Liberal Party and the Labor Party, so the comparison, Mr Rudd, with great respect, is quite pathetic.

The truth is that 70percent of your ministry, if you were to be elected prime minister, would be former trade union officials and, on top of that, if you were to be elected prime minister, we would have Labor Governments at every level in Australia.

You'd have a Federal Labor Government dominated by trade union officials on top of eight State and Territory Labor Governments. I think that would remove all the great checks and balances that we need in our democratic federal system. I think it would be unbalanced.

And I think it would be bad for the overall governance of our nation.

DAVID SPEERS: Let's move on and get some questions from our panel of journalists. We'll start with Allison Carrabine.

ALLISON CARABINE: A question to you on the economy and the cost of living. Australia is enjoying a golden age, 17 continuous years of economic growth but many households are missing out on the benefits of the boom. Families are facing financial pressures. If you are re-elected Prime Minister, what are your plans to ease those cost-of-living burdens in the areas of housing and childcare and would you match Labor's pledge to increase the childcare rebate to 50percent?

JOHN HOWARD: Allison, I know that Australian families are facing financial pressure. I understand there are cost-of-living pressures. and whilst it is true that generically we are a very prosperous nation, there are cost of living pressures. That is why they produced a comprehensive tax reform plan.

The plan, incidentally, that has been adopted as to nine-tenths by Mr Rudd himself. We looked at the pressure on working families in relation to mortgages, child care and other expenses and we decided that the best thing to do was to give general taxation relief and say to families, "Here's some extra money" - and this incidentally is on top

of five successive budgets in which personal income tax has been cut - we've said, "Here's some extra money. You decide how best you are going to spend it.

You decide how best you are going to relieve your cost-of-living pressures," rather than the Government saying, "We have decided as the Government, as the all-wise Federal Government, that this is the one area where your cost-of-living pressure is going to be relieved."

And we think that is a far better approach. As to some of the other issues you mentioned, we will, if I can borrow a phrase of Mr Rudd's, in due season, we will unleash policies in a number of other areas, particularly in relation to childcare and education, which will additionally address some of the cost of living pressures in those areas.

DAVID SPEERS: Mr Rudd, your response?

KEVIN RUDD: On the question of, um, Mr Howard just made reference to tax and how it affects working families - what I can't understand, Mr Howard, in terms of the proposal which you and Mr Costello put out the other day, is why people earning \$180,000 a year plus are deserving of a \$3 billion tax cut right now when there are so many other pressures facing working families.

What have we done in response to that? What we said was - and we found this in our experience right across the country - working families having to fork out to pay for basic things like computer costs, laptops, soft ware, here's an education tax refund, \$2.3 billion, whereby you will get a 50percent rebate for expenses of up to \$750 or \$1,500, depending on whether the kid is in primary school or high school.

That I think is where so much of the assistance needs to be and I note Mr Howard didn't answer the question put by Allison about what we've done today, which is to announce a tax rebate of 50percent for childcare.

Childcare costs went up 12.8percent last year. Ask working families where pressures lie, that's a big part of it. Putting the two measures together - the assistance through an education tax refund and an increase in the childcare tax rebate to 50percent and a cap now of \$7,500, that's putting several thousand dollars extra into the family budget because, let me tell you, they are under pressure and, unlike Mr Howard, we don't support the view that they've never been better off.

DAVID SPEERS: Allison, your question to Mr Rudd.

ALLISON CARABINE: Mr Rudd, there is a strong chance that the Reserve Bank will lift interest rates early next month. Nothing you've announced so far will influence their decision.

If you're elected Prime Minister, you're promising fairly major spending initiatives, the \$34 billion in tax cuts - won't you be making it much more difficult for the Reserve Bank to keep a lid on interest rates thanks to your spending promises?

KEVIN RUDD: When it comes to spending promises when this election is done and dusted, our spending promises will be more modest which are offered by those opposite.

The second thing is, if you look at repeated statements by the Bank and others about how you assist them do their job, it's done in part by investing in some of the capacity constraints in the economy.

Why does Labor believe so passionately investing in education, skills and training - it's not just because we believe that it's good for giving working kids a decent start in life. It actually adds the capacity you need out there in the economy.

There are skills shortages in WA and right over the place and skills shortages ultimately translate into inflationary pressures and similarly with infrastructure challenges as well. And that's where we represent a fundamental difference to Mr Howard's Government. We have a significant program of investment in both those two areas which aid capacity constraints and therefore take the pressure off inflation.

ALLISON CARABINE: Does that mean no interest rate rises under a Rudd Labor Government?

KEVIN RUDD: I'd like to level with the Australian people on this. It was completely wrong of Mr Howard to say at the last election that he would keep interest rates at record lows. Since then, interest rates have gone up five times and if you're a first home-buyer, out there with a mortgage of \$240,000 a year, those five broken promises add up to something like an extra \$2,000 a year in mortgage payments so it's irresponsible to make that promise because I've already said we believe in the independence of the Reserve Bank.

What do governments do to assist? Through fiscal policy and through policies and investment in capacity building like skills and infrastructure, you make the job of monetary policy easier for the bank. That's where it lies, to keep downward pressure on interest rates and to keep interest rates as low as possible.

DAVID SPEERS: Mr Howard, your follow-up on interest rates, if you will?

JOHN HOWARD: Well, if Mr Rudd believes that the role of government is to make the monetary policy responsibility of the Reserve Bank as easy as possible, why on earth did he consistently vote against measures that reduced or rather increased the budget surplus?

Because one of the ways in which you help the Reserve Bank manage monetary policy is to run a strong surplus. And everyone knows that Labor Governments equal budget deficits and everyone knows that Liberal Governments equal budget surpluses. And in the time that Mr Rudd that is been in parliament, he and his Labor colleagues have consistently voted against measures that have been designed to improve the fiscal position of the budget and thereby take interest rate pressure and therefore heavy responsibility away from the Reserve Bank.

And more specifically, on the issue of interest rates, I am very happy any time to compare the interest rate record of the Coalition Government with that of the former Labor Government and there's one interest rate figure that is seared in the memory of most Australian families and that is the level of 17percent on housing interest rates that was reached during the Hawke-Keating years.

Under my government, interest rates on housing on average have been four to five percentage points below what they were under the former Labor Government and the industrial relations policy that Mr Rudd is taking to the coming election, because it will recentralise wage-fixing.

Will lead to upwards pressure on wages and therefore upward pressure on inflation that will produce higher interest rates and that demonstrates the validity of my proposition that interest rates under the Coalition will always be lower than under a Labor Government.

DAVID SPEERS: Before we leave the interest rates issue, Prime Minister, if I could ask you - at the lax election, the Liberals did promise to keep interest rates at record lows. Will you tonight apologise to home-buyers for the five rate rises that have happened since then?

JOHN HOWARD: Look, as the head of the Government, can I say to my fellow Australians I accept responsibility for any criticisms that you might legitimately have of my government.

Unlike Mr Rudd, if something goes wrong, I don't blame the media, I don't blame my staff and I don't blame my shadow ministers. I actually believe in the principle of prime ministerial accountability and I will take my lumps. But can I say to my fellow Australians, look at the record. Remember the 17percent. Remember the 21percent for small business. And also bear in mind that, since we have been in government, on average, interest rates for housing, which are now, what, the standard rate is 8.3percent, which is half of what it was at 17percent.

They've been persistently lower than they were under the former Labor government.

DAVID SPEERS: OK, our next question is from Paul Kelly.

PAUL KELLY: My question is to Mr Howard about tax and it's really about how much your Government is learning about taxation and interest rates. Since 2002, we've had nine successive interest rate increases, nine of them.

And virtually every year, your Government has cut tax. Now you're proposing a further tax cut of \$34 billion into the economy, a very strong economy, with demand running very strongly.

The effect of this must be to increase upward pressure on interest rates. So my question is, to what extent do you take responsibility for your policies in the past contributing to interest rate increases?

And to what extent do you concede that this tax package that you've brought down must run the risk of further interest rate increases over the course of the next term?

JOHN HOWARD: Well, Paul, the principal driver of higher interest rates is higher inflation. And in and of themselves, reductions in taxation, are not inflationary, provided they are affordable and they still leave a very strong Budget surplus.

Fortunately, we are in the position that because the economy has grown strongly, we can provide Australian families with taxation relief. And these taxation cuts are, in my view, not inflationary, and the reason they're not inflationary is they are given in an environment where, because of our industrial relations changes, the strong wage increases in the very profitable sectors of the economy or the ultra-profitable sectors, such as the mining industry, do not flow through automatically to other sectors of the economy.

Now, if they were given in the kind of industrial relations environment that Mr Rudd is arguing for, a more centralised industrial relations system, then they might well have the consequence to which you have alluded to in your question.

You see, the benefits of having a freer industrial relations system mean that you can have very high wages paid in the mining industry and those wages don't automatically flow through into other sectors of the economy, thereby pushing up wages in those unaffordable sectors, which, in turn, leads to higher inflation, and puts upward pressure on interest rates.

You have to look very much at the economic environment in which taxation cuts are delivered. Now, I think it's only there that people should get back some return from the much stronger and bigger budget surpluses.

PAUL KELLY: But just on that point, Mr Howard, I mean, the bias of the bank is towards a further tightening. The bias of the Bank is towards further increases in interest rates. Now, given the demand which these tax cuts will further put into the economy, are you prepared, are you prepared on economic grounds, to reconsider if need be?

JOHN HOWARD: What? The tax cuts?

PAUL KELLY: Yes.

JOHN HOWARD: No, I think the tax cuts are imminently responsible and to the extent that they meet some of the cost-of-living pressures of Australians, they will dampen wage demands that might otherwise be much stronger because of those cost-of-living pressures.

So you can't look at tax cuts in isolation from other things that occur in the economy. And so say to the average Australian family, "We have an enormous Budget surplus and we're going to, in their eyes hoard it and not hand any of it back to them, despite the fact that, even in this very strong economy there are cost-of-living pressures is to be unrealistic and is to misunderstand the incentives and the attitude of average Australians.

DAVID SPEERS: Mr Howard we need to move it on. Mr Rudd, your response?

KEVIN RUDD: Well, I notice there are two arguments put forward by Mr Howard before. One was concerning interest rates and them always being higher under Labor. 22percent interest rates when Mr Howard was treasurer of this country, the highest interest rates that we'd seen since the war.

Let's just put all that into context. The second is, he's claimed that Labor produces routinely budget deficits. Mr Howard, when you were treasurer of Australia, you produced five budgets.

Four of them were deficits. Let's have some honesty on the table here. Let's get the record straight. We have all learned from the mistakes of the past. Labor's made mistakes in the past and I dare say you made some mistakes in the past when you were treasurer.

In fact, your current Treasurer, in the interviews that he gave in the biography on you, recently said that you had a bad record on interest rates and a bad record when it came to maintaining public sector surpluses.

On the key question here, the job is to ensure that you do through fiscal policy and other instruments of policy, like skills formation and like infrastructure development, to aid the work of the Bank.

The Bank and others have pleaded for a long, long time for governments to rise to the challenge of doing something on the skills shortage and those calls from the Bank have gone unheeded and unresponded to by the Government.

We have a plan to deal with these things. It's a positive plan, aimed at enhancing productivity growth through an education revolution, providing high-speed broad band to the country, right across urban and rural areas, to make sure that we've got an economy equipped for the 21st century.

DAVID SPEERS: Paul, your question to Mr Rudd.

PAUL KELLY: On your tax policy, Mr Rudd, you've gone 90percent of the way with the Howard-Costello policy. You're providing a \$31 billion tax cut and you're putting \$2.3 billion into your education refund. \$31 billion against \$2.2 billion.

Don't you agree that, in politics, priority is determined by dollars? Aren't you running a tax revolution, not an education revolution? And isn't it a fact, when you look at where the dollars go, that education is a poor second priority for you?

KEVIN RUDD: I think when you look at the education revolution, Paul, and put together the range of measures that we've outlined, it represents a huge additional effort relative to what Mr Howard's Government has done over 11 long years. Let me just go through them. We have a \$2.5 billion plan out there to create state-of-the-art in every one of Australia's 2,650 secondary schools.

We have a \$500 million plan to ensure we have early childhood education available for every 4-year-old in the country and Mr Howard's minister said she wasn't interested in providing any such funding, pre-literacy, pre-numeracy.

And we've announced a \$2.3 billion plan, education tax refunds, to encourage parents to invest in their kids' skills for the future of the digital economy. This is the essence of an education revolution. It is where you put your resources, because none of those I've just referred to have been matched by Mr Howard and by contrast the only Government in the OECD in the period 1996 to 2004 to have disinvested in universities to the tune of 7percent, when the rest of the world invested to the tune of 48percent.

Mr Howard takes our education system in the wrong direction. It needs surgery. We're taking it in the right direction and I go back to my question which Mr Howard didn't answer before - why is \$3 billion worth of tax cuts for folk like himself and myself earning more than \$180,000 a year - more important than putting that money into, one, investing in an education revolution, and, two, indicating that some of that money would also flow to our national hospital reform plan to bring down elective surgery waiting times across the country.

JOHN HOWARD: You mentioned that OECD report. That does not take account of the HECS arrangement and it does not include the most recent measures in the last budget in relation to the higher education fund and it does not include some of the most recent investments in technical education that have been made by my Government. Mr Rudd knows that he should not have endeavoured to use that as a rather dishonest debating point.

KEVIN RUDD: But you've been in for 11 years. These changes are in two and three years.

JOHN HOWARD: No, Mr Rudd, I corrected your improper use of that OECD report and talking about 11 years does not change the fact that you're trying to mislead the Australian public.

KEVIN RUDD: Your officials are represented in the OECD. If there was a grave problem, I would have thought they'd put forward additional information to the OECD.

JOHN HOWARD: That's pathetic. You were wrong, you knew it and shouldn't have said it.

KEVIN RUDD: I stand by everything the OECD have said. It's not the Labor Party.

DAVID SPEERS: Gentlemen, I think we might be losing the point here. Let's move to the next questioner, Laurie Oakes.

LAURIE OAKES: I'll lead off with a question to Mr Rudd. The unions have spent a massive amount of money on anti-WorkChoices to try and get you elected.

They've got hundreds of people working and campaigning full-time in 22 marginal electorates on behalf Labor candidates.

If Labor wins the election, won't you owe the unions big time and doesn't that give voters cause to be concerned in the influence of unions, particularly in industrial relations policy?

KEVIN RUDD: If I'm elected to be the next prime minister of Australia, I'll govern in the national interest and the national interest means you don't make concessions to one interest group or another.

That includes trade unions. It includes big business. It includes a whole bunch of other groups out there, as well. When it came to framing our industrial relations policy and getting the balance right, between fairness and flexibility for working families. I'm the first to concede in this gathering - that's a tough call.

It's really hard because obviously people have deep interests and deep passions. We believe we came up with the right balance. If you looked at some of the reaction from trade unions when we put forward, Julia Gillard and I, our final policy for implementation on industrial relations, it didn't lead to universal rounds of applause on the part of key representatives of the trade union movement.

That's just a fact. If elected, I'll govern in the national interest. I'll add one footnote - Mr Howard has raised the union word about 67,000 times in the last week.

When I look back at the history of great economic reform in this country in the period from '83 to '96, when this country's entire economic orientation was turned on its head, internationalising the economy, floating the dollar, opening up our country through bringing down tariff protection, implementing national competition policy, it happened to be two former trade unionists who did that as prime minister.

One, in fact, actually headed the trade union movement. Taking this economy from the schlerotic state it had reached when Mr Howard was treasurer in the early '80s into a position of being where we could navigate the Asian financial crisis in 1997 and 1998 because of the flexibility that those reforms had brought about.

And brought about by, brought about two leaders who themselves were trade unionist leaders, one a leader himself, Bob Hawke.

DAVID SPEERS: Before I get the Prime Minister's response, just a reminder to the audience to keep the remarks to yourself until the end of the broadcast.

KEVIN RUDD: Were you reprimanding the Treasurer then?

DAVID SPEERS: No, just a reminder of the rules to all present. Mr Howard, your response.

JOHN HOWARD: It is true that some economic reforms were carried out by the Hawke-Keating Government and it's also true that I strongly supported them in Opposition, unlike Mr Rudd who strongly opposed all of our major economic reforms. But it's also true that there were actually some people in the Hawke government who knew something about business.

There were a couple of his ministers, like Barry Cohen and John Brown, who actually ran businesses. Now, that's in stark contrast to the current frontbench of the Australian Labor Party.

See, this is what is wrong. As the level of union membership has declined from the Hawke years, the number of former union officials has risen. And the whole thing is completely out of whack. I mean they had a former farmer called Gavin O' Connor who was the Labor member for Corio and they threw him out and replaced him with the assistant secretary of the ACTU.

I don't object in any way to unionists being in parliament. There should be a fair percentage, and there always have been and there always will be, but it's a question of balance and, in an era where 15percent of the private sector workforce of this country are former trade union officials, it is completely unbalanced to have 70percent of your potential ministry as former trade union officials and I think the Australian public have a right to be concerned about that. That's our argument.

DAVID SPEERS: Laurie, your next question.

LAURIE OAKES: Mr Howard, my question to you is major IR reformat an end? The reason I ask that is the treasurer, Peter Costello, in 2005, raised the possibility that all businesses, not just small businesses with fewer than 100 employees, might be exempted from unfair dismissal provisions in the future. He said there was no magic number 100 and if the present system was a success, he'd be very open to the idea that it should be extended to all businesses.

And your Finance Minister and government Senate leader Nick Minchin said at an HR society conference last year that he begged forgiveness because the work choices laws didn't go further.

There should be another wave of industrial relations reform he said and that should take in awards and the Industrial Relations Commission. In light of those comments, isn't it natural that there's some submission abroad that if you're elected there will be further major IR changes?

JOHN HOWARD: Well, there should be no concern. I have made it clear, and they have made it clear, subsequently, that there is absolutely no intention of further IR reform. We believe that we have got the balance right. And we believe that getting rid of the unfair dismissal laws for firms with fewer than 100 employees struck the right balance. We believe that having a national system struck the right balance.

You see why we believe in these reforms is that they have been good for the economy. When they were brought in, we were told by the Labor Party and the union movement that the sky would fall in.

Since WorkChoices was introduced, we've had 430,000 more employees, something like 85percent of them have been full-time. Wages after cost-of-living increases have continued to go up and we now have fewer strikes in Australia at any time since 1913, a year before World War I broke out. And our whole design with WorkChoices was to underpin further growth in the Australian economy and that is why we believe in it. It wasn't easy.

It was heavily criticised. It's still being heavily attacked by the union movement but the general evidence indicates that WorkChoices has been successful and it's been good for the economy.

It's been good for growth and it's very interesting, you know, the only political party that ever talks about unemployment now is the Liberal Party or the Liberal and National parties. There was a time when the Labor Party and the union movements had as its Holy Grail full employment in this country.

They no longer talk about full employment because, to them, union control of the workplace relations system is more important than reducing unemployment. The Holy Grail now being pursued in relation to full employment is being pursued by the Liberal and National parties. We are the party of full employment. The old Labor Party was a party of full employment.

The new Labor Party is a party of restoring union domination of the workplace.

LAURIE OAKES: Mr Howard, you say that people shouldn't be concerned because you've said and your ministers have said there won't be any more major IR reform. Could I remind you that before the last election, when you launched your IR policy then, you said you were not setting yourself the goal of a national IR system.

You also said you had no proposals to reduce the 20 allowable matters that were then in federal awards. People believed you then and then had WorkChoices sprung on them after the election. Why should they believe you now?

JOHN HOWARD: Well, Laurie, people have to make a judgment as to how we have deported ourselves in relation to these reforms. They'll have to understand the nature of the political debate.

And they'll have to make the judgment and I say to all Australians watching this program that we have fought hard for these industrial relations reform and you listening to this program know that I've always believed in industrial relations reform but I think I've know got the balance right. I think we have gone far enough. We do not need to go any further.

And can I remind people watching this program that, for all the talk about the alleged harshness of our industrial relations system, in this country, we have the second highest minimum rate of pay of any Western country.

The minimum wage in Australia is much higher and therefore much more generous than it is in countries like America or England. We have a far more protective and far

more regulated industrial relations system than just about any country with which it is fair to make comparison in the Western world.

So I just ask people to make that judgment, to understand the nature of the debate that we have gone through in this country over the last 18 months but, importantly, remember the benefits of WorkChoices.

We've had 430,000 more jobs. Wages have continued to go up and strikes are now at their lowest level since 1913. That is a very good score card for a very important reform.

DAVID SPEERS: Mr Rudd, your response on this?

KEVIN RUDD: It's good to get a word in. On the question of, um, the dealings with WorkChoices. Prior to the last election, Mr Howard misled the Australian people on two critical areas.

One we've touched on and that is that he said that he would keep interest rates at record lows and that promise has been broken five times with a huge impact to people struggling in their mortgages tonight.

Tonight, people, Mr Howard, actually watching the program right now as well. And the other thing is this - prior to the last election he didn't say anything about WorkChoices but, once you grabbed control of the Senate, you said, "You beauty. off we go." And this ideological right-wing extreme industrial relations policy was then implemented.

That's what happened. And right now we're being asked to take at face value that going into the next election you put hand on heart and say, "Well, we'll never do it again." Mr Costello, the person that you've nominated to be the next prime minister of Australia if you win, is on the record as saying the only thing he needs should be in the industrial relations system is a minimum wage and everything else is up for negotiation. Senator Minchin, leader of the Government in the Senate and Finance Minister, the HR Nichols speech I referred to before, said there'll have to be a second wave.

These are senior ministers who say that and Nick Minchin said that before you did the fiddle most recently of trying to bring in a so-called fairness test and there's good old Joe Hockey, my mate Joe. Joe over there, out there modelling - or getting his department to model - the impact in WorkChoices applied right across the total economy and that includes nurses, emergency workers, police and the rest.

And no matter what amount of bleating we have from the Government on this, the threat to those working Australians right now is real. If Mr Howard's Government is returned, he cannot be trusted.

The risk is great that WorkChoices would be taken much, much further, stripping away penalty rates, overtime and the basic things which working families need to balance the budget.

DAVID SPEERS: Let's move on. Our next question is from Peter Hartcher.

PETER HARTCHER: Mr Rudd, in dealing with the problem of global warming, you've pledged to cut Australia's carbon emissions by 60percent by 2050, but you haven't given us any idea of any progress markers along the way. The Australian Greenhouse Office says that carbon emissions are going to increase by 27percent over the next 13 years.

Is that acceptable to you? As prime minister of Australia would you let that happen?

KEVIN RUDD: We need now, as a nation, to act on compliment change, rather than simply avoid the problem, which is what Mr Howard's government has done in the last 11 years.

How could it be that we're only one of two countries in the world to refuse to ratify the Kyoto Protocol? I don't understand. I don't get it. On top of that, we have Mr Howard still refusing to set a carbon target.

The only way in which we are serious about bringing down carbon emissions worldwide is for all of us to take our share of the responsibility. And we have a clear cut target, 60percent reduction in greenhouse gas emissions by the year 2050 against 2000 levels.

And you go to interim targets and interim benchmarks on the way through. We've commissioned in opposition a study by Professor Ross Garnaut from the Australian National University to analyse specifically the interim benchmarks that would be necessary. That report will come to us in the middle of next year. It's being supported by bureaucrats from all the States and Territories.

The States and Territories went to Mr Costello and asked if he'd be interested in a joint study of the economic impact and other impacts of interim targets. He wasn't interested at all. On climate change, I've got to say Mr Howard's Government not only doesn't have a plan for the future but the absence of a plan represents a danger not just to the environment but to the economy itself.

PETER HARTCHER: But Mr Rudd, on your own plan, what would your policy specifically reduce in terms of greenhouse emissions over the next, say, five years, directly?

KEVIN RUDD: Well, if we ratified Kyoto, we obviously become subject to the arrangements there and that, of course, requires an 8 percent reduction against 1990 levels to be realised over the '08 - 2012 period. That would be 8percent above, not 8percent below, I should say. The key question is, having ratified Kyoto, having accepted that as the discipline. The challenge then is what interim targets you then set for Australia within the overall 60percent that I established.

Mr Howard always says in response to this it's economically responsible to set ambitious targets. I say it's economically responsible not to set an ambitious target because of the impact on economy and jobs.

Why do we pick the number 60percent? Because it comes from the science. Unless we are able to stabilise greenhouse gas emissions at something in the order of 450, 490

parts per million then, frankly, we place the planet in grave danger of not being able to correct itself.

That's why we need a plan of action, not a list of excuses as to why it's too hard and the methodology in terms of us getting there in terms of interim targets will come from the Garnaut report in June.

DAVID SPEERS: Before Mr Howard's response, Paul Kelly has a question.

PAUL KELLY: That was no answer to Peter's question. You talk about a plan of action all the time. He asked for a target by 2020. Now, that target is critical. You can't have a plan unless you have a target by 2020. Your response to that?

KEVIN RUDD: The response to that is we have a target of 60percent of 2050 and as I've said consistently, Paul, in the debate on climate change that when the Garnaut report comes in June, interim targets will be set.

That is a responsible course of action. And from Opposition, with no other resources of government available to us, empowering Ross Garnaut with that responsibility, from States and Territories is the best way forward. The Howard Government have sat on their hands and junked report after report after report in taking action on this matter, including the establishment of an emissions trading scheme, put to the Cabinet in 2003 and rejected because the Treasurer didn't have the commitment to argue the case in the shipment to the Cabinet is a tragedy for Australia and a tragedy for the world. That's the method by which we come to a target by 2020.

DAVID SPEERS: Mr Howard, your follow-up on that?

JOHN HOWARD: I think we all accept, and certainly I do, that mankind has made a contribution to global warming through greenhouse gas emissions. And what we must do as a nation and what the world must do is to respond to this in a sensible, measured fashion, in a way from Australia's point of view that makes a contribution but doesn't do damage to our economy.

Mr Rudd says that we have done nothing. That is nonsense. We have brought forward investments of something like \$3.5 billion in climate change initiatives. We have established a committee which recommended the introduction of an emissions trading system and work is well under way to introduce that by 2011.

It will be the most comprehensive emissions trading system anywhere in the world. We will set a target in the middle of next year after properly examining the economic consequences of targets.

Unlike Mr Rudd, we like to know what the target will too before we nominate it. He does it the other way around. And in addition to that, I can announce tonight that, if re-elected, we will establish a climate change fund after 2011 and, into that fund will go the revenue from the auctioning of permits under the emissions trading system and we will use that fund that-to-finance a number of things including financial assistance

to low-income earners, particularly pensioners, who will inevitably have to pay higher electricity and other charges as a result of the move towards cleaner technology.

One of the things we have to face about climate change is that there is a cost and, as we go away from the use of dirty coal to cleaner coal technology, that will be more expensive and we'll have to find a system that fairly looks after the less fortunate in the community and I'll also use that fund to pay for development of clean energy technology.

So for Mr Rudd to say we don't have a plan and, on top of that let me make it clear that we will sign a new international agreement that includes all of the major emitters.

At the moment, Kyoto doesn't effectively cover the United States and China. That's a bit like having, you know, an international World Cup in cricket without Australia and India. Fundamentally, you need to have a comprehensive.

DAVID SPEERS: Mr Howard, we need to move on.

JOHN HOWARD: And that's what we're committed to.

DAVID SPEERS: We need to provide equal time. Let's get Peter Hartcher's next question.

PETER HARTCHER: Mr Howard, it's actually on that new international agreement that I wanted to ask you about. In the process of negotiating that agreement, your Environment Minister, Mr Turnbull, has said that developed countries such as ours, should have binding targets on their carbon outputs.

But the US President, Mr Bush, has recently said that the US will not be bound by any target. So who is right here? Mr Turnbull or Mr Bush?

JOHN HOWARD: Oh, Mr Turnbull, absolutely. And I can make one thing very clear that, if I'm re-elected one of the things I'll be doing is putting that view very strongly to the United States President. I mean we have made progress on this front.

At the APEC meeting in Sydney, the Sydney declaration actually got China and the United States for the first time talking in unison about climate change. We were making progress. And one of the advantages of having a close relationship with both the United States President and the President of China is that I was able to bring about that result and I can certainly indicate to the Australian people that, if I'm re-elected, one of the things that I will be doing is to push the United States to take a more proactive role in relation to these matters.

I think they have moved, but I think the Americans have got to move a lot further. You've got to have an international agreement that includes both the Americans and the Chinese and the Indians because they are the major emitters.

By mean by the year 2030, what, something like two-thirds of the world's emissions will be coming from the developing countries or close to that. So unless you have

them as part of the agreement - that's what's wrong with the existing arrangement and for us to have ratified that would have disadvantaged our industries.

But let me just remind the Australian public that despite the fact we haven't ratified it, we are going to meet our countries, target of 108, which is a lot better than many of the countries that lecture Australia for not having ratified it.

DAVID SPEERS: Mr Rudd, your response.

KEVIN RUDD: Mr Howard, I agree with on one point, and that is that China is critical. But you know the reason that China uses internationally as to why they are not acting internationally to bring down their greenhouse gas emissions.

The reason they give is this - the developed countries like Australia and the United States have not signed Kyoto, have not ratified Kyoto and haven't accepted binding targets themselves.

There is a huge practical, quite apart from moral, responsibility on us and the Americans to leverage the Chinese into action on this and I find it unacceptable that we could consign the next generation of Australians to such an uncertain future through our failure to provide leadership on this.

When it comes to practical action on climate change, here are some things which we think might work. We're out there, quite apart from ratifying Kyoto, establishing an emissions trading regime with a 60 percent target driven from the science - because we're actually interested in preserving the planet - is we have a \$0.5 billion clean coal initiative to encourage us and our industry to do the right thing with the use of coal-fired electricity in the future.

We have a \$0.5 million innovation fund to design the first green car in Australia, the first Australian hybrid. We have a \$50 million allocation when it comes to a national solar research institute in Australia.

Why has so much research gone on in Australia and so little of it has been applied? It comes back to a failure of policy. We don't have a decent, strong, mandatory renewable energy target in this country to encourage businesses to do that. We have wind power companies, like Vestas from Denmark, who are pulling out because we don't have that sort of leadership from Government.

I have listened carefully to Mr Howard's statements on climate change and I don't believe at the end of the day he's really committed to this because, if he was, he would have acted in the 11 years leading up to this election and not just on the eve of an election. But where are he's 25 nuclear reactors suddenly disappeared to?

He was very keen on those a little while ago but it seems that the nuclear reactors have gone out the back door. In the Switkowski report, 25 were recommended, presumably to be dotted around the coast of Australia. Mr Howard seems to have gone quiet and cool on that because of his concern about the political reaction.

His concern is to get a nuclear reactor around this country and it's the wrong approach to a proper solution for our country.

DAVID SPEERS: Peter.

PETER HARTCHER: A follow-up for Mr Howard on your position, Mr Howard. Do you think you'd be able to change Mr Bush's mind to change US policy on climate change?

JOHN HOWARD: I think his attitude is changing. I do. A re-elected Coalition Government in Australia would have more opportunity and would be more likelihood to bring about a change by the Americans than any other government in the world. I think there has been a shift in the United States. It's not easy.

But we really have to get everybody involved in a new international agreement. We may not be involved quite to the same extent and I recognise that stages of development matter and I can understand the Chinese and the Indian position but you've got to get everybody involved and we made a real start at Sydney at the APEC meeting.

It was a quiet achievement but it was an important achievement. For the first time, you got the Americans and the Chinese together talking about climate change and talking about goals and aspirations in relation to climate change and that was a terrific step forward.

And having a close relationship with both George Bush and Hu Jintao does give me an opportunity to persuade them and influence them and I think that's a very important consideration.

DAVID SPEERS: OK, we need to move on. Chris Uhlmann for the next question.

CHRIS UHLMANN: Mr Howard, has the threat of terrorism increased or decreased since you decided to join the war in Iraq?

JOHN HOWARD: Look, I think terrorism has been a threat to country long before Iraq. Just remember that the greatest terrorist loss that Australia has suffered was when 88 Australians were murdered in Bali and that occurred before we joined the war in Iraq. Can I make one other even more powerful point?

While ever I'm Prime Minister, the foreign policy of this country will not be dictated by terrorists. I will never surrender to terrorists the right to determine the foreign and security policy of my country.

I think it's the obligation of the Government of this country to set a policy which is in the long-term national interest of Australia. And there's no escaping the threat of terrorism. Terrorists murder irrespective of the religion or the race or the nationality of people who get in their way.

We've just seen 130 people brutally murdered in Pakistan. All of them, probably, were Muslims and they were almost certainly struck down by Muslim fanatics through al-Qaeda. They don't care about your religion, your race or your nationality.

They have a fanatical hatred of free societies and they have a fanatical hatred of any nation that marches with a free society and that is why they attacked in Pakistan and

that is why they will attack irrespective of whether we're in or out of Iraq. In fact, there's plenty of evidence that if you display weakness to terrorists, they'll pursue you even more vigorously.

DAVID SPEERS: Before we get Mr Rudd's response I think Chris has a follow up on that.

CHRIS UHLMANN: Yes I do. The Baker-Hamilton report quotes an Iraqi official who says that al-Qaeda is now a franchise in Iraq, like McDonalds and was reasonably unknown before the war in Iraq. Has the threat of terrorism increased or decreased since you decided to join the war in Iraq?

JOHN HOWARD: Can I just say something about Baker-Hamilton, which of course was written almost a year ago. The most recent evidence is, particularly in Alanbar province, is that al-Qaeda is in some retreat. I don't want to overstate it. The most recent material coming out of Iraq is somewhat more hopeful.

Look, Chris, we are in this fight against terrorism because they hate our way of life and my argument to the Australian people, my argument to you, is that if it's good enough to fight the terrorists in Afghanistan, why isn't it good enough to fight the terrorists in Iraq.

CHRIS UHLMANN: Mr Howard, the threat increasing or decreasing?

JOHN HOWARD: Well, I think the threat of terrorism is still very real and in the end what matters, what matters is the will and the determination of our country to resist it.

DAVID SPEERS: OK. Mr Rudd, your response?

KEVIN RUDD: Mr Howard's just been asked three times to answer a pretty basic question which is did his decision to invade Iraq increase or decrease the terrorist threat. What I find important is not just Mr Howard's decision not to answer that question on any of those three occasions. It's that in the lead-up to the Iraq war, British intelligence warned the allies, Australia included, that an invasion of Iraq would compound the terrorist threat rather than reduce it.

That information was had in the hands of the Australian Government before the decision to go to war was taken.

Now, I found it remarkable that, as Prime Minister of this country, Mr Howard could have gone to war and say to the Australian people the reverse, that this was designed to reduce or to eliminate the terrorist threat.

Quite wrong. On the question of Iraq itself, it stands as the greatest single error of Australian national security and foreign policy decision-making since Vietnam. The benchmarks which Mr Howard set for going to war just haven't been met. He, like I,

accepted at various levels that Saddam Hussein had WMD but we opposed to a man his decision to go to war because the case for going to war was not strong enough.

It's increased the terrorist threat rather than reduce it and if you want a further authority of that, go to Commissioner Mick Keelty's remarks on this when he was asked about this some years ago. The response to Commissioner Keelty at the time from the Australian Federal Police and the Government was to gag him and hut shut him up. It was quite wrong.

He was speaking the truth. On terrorism more generally, I believe in a hardline approach in dealing with terrorism.

You need to be uncompromising in dealing with the terrorist threat. But when you're dealing with terrorism in South-East Asia, you've got to have a balanced strategy.

You've also got to be dealing with some of the problems on the ground which make it easier for terrorist organisations to recruit. Hardline work through security and intelligence but, at the same time, working to eliminate the recruiting grounds by providing economic opportunities in the neighbourhood to make terrorist organisations a little less attractive to young men in particular in the Muslim world who don't have anywhere else to go.

DAVID SPEERS: Just a reminder that we will have an opportunity shortly for the two leaders to ask each other questions. But Chris Uhlmann, your next question to Mr Rudd.

CHRIS UHLMANN: Well, Mr Rudd, when will you withdraw all 1,575, all 1,575 Australian troops from Iraq?

KEVIN RUDD: Chris, we have a plan to withdraw the combat force by the middle of next year. In terms of the other remaining elements, a number of those elements are dedicated to other missions in the region, including the Royal Australian Navy component.

So what we will do - and I've already indicated this to the Government of United States - is when it comes to the combat force it will be out by then.

It will be a staged withdrawal because, if we win this election, there will be a further troop rotation by year's end for that combat force but for the other elements, we will calibrate our decision in consultation with the Americans and our allies about what happens not just in Iraq but in the wider region and finally on this - the security detachment attached to the Australian mission in Baghdad is critical.

I've been there. The PM's been there. Our diplomats in the field face real physical threats to their security.

It would-be great irresponsible to do anything to withdraw the couple of hundred Australians who block to SECDET who are there at the moment.

DAVID SPEERS: Mr Howard, your response?

JOHN HOWARD: I certainly agree with Mr Rudd that there's a separate, stand-alone case for keeping the security attachment in Baghdad to protect our diplomats. No argument. No argument about that.

But what we do find strange about Mr Rudd's approach to the rest of the Australian contingent in Iraq is that he seems to be having to use the old Australian expression 'two bob each way'.

He wants to give the impression to the Australian public that he is totally against our involvement in Iraq, therefore that he will pull out the ground forces, about 5850 from southern Iraq.

Yet, he's going to leave the ships and aircraft in Iraq. If he really were fair dinkum in his total opposition, why not pull the lot out except the security detachment? The reality is Mr Rudd wants to convey an impression to the Australian public that he's all against the involvement but wants to say to the Americans and others, "I'm not really. I'm only half against it."

I think that is just a tad hypocritical. Could I just say one other thing about our commitment? That commitment of the 580 is an evolving commitment. It originally provided security for the Japanese engineers.

It was then providing an overwatch role and it is now evolving towards a greater training role. And when the rotation ends in about the middle of next year, I believe that that force will undertake an even greater training role to bring the Iraqi forces up to a situation where they can look after themselves which, after all, is the practical end result of our commitment.

And I can indicate that in two days time on the 23rd of October, our force commanders in Iraq will commence discussions with our coalition partners about the evolving role for those forces.

You see, we are making progress. We've moved from providing security - and remember that these troops also do humanitarian work, they do security work, they do humanitarian work and they're going to evolve towards a greater training reel.

DAVID SPEERS: Sorry to hurry you up.

JOHN HOWARD: That's alright.

DAVID SPEERS: I think Chris has a quick follow-up.

CHRIS UHLMANN: Yes. Kevin Rudd, your troops withdrawals are heavily qualified. On other issues, your party labelled the Medicare safety net a sham and then supported it. You said the Commonwealth land release was marginal and then adopted it. You oppose capital punishment anywhere and always except when it's inconvenient. You often accuse the PM of doing anything and saying anything to get elected. What do you actually believe in Kevin Rudd? What won't you qualify or jetison to get elected?

KEVIN RUDD: On the question of Iraq, the policy has been consistent throughout this year, no change. A clear identification of the force to come out and that which would remain. On the question of the Medicare safety net, why did we adopt a different view of that?

Because working families across the country are under real financial pressure and when you look at the assistance which has been delivered to some of those working families by the Medicare safety net in the current circumstances with ballooning interest rate payments and the rest, we made a judgment that it was necessary to do that.

The third report you raised is in terms of capital punishment and your statement is quite wrong. Our policy has always been global opposition to the death penalty. It hasn't changed. Our policy has always been that when it comes to intervention individually and diplomatically with foreign governments, we do so in support of Australian nationals who are convicted with a capital offence.

And we have continue that and I congratulate Mr Howard for having made those initiatives himself together with Mr Downer.

On the questions of interventions diplomatically for other foreigners, including foreign terrorists, we have never said that we would intervene in that respect and what we have said is when it comes to advancing the cause of the global abolition of the death penalty, we would do so through the agency of the United Nations particularly the second optional protocol of civil and political rights which deals with these matters.

They are the three premises of your question about what do you stand for. I hope I dealt with each of the elements of it. What I stand for is a passionate believe in this country having a future which simply doesn't depend on a bit of luck and hope that we somehow slide through.

I believe he fair go is under fundamental assault through Australia. It is through WorkChoices. It is through so many arms of policy which the Howard Government has worked at for 11 years.

The country is crying out for a vision for something better. A strong economy is what I believe in, but still giving working Australians a fair go, through the industrial relations system, through the education system, through the hospital system.

And by looking after the next generation of Australians through intergenerational justice, doing something about climate change and water as well. These are the things I believe in. I'm passionate about them.

They form the core element of my plan for Australia's future and if the Australian people support us, it's the plan we'll be implementing.

DAVID SPEERS: Before we move on to your questions to each other, an issue that hasn't come up yet tonight but an important one for the nation is reconciliation. Mr Howard, you put this on the agenda on the eve of the election.

You embraced the idea of recognising Indigenous Australians in the Constitution for the first time but a lot of Australians are saying why not go the whole way. Do what all the States and Territories have done, do what Canada and New Zealand have done, accepting you're not personally responsible but still why not say sorry?

JOHN HOWARD: I'm sorry that people were mistreated in the past. Of course I'm sorry. But that's different from this generation accepting responsibility for the deeds of an earlier generation. If you lose a close friend, I say to you, "David, I'm sorry that you lost your mate Jim," but I don't say, "I apologise for it."

I don't accept responsibility for it. The idea of asking the present generation to apologise for the deeds of an earlier generation is offensive to millions of Australians and I will never embrace that.

But I think we have to move on from this old sort of approach of guilt and blame in relation to Aboriginal people. We need a new order. We need a blend of practical solutions and symbolism. I think there is a new mood in relation to Aboriginal affairs that has been brought about by Mal Brough's inspired intervention in the Northern Territory.

You see, one of the things I'm very proud of is that I've got a great team. Mine has never been a one-man band.

I've had Alexander Downer and Peter Costello by my side in their areas from day one. But in more recent years, we've seen people like Joe Hockey and Malcolm Turnbull and Mal Brough come forward and lead great policy change. What happened in the Northern Territory was a watershed.

And we've overthrown 20 years of failure in this area. And for the first time, I find Indigenous leaders and other Australians think we've got real hope and I want to capitalise on that new spirit. I recognise the symbolic part of it providing it's realistic and is proper, the symbolic part of it is an element of the reconciliation process and that's why I commit myself, if I'm re-elected, to sit down with Indigenous leaders and other people including the Opposition and work out a preamble that properly and respectfully recognises the place of Indigenous people as the first Australians and I'm very passionate about that goal.

DAVID SPEERS: Mr Rudd, you've backed the Indigenous intervention in the Northern Territory. Do you agree that it's created this watershed, this new spirit of opportunity for reconciliation?

KEVIN RUDD: We backed that intervention because of the appalling cases of child abuse which were detailed in the Little Children Are Sacred report. Anyone who read that report would be horrified and we were.

And when Mr Howard indicated what he was going to do in the Parliament, we said, "This actually requires some radical new thinking because it's not working and little kids are suffering as a result."

Mr Howard's just talked about the question of an apology. Can I just say this - you know, it's actually just a bit about respect. I mean I know and Mr Howard knows that, you know, we're not personally responsible for what's occurred in previous generations. But it is about respect. It's about creating a bridge.

Once the bridge is there, we can actually do some really good stuff. And that's why I would hope that whoever wins this election, we could actually make some progress

on that front as well and then to the next stage which is other practical forms of reconciliation.

What we embraced on the 40th anniversary of the '67 referendum, with Jenny Macklin, the shadow minister, was a clear-cut program of health and education and other outlays to bridge the gap, close the gap in terms of Aboriginal life expectancy with non-Aboriginal life expectancy.

The fact that a little kid growing up in an indigenous community in terms of infant mortality, kids dying under the age of five, it's three or four times more likely to die, it's just outrageous in the country at this time and we've committed funds and a timetable to bridging the gap. It's not easy.

I agree with Mr Howard. But where does, you know, an apology fit? It fits in just constructing that bridge that we might be able to take it further.

DAVID SPEERS: OK, enough from us journalists. Time for the two of you to quiz each other. Mr Rudd, you opened proceedings today so I'll invite you to ask your first question to Mr Howard.

KEVIN RUDD: Right, my first question to the PM is about his industrial relations system. Now, in Australia today I'm advised that 200,000 workers each year are made redundant. Now, under the industrial relations system which Mr Howard has at present - and this is post the so-called fairness test - is it not, indeed possible that under the fairness test, an employee can be given an AWA to sign that strips away the right to any form of redundancy pay whatsoever and without any compensation?

JOHN HOWARD: Well, the situation under the fairness test is that you can't have things like holiday pay, you can't have penalty rates, you can't have overtime taken away. without there being fair compensation in return.

They are the things that are covered by the fairness test and, if you're talking about redundancy, Mr Rudd, can I remind you that my Government was the first to introduce a scheme that gave guarantees in relation to redundancy where firms went out of business and left their workers without redundancy payments.

DAVID SPEERS: Mr Howard, your question then to Mr Rudd?

JOHN HOWARD: I'd like to Mr Rudd that, if he believes, as he has said, that the greatest moral challenge of our time is climate change, why didn't he spend a bit more than a cursory few seconds discussing it with the President of the United States, the most powerful man in the world, when he met him in Sydney a few weeks ago?

KEVIN RUDD: Well, the President of the United States actually made it incumbent upon me not to talk about our conversation afterwards but I assume you've seen some record of it. Let me go one step further.

JOHN HOWARD: I've seen a record of your comment about it and that's what you said.

KEVIN RUDD: I'll go one step further,, and noting carefully you haven't answered my question about under your AWAs, is approximate possible tour redundancy payments be stripped away. I assume your non-answer means they can be stripped away for 200,000 Australians. On the question of dealing with climate change with the United States President, it became clear from certain comments that the President made that he was not in the mood of changing his mind on climate change.

I don't wish to go to the detail of the conversation. I chose to focus elsewhere. My responsibility on climate change, like yours in this nation, is to provide leadership for Australia on climate change and for 11 years, you failed to act, failing to ratify Kyoto, failing to act with a national emissions trading scheme, failing to set a carbon target, failing to do anything about renewable energy.

I think on all those questions, Mr Howard, it's a very poor record indeed and to have a debating jibe about a conversation between myself as Leader of the Opposition and the President of the United States when we talked about China and every other subject on God's other and I had a total of 45 minutes to do so and you have many more opportunities to it than that, frankly, I think is a very minor debating point.

DAVID SPEERS: We have time for another question, so, Mr Rudd, your question to Mr Howard.

KEVIN RUDD: My question to Mr Howard is - he spoke tonight about Iraq and about some discussions which were about to begin about the future use of our forces in Iraq. Mr Howard, why should Australians believe you any more about where that will go when, on the eve of the last election, you said in response to a question that you would not increase our troops in Iraq and, as soon as you won the election, you virtually doubled our troops in Iraq.

It's a bit like the interest rates pledge to keep them at record lows and they went up five times. It's a bit like not saying anything about WorkChoices and then introducing it. So why should the Australian people believe you on this new statement in relation to Iraq?

JOHN HOWARD: Well, what I said in relation to Iraq, and what I said was going to happen in a couple of days time - and people will be able to find out fairly quickly whether they can believe me or not - I'm talking about a discussion that is going to occur between our field commanders and our coalition partners and, Mr Rudd, it's a bit unreasonable to sort of embroil them in a political exchange.

The Armed Forces of our nation go overseas in the name of Australia - you chose to use it in a very political fashion. I was providing some information to the Australian people and I was pointing out the evolving nature of our commitment of our ground forces in Iraq and what I'm simply saying is that in a couple of days time they'll start discussing with our coalition partners the increased training role that they might

undertake from about the middle of next year, not proposing any reduction in those forces but illustrating that it is an evolving role.

And if our goal is to bring our forces out of Iraq when their job has been completed, and if we measure completion of that job as being the extent to which the Iraqis can fend for themselves surely an increased training role in Iraq is part of that process.

Now, I think that is a piece of information that will interest the Australian public. Could sneer at it, Mr Rudd, you can say that people won't believe it. Well, frankly, I don't care if you do say that. I think people will believe it, because I think people respect the role that has been carried out by our armed forces in both Iraq and Afghanistan.

And can I just additionally say in relation to Iraq, I know that there are many people in Australia who do not agree with our commitment to Iraq.

And can I say to those people I understand that. But I ask them to contemplate what will happen to the prestige of the West, what will happen to the prestige of the United States, what will happen to the fight against terrorism in our part of the world, if al-Qaeda is seen to be triumphant in Iraq? That fundamentally is the reason why I believe we should stay the distance with our friends and allies, the United States. I'm not uncritical of them.

They've made mistakes, but I think it's to our national interest to ensure that we go the distance in Iraq.

DAVID SPEERS: And your final question, Mr Howard, to Mr Rudd.

JOHN HOWARD: Well, Mr Rudd, you've talked a lot about prices. You've talked a lot about housing affordability. You've talked an enormous amount about interest rates. But are you, like Mr Swan, unable to give any kind of guarantees that, if you're elected, there'll be any reduction in petrol prices, there'll be any reduction in grocery prices, there'll be any reduction in interest rates? And can you give any guarantees that there won't be increases in those rates?

KEVIN RUDD: What I can give you a guarantee on Prime Minister, is that we don't accept the proposition that you put that working families have never been better off. What we have said is that we can do practical things to help.

We've said we can do practical things on housing affordability. I've put a \$600 million plan to assist with new infrastructure charging and new housing developments for people buying houses because they're copping it in the neck with up to \$100,000-plus charges from local authorities.

I've put a plan on the table to assist with foreign tax credits, that is foreign tax credits which can then be used by investors to create affordable rental accommodation. When you come to child care, another huge cost on the family budget table, I put out a policy today to increase the childcare tax rebate from 30percent to 50percent with a new cap of \$7,500. Allison Carabine asked if you would support that you refused to do so.

I've put a policy to assist working families with their budget when it comes to an education tax refund, \$750 for primary kids and \$1500 for secondary high school kids, a 50percent rebate on those. These are the sort of practical things you can do to help working families under pressure.

That's what we believe is important. You touched on the question of petrol. What I find remarkable is that after 11 years in office, this Government, Mr Howard's Government, refuse today undertake any formal inquiry under the powers of the Trade Practices Act in terms of what was going on with the major oil companies.

What changed? What suddenly changed Peter Costello's tune on this after sitting on his hands for so long? We came up with the idea of appointing our own petrol price commissioner and then, quick as a flash, in lightning speed after 11 years, the Government followed suit and decided to have their own inquiry.

All these things help, through competitive pressure in the case of petrol and also on grocery prices with our proposed review there to help working families who are under financial pressure.

What they say back to you, Mr Howard, is that every time Peter Costello, your nominated successor as prime minister, who stands up and boasts that the economy is doing so well, those working families are saying back to up and to Mr Costello, "If it's going to well, why are we finding it so tough?"

DAVID SPEERS: Mr Rudd, time is getting away from us gentlemen. Time for our closing statements. Mr Rudd, in two minutes, your closing statement.

KEVIN RUDD: I opened the batting.

DAVID SPEERS: And you started so you give the first - as the rules were laid down with your party secretary.

KEVIN RUDD: The great thing about growing up in this country of ours is a kid like me from a country town in Queensland can stand up here and put his hand up to become Prime Minister of the country. Mr Howard said before that he's an optimist and I'm a pessimist. You know something?

I'm every bit the optimist you are Mr Howard and I want the best for this country, I want the best from the kids, like anyone watching this program tonight. But you know something?

If you're going to craft out a future for Australia, you've got to lay out a plan as well and not just hope it's going to be OK in the morning and that plan's got to mean something for working families and mean something for the nation.

What I've tried to do on working families, the measures I've just run through, is not provide a silver bullet and magical solution to every problem but I don't reflect the arrogance, staleness and out-of-touchiness of saying to those working families "You've never been better off."

I'm also passionate about a plan for the nation's future. To build prosperity beyond the mining boom.

I'm passionate about a educational revolution. When I grew up and my mum and dad sent the kids off to the local State primary school, they knew we had to get a good education.

But when I look at my kids and the next generation, they're going to need an even better one if they have a hope of competing in the future.

We're going to need a high-speed broad band network, not just for the cities but for the country as well and for the National Party to sit up here tonight holding its head in the air and thinking it's done the right thing by the bush, I say to the bush through the television screen tonight, we've got a better plan for you when it comes to broadband.

I'm passionate about the plan for the nation's future and I'm disappointed that Mr Howard tonight spent so much time talking about unions and negative fear campaigns rather than saying, if he's re-elected as Prime Minister after 11 long years in office what will be his plan for the nation's future. At the end of the debate, I'm not sure.

DAVID SPEERS: Mr Howard, your closing two-minute statement.

JOHN HOWARD: I said at the beginning of the debate that I'm an optimist about this country and I'm a supreme optimist about Australia because I believe in the Australian people. And overwhelmingly, the future of this country is not inspect the hands of its political leaders, important though they may be.

It's in the hands of the resources and the energy of individual Australians. We must remember that all the promises in the world and all the slogans about education revolutions and broad band and the like mean absolutely nothing unless we have a strong economy because, unless you have a strong economy, you can't afford to pay for these things. And there's one thing that we have been able to achieve over the last 11.5 years and that is, as a team, with me as the leader and Peter Costello and others, we have been able to deliver a strong economy with your help and we want to go on doing that.

Education has been talked about a lot tonight. Can I say what we really need in education is a restoration of basic standards? Before anything else, we need to produce children out of schools who can read and write and spell and add up. We also need to overturn that terrible mistake that was made 30 years ago when we abandoned specific technical colleges or technical schools.

We started to do it three years ago and we've got to complete that transition. And the other thing that we've got to do about our education system is to restore a proper narrative of Australian history.

We can't know where to go, we can't understand where we are now without properly understanding where we've come from. Why, as a nation, have we become so ashamed of the 'Australian Story'? It's a wonderful story.

It's a story of great achievement. It's a story of heroic endeavour. It's not a story without blemish, but it's a story of which all of us should be immensely proud.

So my three goals, my education revolution, if I can borrow a phrase, would be to restore those basic standards, bring back trades education, thorough going, and restore a proper narrative and a proper understanding of Australian history. I think that is a balanced education revolution and an education approach of which we can all be immensely proud.

DAVID SPEERS: OK, gentlemen, thank you. And we wish you both well for the remaining five weeks of the campaign. On behalf of the National Press Club, thanks to our panel of journalists, also to our audience for being so well behaved tonight. And to you at home, thanks for your company. I'm David Speers. Goodbye for now.