ANDREW MARR:
Now then, the Scottish Yes campaign now ahead, meltdown for the UK, a European crisis for the Tory Party and the small matter of making war on the Islamic state with the costs of that. I’m joined by the Chancellor George Osborne and I think it is possible we will find something to talk about. Welcome Chancellor. You were the architect partly of the strategy of saying that you can’t have the pound to the Scots. That has horribly backfired, hasn’t it?

GEORGE OSBORNE:
Well no, I don’t accept that. Look this country faces a very, very big choice, Scotland faces a very big choice, and if people were in any doubt that they can stay at home, they don’t need to go out to the polls and vote No to avoid separation, they won’t be in that doubt today. And they should also be in no doubt about the consequences of this decision, one of which is that Scotland would not be sharing the pound, as an independent country, with the rest of the United Kingdom if the separatists win the vote.
ANDREW MARR:
People in Scotland simply don’t believe that. They think that if there’s a Yes vote, there will be sensible negotiations; that you as Chancellor will sit down with Alex Salmond or whoever it is – John Swinney – and discuss the future fiscal and financial arrangements, and that because sharing the pound is good for British industry, south of the border and north of the border, Scottish industry, and is the kind of commonsense approach, eventually that will happen whatever you say now.

GEORGE OSBORNE:
Well that’s just not true. The truth is …

ANDREW MARR:
Why not?

GEORGE OSBORNE:
… the truth is that sharing the pound would not be good for Scotland, it would not be good for the rest of the United Kingdom.

ANDREW MARR:
They share the pound now, so …

GEORGE OSBORNE:
But that’s because we’re part of one country with one central bank and one integrated and united economy. If you vote No, if you vote to leave the United Kingdom, you are leaving those arrangements. I mean it’s a bit like a couple getting divorced but saying we’re going to keep the current account and we’re going to keep the joint mortgage. You know that’s not what happens in divorce and it’s not what happens in separation. And I think it brings us back to this point, which is this is a very big decision for Scotland and the people of Scotland need to be in possession of all the facts. And on the currency, you’ve personalised to me and of course as Chancellor of the Exchequer I’d be very straight with people about the choices they face, but of course what I’ve said has been echoed by the Labour Party …
ANDREW MARR:
Sure.

GEORGE OSBORNE:
… by economists, by central bankers. You know this is the view of many, many people that a currency union is just simply not going to happen, and it is not going to happen.

ANDREW MARR:
So if Alex Salmond wins the vote, which you hope won’t happen, and he then comes to you and says let’s sit down and talk, you say no talks, no discussion about the pound?

GEORGE OSBORNE:
Well every possible combination of government that you could imagine at Westminster has made it clear that there will not be a currency union, and it is really for Alex Salmond in the next ten days to explain what currency Scotland would use if it separated from the rest of the United Kingdom. You know I think …

ANDREW MARR:
You see he says hold on a second, the pound belongs to us as much as it belongs to George Osborne or anyone else in England. It’s a joint currency and we have joint arrangements up to now. There is no reason at all why we couldn’t carry on some joint arrangements. We could have a voice in the Bank of England or whatever. And that is the commonsense … that is what will keep business and prosperity flowing across the border, which is what everybody wants.

GEORGE OSBORNE:
But it is not the commonsense arrangement because it would not be good for the people of Scotland. They would have voted to be independent, voted to separate from the rest of the UK and then putting all the economic decisions in the hands of their neighbouring country. And it wouldn’t be good for the rest of the UK because we would be standing behind, for example, the banks and the financial system and the economy of another country. You know we didn’t join as a country the euro because we didn’t want to be part of these currency arrangements. So you know Alex Salmond is
not really telling people you know the straight truth about what currency Scotland will use if Scotland separates from the rest of the UK. And you know he’s conceded … I mean the very fact he says look, I accept there’s Plan A and people say that’s not going to work, here are three Plan Bs, suggests to me a man who doesn’t have a plan on one of the most fundamental issues – and there are other fundamental issues for Scotland if it were to separate from the UK, but that’s a pretty fundamental one – what is actually going to be the notes that I pull out of my wallet or my purse …

ANDREW MARR:
And is this simply …

GEORGE OSBORNE:
… and the coins I have in my pocket if this country is independent or separate from the rest of the UK?

ANDREW MARR:
And this is not simply pique from Westminster saying we’re cross with you, we’re going to punish you, because again to a lot of Scots that’s what it sounds like?

GEORGE OSBORNE:
But it’s not … Look I’m an Englishman. I passionately want Scotland to stay in the United Kingdom. I think the arrangements we have at the moment work well, but can be improved upon. I think the arrangements with the pound work well. So we’ve got arrangements that can work. And I’m the one and all the … and Labour politicians and independent economists are all the people saying it’s not going to work if you think you can share the pound after separation. And I think …

ANDREW MARR:
So no ifs, no buts; with independence no pound?

GEORGE OSBORNE:
No ifs, no buts; we will not share the pound if Scotland separates from the rest of the UK.
ANDREW MARR:
Can we move on to another story in today’s papers related to that, which is a suggestion that there are going to be some kind of all-party talks if there’s a No vote on new arrangements for Scotland – further devolution, could be fiscal devolution. But the individual parties have had subtly different views on this up to now and there hasn’t been a single proposition as it were before the Scots on what would happen with a No vote. Will there be such a proposal on the table before the referendum actually takes place?

GEORGE OSBORNE:
It’s clear that Scotland wants more control over the decisions that affect Scotland. I mean that’s been clear from both sides of this debate in Scotland and we propose to deliver on that. So you will see in the next few days a plan of action to give more powers to Scotland - more tax powers, more spending powers, more plans and powers over the welfare state – and that will be put into effect, the timetable for delivering that will be put into effect. The moment there is a No vote in the referendum, the clock will be ticking for delivering those powers. And then Scotland will have the best of both worlds. They will both avoid the risks of separation but have more control over their destiny, which is where I think many Scots want to be.

ANDREW MARR:
And this is a plan agreed by all the main Westminster parties or not?

GEORGE OSBORNE:
Yes. So we’ve been discussing with the other main political parties in Westminster – with the Labour Party, with the Liberal Democrats. We are working on that plan of action. We will set it out in the next few days. People should know that if they vote No, they are voting for more devolution, more powers for Scotland without the risks of separation and all the uncertainty of separation.

ANDREW MARR:
(over) And to be clear, we’re talking about more tax raising powers?
GEORGE OSBORNE:
More tax raising powers, more …

ANDREW MARR:
Going as far as fiscal autonomy?

GEORGE OSBORNE:
Well much greater fiscal autonomy. Let’s wait and see the proposal we have in the next few days, but much greater power to control tax rates, more control over public expenditure, more control over welfare rates and a host of other changes.

ANDREW MARR:
Alex …

GEORGE OSBORNE:
All of which, all of which I think satisfy a Scottish demand that decisions that affect Scotland are taken in Scotland without the risks of separation …

ANDREW MARR:
Right.

GEORGE OSBORNE:
… and I think that is the best of both worlds.

ANDREW MARR:
Alex Salmond scored a bit of a blow when he attacked Alistair Darling for the lack of job creating powers for the Scottish Parliament. Would that also be included in this agreement?

GEORGE OSBORNE:
Well absolutely, economic powers to make decisions about your economy and of course things like tax rates do affect whether you can attract jobs to the country.
ANDREW MARR:
Yeah.

GEORGE OSBORNE:
So of course you know the Scottish economy is growing, but I would like to see it grow still further, and I want to make sure that the Scottish people make their own decisions about how they achieve that.

ANDREW MARR:
If after all of this there is a Yes vote, are we going to see major resignations from government?

GEORGE OSBORNE:
Look this is not about individuals. I think it’s really important that we confront this. People need to know when they vote on the 18th, they are not voting about a single politician or a single policy. This is not a protest vote. This is a once in a lifetime vote. This is not a vote about the next five years; it’s a vote about the next three hundred years. It couldn’t be a bigger decision for the people of Scotland and the message from the United Kingdom is we want you to stay.

ANDREW MARR:
It’s just that some people think it would be such a big moment that it would destroy the UK Government as well.

GEORGE OSBORNE:
Well, look, as I say we’re campaigning for a No vote and I believe we will see a No vote in Scotland. But this is not about the future of the British Government in Westminster. This is not about the future of myself or David Cameron or anyone else. This is not … People need to understand this is …

ANDREW MARR:
(over) You’re not giving the Yes campaign as a hostage or two?
GEORGE OSBORNE:
Well this is not a protest vote. I know Alex Salmond doesn’t actually want to talk about the currency, about the big economic questions. He wants to turn it into a protest vote about Westminster. But it is not a protest vote. It’s a once in a lifetime vote about the future of Scotland.

ANDREW MARR:
It would be a huge triumph for Alex Salmond if he can pull this off, however. I mean he’s always said he can do it and people like yourself and a lot of people in Westminster have always been highly sceptical. Part of the reason, if he does pull it off, is that the pro-union campaign has been negative and there’s been so much energy and enthusiasm on the Yes side – mainly because they want a slightly more socially just Scotland than they can get at the moment?

GEORGE OSBORNE:
Well I dispute you know that because I see in the Better Together campaign a campaign that’s put forward a very positive vision of Scotland within the United Kingdom, getting people working …

ANDREW MARR:
(over) So why is it not working?

GEORGE OSBORNE:
… getting the better of both worlds. Well actually I think people do understand – and maybe these opinion polls will focus people’s attention on the real choice they have to make on the 18th – people need to know that if you go to the polls and vote Yes, you’re voting to separate Scotland from the rest of the United Kingdom; and the way to keep Scotland in the UK with more powers for Scotland is to vote No.

ANDREW MARR:
So this is an existential threat to the British state, as we were saying earlier on. The other existential threat we talked about earlier on was ISIS. Now we’ve had this big NATO Summit in Wales. As a result, are we in effect at war with the Islamic state and
is this a war that could go on - as President Obama has said – more than three years into the future?

GEORGE OSBORNE:
Well we absolutely need to defeat this Islamic terrorist organisation. It is a direct threat to the security of people living in Britain as well as, of course, an enormous threat to stability in the Middle East. It needs to be defeated. There are already American air strikes. But they are in the context actually of a locally led operation by the Iraqi people, by other countries in the neighbourhood, so this is very different from ten years or so ago with the Iraq War …

ANDREW MARR:

(over) It’s not that kind of war.

GEORGE OSBORNE:
It was a Western invasion. This is an operation by the Iraqi Government, which by the way needs to be more representative. It’s an operation from people in the Middle East to destroy this threat, which we will assist in any way that we can …

ANDREW MARR:

(over) And assist…

GEORGE OSBORNE:
… and in a way that you know helps them with their cause.

ANDREW MARR:
And assistance could involve military assistance from the air. It could involve air strikes which would not require parliament to be recalled for a vote first. Is that correct?

GEORGE OSBORNE:
Well on the question of air strikes, we are not at that stage today. We haven’t ruled things out, but let’s be clear we’re not at that stage today. We need to work out what we can do as a country to best help defeat this threat to our security and threat to the security of the world. We’re already supporting, for example, the Kurdish people in
their struggle against these barbaric terrorists. And when it comes to the role of parliament, what David Cameron said … and I’m a Member of Parliament myself and what I think is the correct position is this: if there needs to be an immediate emergency operation because there’s an immediate crisis on the ground, a humanitarian crisis and it’s not possible to go to parliament, then of course the government reserves the right to take action. That’s been the position of previous governments. But any longer campaign, anything that requires you know a sustained effort of course would go to parliament and indeed we’d go to parliament after taking any action if it had to be you know in a matter of hours.

ANDREW MARR:
Given what we’ve seen over the last few weeks, can there be any compromise, any kind of deal, anything short of total victory when it comes to the Islamic state?

GEORGE OSBORNE:
Well I think it doesn’t look like you can be … you can deal with people who are so barbaric that they rape women, they chop off the heads of the people they capture, they want to establish a so-called Islamic caliphate. Of course this is a total perversion of the true religion of Islam, but they want to establish a caliphate that involves the exclusion of Christians and other groups. You know it doesn’t look like an organisation you can deal with. And I’m afraid if you can’t deal with a threat like that, you have to destroy it.

ANDREW MARR:
Yuh. Writing in The Sun I think this morning, you said that you will provide whatever it takes to wage this war, and of course we’re also facing military threats in Europe as well where Russia’s had a successful incursion at the moment into Ukraine. At the moment we are spending … next year we will be spending below the 2 per cent NATO figure that we’re urging everybody else to spend. We’ll be down to 1.8 per cent. Surely that has to be revised upwards and quickly?

GEORGE OSBORNE:
Well I don’t actually accept that assessment. I think we meet and continue to meet the 2 per cent NATO commitment. But let me come to the big point, which is you know Britain will always put its national security first. As Chancellor, I will always put our
national security first. And I would argue that economic security is the flipside of the coin from national security. If you don’t have a recovering economy, if you haven’t brought order to your public finances, if you haven’t brought stability to your financial system, you can’t properly defend yourself. And because we have a long-term economic plan, because we’re putting the country onto a much more secure economic footing, we can protect our country’s national security and of course we can afford what it takes to defeat threats to our security.

**ANDREW MARR:**
Clearly one of the most important jobs of a chancellor is from time to time to make a big strategic change of direction. Is this a moment to put more money into defence, into conventional defences, whatever happens to the austerity programme running ahead?

**GEORGE OSBORNE:**
Well we still run one of the largest defence budgets in the world. We’ve invested a huge amount in new equipment – the latest fighter jets today.

**ANDREW MARR**
You’ve only got thirty-six tanks that work at the moment according to The Sunday Times and the entire army could be fitted into Wembley Stadium.

**GEORGE OSBORNE:**
Well we have actually one of the most modern and effective armies in the world, most deployable armies. And just in the space of the last few days we’ve confirmed that there’ll be a second major aircraft carrier for the Royal Navy, that our soldiers will have the latest new vehicles, that our air force is going to continue to have investment. So you know in other words of course when we get to a big defence review next year, we will have to make judgements about our country’s future, but you can’t make any of these judgements … You’re not in a position in my job or any other job to make those decisions if your economy is falling apart, you haven’t got an economic plan …

**ANDREW MARR:**
*(over)* I want to come to the economy …
GEORGE OSBORNE:
… you’re not able to pay for all of this.

ANDREW MARR:
But whatever happens to the rest of the public finances, we will not fall below the 2 per cent NATO requirement in the future?

GEORGE OSBORNE:
Well we have committed to the 2 per cent requirement. Indeed we’ve got other countries to commit to it. But we are meeting the 2 per cent requirement, so I …

ANDREW MARR:
(over) It’s just I thought for the next financial year, we were down to 1.8 per cent.

GEORGE OSBORNE:
Well I don’t accept that.

ANDREW MARR:
Okay.

GEORGE OSBORNE:
You know we are meeting the 2 per cent requirement and we made a commitment that we would continue to do that.

ANDREW MARR:
Just one question harking back to the Scottish issue. If Scotland voted Yes, is there the money to actually relocate the entire Trident fleet somewhere in England?

GEORGE OSBORNE:
Well you know I don’t want to get into what happens in the terrible situation where Scotland decides that it wants to separate from the rest of the UK, and there’ll be plenty of disruption if that happens. I don’t think it would be good for the United Kingdom, I don’t think it would be good for Scotland.
ANDREW MARR:
Obviously another crisis nearer to home is the one precipitated by Mr Carswell and the UKIP threat. You’ll have seen in today’s papers that one of your backbenchers, Jacob Rees-Mogg, is saying you should now do a deal with UKIP to save the Conservative Party at the next election and even bring Nigel Farage into the leadership and have some kind of electoral pact and that is the only way to save the party from defeat at the election.

GEORGE OSBORNE:
Well I don’t agree with that. There will be no pact with UKIP. Look if people want a referendum on our membership of the European Union, tough action on welfare, control of our borders and a recovering and strong economy, they need a Conservative majority government. That’s how you deliver that. And the way you get a Conservative majority government is voting Conservative, not voting for any other party, which is likely to lead to a Labour government and Ed Miliband in Downing Street with more welfare spending and no vote on Europe. So I think we’ve got a really clear choice in the General Election too. We’ve been talking about the clear choice in the Scottish Referendum. Actually you know as this election starts to loom people can see there’s a big choice coming for our country as well.

ANDREW MARR:
Now I have an advantage over you, which is you have a biographer and there’s a new edition of the biography out, and this says that your position on Europe has hardened and that you no longer think a British exit would be unthinkable and that the big problem that you now face and you’re thinking about is that for a large economy inside the EU but not part of the Eurozone is becoming harder and harder and harder because the big decisions are taken by the Eurozone countries and not by us, and that that is making you think that exit is not impossible. Is that accurate?

GEORGE OSBORNE:
The first part of what you said is an accurate reflection of what I think, which is you know Britain as a non-euro member of the European Union faces a challenge with an organisation where a lot of decisions are being centralised in the Eurozone. That’s why I want to change our relationship with the European Union. That’s why David Cameron
wants to change our relationship with the European Union. We want to renegotiate our membership so that Britain gets a fair say and crucially that the whole of Europe grows and creates jobs because you know while we’re having this conversation about the future of Britain’s relationship with Europe currently on the continent of Europe the economies are failing, people are out of work. Even the German economy is shrinking.

ANDREW MARR:
Yes.

GEORGE OSBORNE:
So you know that’s what Europe needs to do collectively. It needs to change the way the European Union operates. But again the only way you can have that is if you have a Conservative government after the election.

ANDREW MARR:
The only way you can have a negotiation that works is if the European Union thinks it’s a real possibility for people like you to lead Britain out of the European Union if those negotiations fail and Boris and others have said Britain could thrive outside the EU. Do you share that view?

GEORGE OSBORNE:
Well I want Britain to be inside the European Union, but it has to be a reformed European Union.

ANDREW MARR:
Yeah, but could we thrive outside if it wasn’t reformed … ?

GEORGE OSBORNE:
Well what I’m campaigning for is Britain to be in a reformed European Union, a changed European Union that satisfies the wishes of the British people that more powers are taken in our country rather than in Brussels …

ANDREW MARR:
(over) One more time. We understand, everyone understands that’s your preference,
but if you don’t get that renegotiation could we thrive outside?

GEORGE OSBORNE:
But I … I don’t actually expect us to fail. I expect us to succeed. And by the way, the Polish Prime Minister just appointed to be President of the European Council …

ANDREW MARR:
Mr Tusk.

GEORGE OSBORNE:
… he said, “I’ve got three priorities” and one of the three was making sure he deals with Britain’s concerns. So that is an example of how David Cameron has put British concerns about the future of Europe right at the heart of the European agenda.

ANDREW MARR:
Would you like to have seen Boris Johnson take on Mr Carswell in that coming by-election?

GEORGE OSBORNE:
No. Look I think it’s great that Boris is returning to parliament. I was an MP with him when we both came in. He’s an incredible asset to our party. And look when you want to fight a General Election, when you’ve got a big cup final, you want your best team on the pitch. And I think … in fact I work with Boris every day. I’ve just been working with him this weekend on making sure we freeze rail fares, so that they only go up with inflation. That’s coming into effect from the beginning of January. That’ll help people in London, but across the whole of the country. It’s a great example of how if you take the difficult economic decisions, you can help hardworking taxpayers.

ANDREW MARR:
The new foreign secretary sitting in that very chair, the chair of shame a little … a couple of weeks ago, said that if it was now, given our relationship with the European Union right now, if there was no change he would vote to come out. Would you agree with that?
GEORGE OSBORNE:
Well I want to achieve that change. You know I’m an optimist.

ANDREW MARR:
(over) Right, okay, so we’re not going to get anywhere on this.

GEORGE OSBORNE:
We are going to get somewhere, which is we’re going to reform our European Union, and you’re only going to get there with a Conservative government.

ANDREW MARR:
Right. And there’s been a lot of criticism – you heard it from Frances O’Grady just now – about the MPs 10 per cent pay rise. What’s your view on that?

GEORGE OSBORNE:
Well I found myself in rare agreement with Frances. You know I don’t think it’s acceptable at a time when there’s continuing pay restraint in the public sector that MPs would receive such a big increase. But this is not the final verdict, this is not the final report. There will be a report after the election and I think that’s when we’re going to have to tackle this issue.

ANDREW MARR:
We have a recovery clearly going on, but for a lot of people it is a kind of rather grim recovery. Their wages are not going up. What can you do to answer Frances O’Grady’s points about the minimum wage and indeed the living wage – two separate positions there?

GEORGE OSBORNE:
Well the minimum is going up above inflation this year. That’s an example of what you can afford to do when your economy starts to grow and I guess points to a bigger picture, argument, which is you only … You know the people in a country are only as rich as the country, and if your economy is shrinking and failing then people get poorer (as they did in the great recession) and as your economy starts to grow the people in that country start to get richer. And you say you know no-one’s benefiting from the
recession. Indeed you started the whole programme by saying unless you own a house in London or some… You know actually there are 1.8 million people in jobs who didn’t have those jobs …

ANDREW MARR:
Beforehand.

GEORGE OSBORNE:
… beforehand. You know so that’s real economic security for families …

ANDREW MARR:
Alright.

GEORGE OSBORNE:
… real progress in our economic situation.

ANDREW MARR:
For now, Chancellor, thank you very much indeed for joining us this morning.

INTERVIEW ENDS