ANDREW MARR:
Well, as we heard in the news, Labour have today outlined a new plan to recast the face of high street banking in Britain, breaking up the cartel of five big banking groups and selling off many high street branches. This comes in the wake of last week’s fight in the House of Commons I was mentioning about Libor, and Ed Balls joins me now.

ED BALLS:
Good morning.

ANDREW MARR:
Good morning. Let’s start with the fight.

ED BALLS:
The fight?

ANDREW MARR:
The fight, the fight in the House of Commons. I mean a lot of people did say it was a bit demeaning; you both got too angry with each other given the scale of you know
the wider issue with banking. Do you rather regret the tone of it now?

ED BALLS:
Well there was a serious hour long speech from me and a debate about the case for a judge led inquiry to get root and branch reform of the banks. But there were also some exchanges which were, as people saw in the news, intense and angry and …

ANDREW MARR:
Too much?

ED BALLS:
I don’t think it’s ever good for people to see that happening in parliament, and …

ANDREW MARR:
So you do regret it?

ED BALLS:
I wouldn’t say I regret it. I mean you know I think it’s really disappointing. But the tone was set earlier in the week …

ANDREW MARR:
Yeah.

ED BALLS:
… and what we had was the Prime Minister and the Chancellor making very partisan statements and saying things which they knew to be untrue, and it was being used as a political smokescreen to divert attention away from that root and branch reform and that wide ranging public inquiry, and that’s not good enough.

ANDREW MARR:
But you say it was “disappointing”. That means that you must have been part of the disappointment because you were part of it. Do you reflect that perhaps from time to time you enjoy the fight just a little bit too much? 3
ED BALLS:  
Well no, if I’m honest with you.

ANDREW MARR:  
No?

ED BALLS:  
No actually, because - and I think this is very serious - in parliament we debate and we ask questions and that is the right thing to do; and at a time when the economy’s in recession and when people are angry about the banks, they want tough questions to be asked. But this was different because what happened was the Cha…

ANDREW MARR:  
You thought your honour was being impuned, your integrity?

ED BALLS:  
I think it was worse than that. I think the Chancellor knowingly said things in the public domain to the spectator which he knew to be untrue, and he did so for political reasons. And his aides subsequently have said he retracts them, but he himself would not withdraw those comments in the House of Commons even though he knew they were categorically untrue. And there are standards which all of us in politics have to abide by. We can’t say to the banks you’ve got to be truthful and honourable if we don’t act in that way. And I think …

ANDREW MARR:  
(over) Well he’s going to get a chance I’m sure before too long to speak for himself, but …

ED BALLS:  
(over) No, but Andrew, his aides have withdrawn these comments but George Osborne would not do so in the House of Commons, and that was why people got angry.

ANDREW MARR: 4
Because he would argue that you misinterpreted it or went too far in your interpretation of what was in the magazine article. But …

**ED BALLS:**

*(over)* Well I don’t accept that.

**ANDREW MARR:**

… we’re getting into detail here. Let’s draw back a little bit. Light touch regulation during the Labour years - when you were very much part of the team, absolutely at the centre of all of this - has been fingered as one of the culprits, one of the things that’s gone wrong; and you have said you thought that you got bank regulation wrong, you’ve apol… My question is why? Casting your mind back, why did that happen do you think during the Labour years - that light touch regulation?

**ED BALLS:**

Well it partly happened all around the world. We know that. It was an American and a British and a German and a French problem.

**ANDREW MARR:**

But particularly in London.

**ED BALLS:**

Well I don’t think so because Lehman Brothers went bankrupt in New York and the banking …

**ANDREW MARR:**

*(over)* Ah but if you look at Lehman Brothers, ABN, lots of the other ones, it was their London operations that were the trouble. London seems to have been more the Wild West in this …

**ED BALLS:**

Well …

**ANDREW MARR:** 5
… than anywhere, including New York.

ED BALLS:
I don’t think that’s right.

ANDREW MARR:
Don’t you?

ED BALLS:
I think actually, if anything, the American regulation was weaker than the British regulation. But going back to the context of that time …

ANDREW MARR:
Yuh.

ED BALLS:
… we had come in. We had taken over from self-regulation. We’d put in place legal statutory regulation. All the time when I was a city minister when I should have been tougher, I was continually attacked by the city, by George Osborne, by others for being too soft, too light [* correction]. I mean I wasn’t the person who was being cheered for being light. I was the one who was being attacked for being heavy. And the context of the time was to be heavier was to undermine city competitiveness. We said our regulation must be risk based. Round the world, we missed the risks.

ANDREW MARR:
Was it that they were being as it were almost too successful? The huge amount of tax that was coming in from the city, this was the goose that just kept producing more and more golden eggs and nobody wanted to look too closely?

ED BALLS:
I don’t think so at all.

ANDREW MARR:
Is that fair? 6
ED BALLS: No, I actually don’t think that that’s true, and that’s not how it felt at the time. It felt at the time that when we were being tougher on regulation, we were being attacked. But listen, the City of London and the wider financial services is really important and there are hundreds of thousands of people around the country, including people watching your programme, who work every day hard in banks, paid ordinary salaries, who feel that their integrity is undermined by finding out that a few - in for example Barclays - were acting illegally and in a corrupting manner in the way they manipulated the markets. And part of the reason why we say we need a judge led inquiry is not only to get to the individual details and to answer the kind of question you put, but more widely we’ve got to find a way to move on, to have some catharsis and rebuild trust, and that requires people who need banks and want banks to be fair and effective to see there is change, and that’s what we want to talk about.

ANDREW MARR: Absolutely, I want to come onto the Labour proposal in just a minute. But you would acknowledge that Labour got it wrong on bank regulation and what now has to happen is a tougher system?

ED BALLS: But you’ve just said that and I’ve agreed with you …

ANDREW MARR: Okay, well let’s …

ED BALLS: … and you’ve said it again. Listen, we need to toughen up regulation. I agree with that. I was continually attacked by my opposite number for being too soft [*correction]. We need to toughen it up and the question is how? And my worry, if I’m honest with you, and the reason for the politics of last week is that I think, if I’m honest, George Osborne and Vince Cable are foot-dragging on reform, they’re being too soft on competition and consumer issues. They don’t want a judge led public inquiry … 7
ANDREW MARR:  
(over) Okay, well let’s try and explain …

ED BALLS:  
… and the question is why don’t they want that public inquiry?

ANDREW MARR:  
Let’s try and explain to people, let you try and explain what the Labour proposals actually are because there has been this commission on banking which says let’s have a division between the so-called casino banks - and not everyone in investment banking is like that - but so-called casino investment banking and the ordinary high street banks, but you don’t think that goes far enough?

ED BALLS:  
Well we need root and branch reform. And I don’t think we know all the answers to what needs to be done, which is why I’d quite like to have the public inquiry that the government’s refusing to have. But let me tell you some things which should be done now. First of all, the Vickers Commission said go faster on breaking up banks and having more diversity, more choice for consumers. The government’s dragging their feet. They should go faster and they should have more branches for more banks - more challenger banks, more new banks.

ANDREW MARR:  
And so does that mean current banks being forced to sell off their branches in high streets up and down the country to new banks which …

ED BALLS:  
(over) Yes.

ANDREW MARR:  
… which haven’t actually yet been created? 8
ED BALLS:
Yes. And it’s happening with Lloyds who are selling probably to Co-op Bank. I hope so. But Vickers said go further and faster and it’s not happening, and we’re saying to the government review this more quickly, move faster. Secondly, it’s very difficult to change bank accounts. People do it on average every 26 years. You’re more likely to be divorced than to change your bank account. And that’s partly because it’s difficult. If these days you change your mobile phone from one company to another, you keep the number. In banking, you still have to …

ANDREW MARR:
(over) Everything has to change.

ED BALLS:
… change everything.

ANDREW MARR: Yeah.

ED BALLS:
And one of the proposals is, which I think there’s a growing support for, is to say you should take your bank account number with you to make it easier. The government’s resisting that. Vickers actually pulled shy of that. I think we should look at that again. I think that’s a good thing to do. Also the point you made about casino banking. Vickers said don’t have derivatives for small business lending within that protected retail bank. Have that on the outside. The government has gone backwards on that and put the mis-sold derivatives back in the ring-fence. That is a mistake. It’s a watering down.

ANDREW MARR:
Do you want to go so far as to actually physically divide current banks into investment banks, which would be one institution, and retail banks which would be entirely different?

ED BALLS:
Well that is effectively what Vickers proposes with a ring-fence, a clear line between 9
the two. And what I think is happening is the government is watering that down and that’s a mistake, and Vickers himself has said he’s concerned about that. But it’s also about the culture of banking. You know there’s no proper code of conduct, it’s not enforced. You end up with this world in which it looks like bankers can do what they think they can get away with and also then the legal sanctions aren’t tough enough because the SFO, the fraud people aren’t stepping in. That’s got to change and we need to get …

ANDREW MARR:
(over) Should fixing the Libor rate have been a criminal offence?

ED BALLS:
It is a criminal offence and always was.

ANDREW MARR:
Well I understood … I mean we certainly had Adair Turner in last week from the FSA saying unfortunately that isn’t a criminal offence.

ED BALLS:
That’s wrong.

ANDREW MARR:
That’s wrong?

ED BALLS:
Absolutely wrong. What is true is it’s not the regulator’s job to enforce the criminal law. That’s the job of the Serious Fraud Office. Under the Fraud Act 2006, the SFO should be doing that. The trouble is …

ANDREW MARR:
You’d like to see people prosecuted, people in court for what happened?

ED BALLS:
Of course. And the reason why people are so angry is they think when people avoid 10
their taxes or cheat on benefits, they get sentences in jail; but when bankers do massive multi-
million or billion pound frauds, there aren’t criminal prosecutions. And the government should
have acted and I think the fraud office has been very, very tardy on this.

ANDREW MARR:
Okay. And what about Bob Diamond’s pay-off? Sixteen million he stands to get as things are at
the moment. What’s your reaction to that? Is that just past history or is that unacceptable and a
scandal?

ED BALLS:
I think you answered the question. I think people will look at that …

ANDREW MARR:
(over) No, I asked the question.

ED BALLS:
… people will look at that and think that is totally outrageous. It’s outrageous that somebody
should stand aside because the board decides that there’s a problem and then get a payout which is
sort of off the scale for anything anybody, normal people, will earn in their lifetimes. How can that
be?

ANDREW MARR:
So it has to be stopped one way or another?

ED BALLS:
Well, look, I think the shareholders are going to think really hard about this and I think the
government will need to look at this as well and talk to the shareholders. They clearly talked to the
shareholders about Mr Diamond. I think they’re going to have to say them the public will just
think that is really shocking. More generally …

ANDREW MARR:
(over) And Barclays …
ED BALLS:
… there’s a debate about bonuses. Our government now seems to be blocking action internationally to be tougher on bonuses. Why does George Osborne want to do that? We should have a bank bonus tax, we should have action on the economy. We’re in recession, Andrew, and instead we see diversion, misleading, a lack of action. It’s not good enough.

ANDREW MARR:
Alright. Ed Balls, thank you very much indeed for joining us this morning.

ED BALLS:
Thank you.

INTERVIEW ENDS

Please note: Mr Balls would like to make clear that when he said in his interview that he was thought of as too ‘soft’ on banking regulations – he got this wrong – and actually meant to say he was thought of as being too ‘tough’, as is clear from the context.