ANDREW MARR:
And from a former Prime Minister to the current Prime Minister. David Cameron, good morning.

DAVID CAMERON:
Good morning.

ANDREW MARR:
Good morning and welcome. The big story of course this morning is what you’ve been saying about executive pay. Can I just start by getting it clear that, as far as you’re concerned, I mean there’s been new figures talking about I think 87 of the top FTSE 100 companies have Chief Executives paid more than £5 million when you know most of their companies are pretty flat at the moment. That you think is morally wrong?

DAVID CAMERON:
What I think is wrong is pay going up and up and up when it’s not commensurate with the success that companies are having. Look, I’m in favour of people setting up great businesses in Britain, expanding those businesses in Britain, making lots of
money when those businesses succeed in Britain. We need the investment, we need the jobs. Government shouldn’t tell people what they’re to be paid. But where you’ve got a market failure - and to me this is a market failure, we saw between 1998 and 2010, the average pay of FTSE executives go up four times and yet …

**ANDREW MARR:**

*(over)* More than £2 million each.

**DAVID CAMERON:**

Right. Well some people are worth £2 million because they’ve added masses of jobs, masses of investment, masses of growth.

**ANDREW MARR:**

*(over)* But to be clear …

**DAVID CAMERON:**

*(over)* But it’s the excessive growth in payment unrelated to success that’s frankly ripping off the shareholder and the customer and is crony capitalism and is wrong. And it’s also - I think a key point - payments for failure, those big rewards when people fail, I think make people’s blood boil and again is actually taking money from the owners of the company, the shareholders and everyone with a pension in Britain …

**ANDREW MARR:**

Yes.

**DAVID CAMERON:**

… and also the employees as well. That’s what’s wrong. That’s what needs to change and that’s what we’re going to be addressing very directly this year.

**ANDREW MARR:**

So a lot of people will say well those are great words, but … Ann Treneman was just saying just now you know it’s got to be deeds not words, and is this spin, is it real? So can I test you on what might then happen? We read that for instance shareholders will
be obliged by law to agree bonus packages and indeed severance packages for senior executives.

DAVID CAMERON:
I think that’s the key. I mean let me be clear. Everything is on the table. Vince Cable is leading the exercise, consulting with business. And by the way, the Institute of Directors, the CBI, many people in business know there’s a market failure here that needs to be dealt with. But I think the absolute key - and the thing I can confirm today does need to happen - and will happen is clear transparency in terms of the publication of proper pay numbers, so you can really see what people are being paid, and then binding shareholder votes so the owners of the company are being asked to vote on the pay levels; and, absolutely key, vote on any parts about dismissal packages and payments for failure. Because I think that again, that’s the bit that’s gone so wrong.

ANDREW MARR:
And those votes, will they have to be published as well? Will we be able to know how, for instance, pension funds have voted when it comes to remuneration?

DAVID CAMERON:
Well you pretty much know that at the moment, but I think transparen… I think you know what we should be doing here is what are the best market tools to try and correct this market failure and I think transparency is a key tool, so we can all see what’s happening, and then clear votes so you’re empowering the shareholder. As I say, the other things are …

ANDREW MARR:
(over) And give us some sense of … When you say transparency, give us some sense of how many salaries or at what level we’re talking about outside the boardroom itself.

DAVID CAMERON:
Well what we’ve done with banks is now actually the toughest remuneration rules for banks and financial institutions I think anywhere in the world where it’s around the
eight top paid people have to be declared, and that’s something this government has done.

ANDREW MARR:
So something similar for other companies?

DAVID CAMERON:
Well I don’t want to steal all of Vince Cable’s thunder. He’ll be making the announcements early this New Year. But what I wanted to explain is the absolutely key change where you make more information transparently available, you empower shareholders to vote on those things, and you stop the rewards for failure. I think that would make a big change. But I just want to emphasise one more time …

ANDREW MARR:
(over) What about …

DAVID CAMERON:
Yeah, go on.

ANDREW MARR:
What about putting an employee onto the remuneration committee, just one employee surrounded by all the guys in suits to speak up for the working people?

DAVID CAMERON:
Well I don’t rule that out, but I think the key thing here is reforming the remuneration committees themselves. I think what’s happened in the past is that with a lot of chairmen sitting on each other’s remuneration committees, there’s been a bit of back scratching going on and a sort of circular process of rewards being pushed up across the board. And, as I say, rewards that sometimes are earned because they’re related to success, but in too many cases rewards just generally going up. As I say, 1998 to 2010, a four times increase in pay levels …

ANDREW MARR:
(over) Not fair, not fair.
DAVID CAMERON:
… yet we didn’t see a four times increase in share prices or shareholder value or indeed think of the people working in those companies, working hard. They didn’t see their salaries go up by four times either.

ANDREW MARR:
So wouldn’t it be fair for those people working hard just to have one voice on those remuneration committees?

DAVID CAMERON:
Well that may well be the case …

ANDREW MARR:
And you would not be against that?

DAVID CAMERON:
The key thing is reforming remuneration committees to make them work better, I think making sure there’s shareholder representation. But let’s look at what will work. I’m not interested in gimmicks. (Marr tries to interject) I’m not interested in tokenism. I’m interested in what will actually work to correct this market failure. And, as I say, I’ve said today what’s absolutely key to me: shareholder votes, transparent information. Vince Cable will be making a set of announcements later this year.

ANDREW MARR:
What about one of the other proposals which has been kicking around - the High Pay Commission talked about this - at least publishing the ratio between the top people and how much they’re paid; and either the least paid people, people in the middle, or whatever it might be, so that you get some sense of the spread - which companies are paying their top people you know a hundred times more than the people at the bottom?

DAVID CAMERON:
Yes, I think there’s some attractions to this and I think perhaps we should start with
the public sector. And by the way, we have led by example. You know we’ve cut ministers’ pay by 5 per cent; we’ve frozen it for the whole of the parliament; we’ve published all of the pay levels in local government, so those sort of so-called fat cat salaries amongst some local government Chief Executives, they’re coming down; we’re dealing with quango pay because that’s been much too high. There’s been a problem of sometimes the public sector and the private sector chasing top pay and pushing levels up. And in fact the BBC frankly has been a victim or rather a perpetrator of that and I think that’s now being dealt with in the BBC as well. Pay ratios, I think there is a good argument for it, but - and it is a but …

ANDREW MARR:
(over) What about …

DAVID CAMERON:
(over) But there is a but, which is …

ANDREW MARR:
(over) … maybe in the public sector before the private sector, but in both, what about actually legislating to enforce a ratio?

DAVID CAMERON:
Well there’s one problem with ratios that we need to do a bit further work on, which is that sometimes you actually find that a company like Goldman Sachs actually has a relatively reasonable ratio because the average pay …

ANDREW MARR:
(over) Is so high.

DAVID CAMERON:
… is relatively high; whereas actually you might find Tesco has got a very bad pay ratio. So it’s not the whole answer. And when we actually asked the Work Foundation to look at this issue for us, they didn’t say this was the key change that would really make the difference. So, as I say, I want to focus on the things that will make a difference, that will show people that this is a fairer country; that reward is linked to
success, not to failure; and I’m interested in the things that will make a difference, not just trying to cover the entire waterfront.

**ANDREW MARR:**
And this is real, we will see legislation this year? This is not just going to be words?

**DAVID CAMERON:**
Well we have a Queen’s speech coming up in the spring of this year. That’s very likely … I don’t want to pre-empt it, but it’s very likely to include legislation on companies and on banking and on things like that, so there’s room to make legislative changes if that’s necessary.

**ANDREW MARR:**
Let’s move to the other end of the scale if we could. There are, depending on how you count it, between three quarters of a million and a million young people now without jobs, and those will be people who won’t have, as you know, the discipline and the experience of getting into work, may not work at all as a result of this. Are you haunted by that?

**DAVID CAMERON:**
Well I’m extremely worried about it and that’s why we not only have the Work Programme, which is the biggest back to work programme any government’s done since the 1930s, but we’ve supplemented that with something called the Youth Contract, so that young people who’ve been out of work only for a few months will get help. That might be work experience, it might be a paid, a subsidised job in the private sector. What we’ve seen so far is that work experience is actually one of the most cost effective way of getting young people into work. And for a good reason - because the companies can then see there are excellent young people ready to work …

**ANDREW MARR:**
(over) And keep them on possibly.

**DAVID CAMERON:**
… and the young people can actually get used to the idea of going in and working.
ANDREW MARR:
Yes.

DAVID CAMERON:
I saw this for myself on Friday, how many successful schemes there have been.

ANDREW MARR:
At the moment your hope, which you were expressing sort of this time last year - which is that the private sector would sweep in and compensate and more for all the jobs being lost in the public sector - that hasn’t happened, has it? That must be a disappointment and what I wonder is whether you and George Osborne are constantly talking about new ways to get more jobs into the private sector?

DAVID CAMERON:
Yes, I mean what we’ve seen since the election is half a million new jobs in the private sector. But that hasn’t been enough to compensate for the lost jobs in the public sector, which are inevitable when you’re making reductions to public spending which are frankly necessary because of our debt and deficit position we inherited and because of growth numbers in the workforce. So, yes, we’re not sitting back and just hoping this rebalancing between private and public is going to take place. This is a sleeves rolled up government that’s boosting the number of apprenticeships, boosting the number of work experience places, introducing the Regional Growth Fund, cutting corporation tax, doing everything we can to help businesses start up and grow. Because the growth will come, I think, from start-up businesses, new businesses, small businesses choosing to employ one or two more people. That’s where the growth is.

ANDREW MARR:
What I’m saying is really do you have to go further on all of that in removing regulations or helping on the tax side or whatever it might take …

DAVID CAMERON:
Yes, yes.
ANDREW MARR:
… because up to now, you know you’re not getting enough of those jobs?

DAVID CAMERON:
I think that work never stops. You know if you believe that the free enterprise economy is the way to get growth and jobs, frankly there isn’t a government stimulus you can give through public spending because the government hasn’t got any money, there isn’t much more of a monetary stimulus you can give because interest rates are as low as they could be, so the best stimulus is simply to make it easier for companies to take people on, to employ people, to grow, to invest and to expand. And this year, look it’s a difficult year, it’s a tough year, but it’s a year when we have to make bold decisions to help make that happen, and it’s a year where frankly we have the boost from the Olympic Games, the Queen’s Diamond Jubilee, it’s a year when actually the world is going to be looking at Britain and visiting Britain and so I think we’ve got to play to our strengths.

ANDREW MARR:
(over) So it’s a showcase year. However, I don’t totally get the sense that you are really getting your chancellor by the lapels and saying this is a crisis. Youth unemployment is the worst it’s been for a generation and, as I say, these are people who may never get into work as a result of this.

DAVID CAMERON:
But that’s why we’re not … You know the Work Programme’s the biggest ever. The Youth Contract has added to that. The enterprise zones are up and running this year. The corporation tax cut is coming in. The cut in the petrol duty to help families with the cost of living. The freeze of the council tax. All these steps and there’s more …

ANDREW MARR:
(over) It’s a long list, it’s a long list, but at the moment the unemployment rate keeps moving up and we’ve got very, very low prospects for growth according to the Office of Budget Responsibility this year.
DAVID CAMERON:
Well you know all the forecasters are forecasting growth for this year, but frankly the job of the government’s not to sit back and hope that happens. The job of the government is to roll up its sleeves and do everything possible to help businesses to do that. But look, I’m not … I don’t think we should be …

ANDREW MARR:
(over) 0.7 per cent. You know at the time of the budget, it was going to be 2.5 per cent. Now it’s 0.7 per cent and many of the European countries are doing better.

DAVID CAMERON:
(over) But if you look at even the last quarter for which figures are available, there was growth in private sector employment. So that the key things are not only helping to boost that growth with the measures that I’ve spoken about, but also recognising if you want to protect jobs in the public sector - and I do - and you’ve got to make reductions in public spending, what that means is bold welfare reform is necessary because that doesn’t cost jobs. Frankly, the public sector pension deals, they are necessary because that reduces costs without reducing jobs and the public sector pay freeze as well. Those are three difficult …

ANDREW MARR:
On that …

DAVID CAMERON:
You know part of this is making tough and difficult decisions that are in the long-term interests of the economy and the country and riding out the difficulty of doing that in the national interest.

ANDREW MARR:
Just on that, Doncaster council has suggested, is going to vote I think tomorrow on cutting the pay of everybody working for the council so that they can save some jobs. Is that the kind of radical, lateral thinking you’d like to see more of?

DAVID CAMERON:
Well that is … I mean I wasn’t actually aware of that specific situation …

ANDREW MARR:
Right, just an example.

DAVID CAMERON:
… but if you look at what happened in the British car industry during the difficult recession, that is exactly what companies like Honda did in order to save jobs.

ANDREW MARR:
(over) Spread the pain.

DAVID CAMERON:
There’s been a great show of actually solidarity in many private sector companies who took difficult decisions on issues like pay in order to keep hold of jobs, and I think that’s important. And, frankly, what we’re asking in a way …

ANDREW MARR:
(over) So cutting everybody’s pay to save some people’s jobs could be the way forward?

DAVID CAMERON:
Well what we’ve done is we’ve had a public sector pay freeze and we’ve now extended that with a 1 per cent increase rather than anything more. And that is a solidarity measure. It’s basically saying if we hold down public sector pay at a time when we hope and believe inflation will fall, we can protect public sector jobs.

ANDREW MARR:
So beyond the freeze, cutting could be the way forward for people?

DAVID CAMERON:
Well I’m not making that suggestion …

ANDREW MARR:
Okay. Okay …

DAVID CAMERON:
(over) … but I think what we should do is anyway be saying throughout the public sector what matters is the size of the pay bill, and if you can be more efficient, if you can do things better, then that is actually what matters.

ANDREW MARR:
We are going to see unemployment higher by the end of this year than now, aren’t we?

DAVID CAMERON:
Well the forecasts are there and it’s the job of the government, as I say, not just to stand back and say well that’s that, that’s what’s going to happen. The job of the government is help people into work, help people stay in work, help make it easier for businesses to be created. There is a huge amount of business creation and business start-ups going on in Britain and we’re producing the tax and other systems to help make that happen. But am I satisfied that we’re doing enough to deregulate, to make it easier to employ people, to cut the costs of employment? No, I’m not. I’m permanently agitating for more. That’s the job of the First Lord of the Treasury as it were - is to bang the table and make sure every … I want every government department to be a growth department. You know I don’t say to the environment minister or you know the housing minister, you’re just there for … They’re all growth ministers.

ANDREW MARR:
Sure.

DAVID CAMERON:
The whole government has a growth review and a growth agenda to make sure that every avenue of policy is about helping the economy to grow and to get people back to work.

ANDREW MARR:
Let’s turn to something that might be about getting smaller, not getting bigger, and that’s the United Kingdom itself. Are you determined to affect the timing and the questions of any referendum on Scottish independence?

**DAVID CAMERON:**

Well I think there is a problem today, in fact two problems. One is the uncertainty about this issue I think is damaging to Scotland and Scotland’s economy because you have companies and other organisations asking well what’s Scotland’s future. Is it within the United Kingdom or not? That’s damaging. And, secondly, I think it’s very unfair on the Scottish people themselves who don’t really know when this question is going to be asked, what the question is going to be, who’s responsible for asking it, and I think we owe the Scottish people something that is fair, legal and decisive. And so in the coming days we’ll be setting out clearly what the legal situation is, and I think then we need to move forward and say, right, let’s settle this issue in a fair and decisive way.

**ANDREW MARR:**

So what is the legal situation because you know I think, as most people understood it, Alex Salmond as First Minister of Scotland would decide when the referendum was going to happen and the question of whether it’s an in or out referendum or whether there was a third option there would be down to the Scottish administration to decide. Is that something you don’t believe to be the case?

**DAVID CAMERON:**

Well we’re going to make clear - and I’m afraid I can’t do it today - but we’ll be making clear in the coming days what the legal situation is, and then I think we need a proper debate where people can put forward their views. But my view very strongly is the Scottish people deserve some clarity, some decisiveness, and obviously they deserve it to be legal and binding. And I think that’s very, very …

**ANDREW MARR:**

*(over)* So sooner rather than later?

**DAVID CAMERON:**
Let me be absolutely clear, put my cards on the table. I strongly support the United Kingdom. I think it’s one of the most successful partnerships in the history of the world.

ANDREW MARR:
Yuh.

DAVID CAMERON:
I think it would be desperately sad if Scotland chose to leave the United Kingdom and I’ll do everything I can to encourage Scotland to stay in the United Kingdom because I think that’s the best for all our economies - Scotland included - and all our societies.

ANDREW MARR:
And of course if Scotland did leave the United Kingdom, that would be the end of Britain’s independent nuclear deterrent, wouldn’t it?

DAVID CAMERON:
Well there would be many disadvantages from a break-up of the United Kingdom. You know all those issues would have to be dealt with. But let’s not go there. You know we have this great partnership. This partnership’s worked so well for us in the past, we must keep it into the future. But let’s have some decisiveness about it. Let’s not drift apart with … I think what Alex Salmond is trying to do is just … I think he knows that the Scottish people at heart don’t want a full separation from the United Kingdom and so he’s trying to sort of create a situation where that bubbles up and happens, whereas I think we need some decisiveness so we can clear up this issue.

ANDREW MARR:
And just on the timing. He also apparently wants to have this vote in 2014, the anniversary of the great Battle of Bannockburn when lots of people called Cameron defeated lots of people called Osborne or something like that. But at any rate, he would like it to be 2014. You are saying no, let’s have the vote earlier.

DAVID CAMERON:
Well I think this is a matter for the Scottish people …
ANDREW MARR:

*(over)* Oh it is, it is.

DAVID CAMERON:

… and if there are problems of uncertainty and lack of clarity, I don’t think we should just let this go on year after year. I think that’s damaging for everyone concerned, so let’s clear up the legal situation and then let’s have a debate about how we bring this issue to a conclusion.

ANDREW MARR:

*(over)* And sooner, not later?

DAVID CAMERON:

My view is that sooner rather than later would be better.

ANDREW MARR:

Right. Let me ask you about the fallout from the European veto, if I may. We’ve just heard that the French finance minister is saying that there will be a transaction tax, financial transaction tax by the end of this year. And we’ve also heard that Sarkozy and Merkel and the rest are determined to go ahead using the institutions of the EU to progress what they want to do on the Euro.

DAVID CAMERON:

Well, first of all, let’s deal with the taxation issue. I mean tax is an issue of unanimity in the European Union. Other countries are quite happy at liberty to put forward ideas for taxes. But I think the idea …

ANDREW MARR:

*(over)* So if it takes another veto, you will stop the transaction tax?

DAVID CAMERON:

The idea of a transaction tax put in place only in Europe that doesn’t include other jurisdictions, what that would do is it would cost jobs, it would cost us tax revenue, it
would be part for the whole of Europe. We’d see whole lots of institutions and activities go to other jurisdictions, to other places. But if the French themselves want to go ahead with a transaction tax in their own country, then they should be free to do so just as we have, we actually have …

**ANDREW MARR:**
(over) I think they’re talking about a European wide one by the end of the year.

**DAVID CAMERON:**
Well no, I think the French are also now talking about doing one in their own country. Now we do actually have stamp duty on share transactions in Britain and yet we have one of the most competitive and successful financial services markets anywhere. So I would say to these other European leaders if you want to do what Britain has - we've got a bank levy so the banks contribute properly; we have stamp duty on share dealings - you can do those things. But the idea of a new European tax when you’re not going to have that tax put in place in other places, I don’t think is sensible and so I will block it.

**ANDREW MARR:**
You will block it?

**DAVID CAMERON:**
Unless the rest of the world all agreed at the same time that we’re all going to have some sort of tax, then we’re not going to go ahead with that.

**ANDREW MARR:**
What about the use of I think we call them the 26 now - those who …

**DAVID CAMERON:**
Well we don’t know whether it’ll be 26 or less who go ahead with this new treaty outside the European Union.

**ANDREW MARR:**
The 26-ish, we’ll call them in that case. That group. What about they seem
determined to look at single market issues as part of the reform and the change to the Euro as a currency block. Now is that something that you are going to stop, or are you talking about attending those meetings as an observer? How are you going to handle this?

DAVID CAMERON:
Well it’s something … Look, there’s a new organisa… a new treaty being formed outside the European Union - it may involve 26, it may be fewer. At its heart, it is about Eurozone countries, countries that are in the Euro, having a tough set of rules about the deficits they’re allowed and all the rest of it, and that is quite rightly the business of the Euro. We’re not in the Euro, we don’t want to join the Euro. Frankly we’re a lot better off outside the Euro with our own currency and our very low interest rates that we have right now. The key for me is that Britain’s interest is in having a strong single market that’s determined at the level of the 27, and the interesting thing about this new treaty that’s under discussion is it says very, very clearly in Article II of the treaty that this treaty does not supersede or interfere with or override in any way the treaties of the European Union. It’s entirely subservient and separate to them. And that’s the absolute key.

ANDREW MARR:
And yet in sort of psychological and human terms being the one outside would be an uncomfortable position in the year ahead. Do you intend to make sure that you’re back inside whatever tent it is?

DAVID CAMERON:
I think that’s … I think that’s a slight myth. I mean the fact is when the Euro was created, that was the moment at which those countries with their own currency - and frankly now their own problems to deal with - inevitably had to spend more time talking to each other and deepening their relationship together. They’ve been having separate meetings without the United Kingdom being present for years now and, frankly, they need to have more meetings to sort out their problems. And if they want to discuss something like, I don’t know, the fact that the Germans are understandably angry that they retire in their mid-60s and Greeks retire in their mid-50s, then that’s something of course they can talk about. That doesn’t have an effect on Britain, so
I’m happy for them to go ahead and have those discussions. What matters for Britain is is the single market working, is it being completed, are we making sure that Europe’s markets are open for Britain and are we increasing enterprise and wealth and jobs in that way? And that’s where my efforts will be put this year.

ANDREW MARR:
Are you taking this country in a fresh direction when it comes to Europe? Politically, as well as over this particular row, are we marching off finally in a new direction?

DAVID CAMERON:
We’re certainly not going o… We are committed members of the European Union, committed members of the single market, but frankly I’m quite relaxed about the fact that when it’s in the national interest to be in something - the single market - we’re in it; Nato, we’re in it, lead it; but when it’s not in our interest to be in something - like the Schengen No Borders Agreement - I don’t want us to join it and we’ll stay out of it.

ANDREW MARR:
Let me …

DAVID CAMERON:
(over) And the Euro, we’re a lot better off outside it, so we’re not going to join it. And I think standing up for your national interest and choosing which things really matter, I think that is a very, very sensible approach.

ANDREW MARR:
Let me ask you about two other things, if I may, that have been much in the news recently. One is increasing worry about the rhetoric from Argentina about the Falkland Islands. We’ve just had the film The Iron Lady reminding us of 1982 and all of that. But the Argentines have built up a lot of support among other South American nations. Are you worried about the tone, the sort of drumbeat that’s going on out there?

DAVID CAMERON:
Well obviously it’s a very important anniversary this year. And I remember as a young boy at school listening to the radio and following really closely what happened in 1982 and the incredible bravery of our service personnel in recovering the Falkland Islands. And we must never put them at risk. We must make sure their defences are strong and that’s exactly what we are doing, and there’s no question of negotiating on the question of the sovereignty of the Falkland Islands. We also need to build strong relationships with all countries in South America and we’re doing that, particularly with countries like Brazil and Chile.

ANDREW MARR:
But there’s no immediate, there’s nothing immediate to be worried about?

DAVID CAMERON:
No. Look, we are permanently vigilant about the protection of the Falkland Islands and their defence …

ANDREW MARR:
Okay.

DAVID CAMERON:
… and I’ve spent a serious amount of time making sure that’s the case.

ANDREW MARR:
Alright. One final point. Ed Balls is not your favourite Labour politician. You said it was like being confronted by somebody with Tourette Syndrome. A mistaken choice of words?

DAVID CAMERON:
I was speaking off the cuff, and if I offended anyone of course I’m very sorry about that. That wasn’t my intention at all. But I think probably it’s a lesson for me that in the Commons, I have to try and tune out the noise that’s coming and just concentrate on trying to answer the question. But I’m sure, as Meryl Streep when she came to the House of Commons and watched Question Time, she probably saw that it can be challenging by moments.
ANDREW MARR:
A bit wild. Alright, a busy year ahead. Prime Minister, thank you very much indeed for joining us.

DAVID CAMERON:
Pleasure.

INTERVIEW ENDS