ANDREW MARR:
As we heard earlier, the Chancellor was pretty frank writing in the Mail on Sunday this morning. He takes responsibility for getting the presentation of the Budget wrong and says, “let me take it on the chin”. But what does the government do now to try to reconnect with voters who have deserted them? George Osborne is here. Good morning.

GEORGE OSBORNE:
Good morning.

ANDREW MARR:
Let’s start with the economy. You said that Britain is out of the danger zone a couple of years ago. We’re not, are we?

GEORGE OSBORNE:
Well we don’t face the kind of financial pressures which many European countries face like Spain and Italy. We have very low interest rates and those are enjoyed by
families in their mortgage bills and enjoyed by businesses with their business loans; and a big increase in interest rates, which you've seen in other countries, would come about if we abandoned our deficit plan, if we lost the confidence of the markets, if we were plunged back into that financial danger zone. So yes, of course, there are real economic problems out there, but we …

ANDREW MARR:
(over) But we are out of the danger zone, you would still say?

GEORGE OSBORNE:
Well I don’t think we’re in the kind of financial crisis that you see many other European countries in - even though actually of course the budget deficit that I inherited and that this country still has is higher than all these countries we see on our TV screens every night.

ANDREW MARR:
And yet at the time of the first budget, you promised the country growth and unemployment starting … getting a handle on unemployment, and we didn’t get that. And the second budget, you promised the same thing and we haven’t had it. You know we’re into a double dip, it’s flat as a pancake, so something has gone wrong.

GEORGE OSBORNE:
Well of course things have gone wrong. We’ve had the crisis in the Eurozone. That is where 40 per cent of our exports go. We’ve had a big increase in the oil price. And here in Britain, I think everyone realises now that the banking crisis and the debts we built up in the good years have had a real effect on our ability to recover, and it’s taking longer to work through that than I had hoped, than the Governor of the Bank of England had hoped, than many people observing the British economy had hoped. So yes things of course have not turned out as we had all wanted two years ago, but I don’t think you could find a finance minister of any Western country in the world at the moment who would not say the same thing.

ANDREW MARR:
At the moment you’re spending around £65 billion a year more than Gordon Brown in
his last year as Prime Minister. A lot of your own colleagues are saying they want a proper, a more conservative response. They want sharper cuts in spending, including on welfare, and they want wider, larger tax cuts.

GEORGE OSBORNE:
Well one of the legacies we inherited from Gordon Brown and Ed Balls and Ed Miliband and all that crowd was a big, rapidly increasing debt interest bill. I mean one of the tragedies for this country at the moment is that we are spending something approaching £65 billion a year on simply paying the interest on our debt, so we have to get those debts down and we have to get that deficit down. Now I …

ANDREW MARR:
(over) Are you doing enough to get that spending down?

GEORGE OSBORNE:
Well I would say we’ve got a balanced plan. There are some who would like me to cut more.

ANDREW MARR:
Yes.

GEORGE OSBORNE:
There are a few who say we shouldn’t be cutting at all, although I think they’re on the margins of the debate now. I think we’ve got a balanced plan that gets it about right. The deficit is coming down. And actually one of the things I’d like to say people watching this because they see the sacrifices they’ve had to make, the difficult decisions that have been taken, is that the deficit is coming down and the world’s confidence in Britain has grown enormously over the last two years …

ANDREW MARR:
(over) But you’re ho…

GEORGE OSBORNE:
(over) … which is evidenced in those low interest rates. You know people at home when you get a credit card bill, they know that if you’ve got problems paying your
debts your interest rates go up. In Britain our interest rates have come down precisely because they see a government that commands confidence, that’s able to deal with these debts.

**ANDREW MARR:**
And yet you said that we would pay off the structural deficit by the end of this parliament. No chance of that now, is there?

**GEORGE OSBORNE:**
Well, look, as I say we have set out our fiscal plans and our debt rules and we intend to have debt falling as a percentage of national income by the end of this parliament, but obviously we’re not trying to balance the budget every single year. I’ve not introduced a balance the budget every single year and we allow automatic stabilisers to operate - in other words you know …

**ANDREW MARR:**
(over) That’s the 19 billion or so on welfare bills because of rising unemployment.

**GEORGE OSBORNE:**
Well you know if unemployment rises - although we should note that the most recent figures showed unemployment falling in this country - but if unemployment rises, then of course we pay unemployment benefits. We don’t cut those off. So what we’ve got is we’re attacking what’s called the structural deficit. In other words, when you take out the ups and downs of the economic cycle, you know what is the core of what that country can afford, and that is what we are tackling.

**ANDREW MARR:**
A lot of Conservative MPs are simply saying you have to go further when it comes to cutting government spending, cutting the bills of central government; and you’re saying to them no, I’m not going to change direction, I’m not going to cut further, I’m not going to bring in more tax cuts?

**GEORGE OSBORNE:**
I think we have got the judgement right. I think we’ve got the right path for reducing
the structural deficit, the underlying debts and deficit this country has. It is striking in
the last week - and we’re going to come onto some of the you know difficult political
news for the government in the last week - but the governor of the bank,
independently appointed by Gordon Brown in the last parliament, you know he said
actually our response to the debt crisis has been textbook. Now I am not complacent
about what we’ve got to do - I completely agree with you that the economy is not
growing as we want it to - and that’s why what we’ve really got to do now is focus all
our efforts, the energies of myself, the Prime Minister, Nick Clegg and the cabinet, on
getting those infrastructure projects underway, getting the banks lending, making sure
enterprise flourishes in this country, helping young people get a job. You know that is
where a hundred per cent of our efforts need to be directed now.

ANDREW MARR:
Well I was going to say, I mean you know if you were a doctor and you came along
and said this is going to make you better and next time you were feeling worse and
you gave the same medicine again and you were still feeling worse. That’s why
people are saying you’ve got to have a plan; if not a Plan B at least a Plan A+ or a
Plan you know C or something like that which must involve more to get people
working, must involve changes to the labour market, must make it easier for people to
hire and fire workers. Have you got a second plan in your pocket?

GEORGE OSBORNE:
Well, first of all, actually the national mood is now very much behind the deficit plan.
I don’t find large numbers of people coming up to me in the streets and saying you
know you should ease off on dealing with the deficit, and actually the questions
you’ve been asking me today are all about should I be going further in reducing the
deficit. So I think actually there is a national consensus around the deficit reduction
plan. Where I completely agree is that we need to be doing even more to get the banks
lending, as I say. We’ve got a new youth contract which has only just come on stream
to help young unemployed people. Our credit easing scheme for small businesses has
just started. So we’ve got a lot of things that are starting now. But yeah, absolutely,
look I don’t sit here …

ANDREW MARR:
(over) So …

GEORGE OSBORNE:
(over) … I don’t sit …

ANDREW MARR:
(over) … so for all those voters who gave your party such a drubbing in the polls - perhaps many of them because they don’t see any growth happening, they don’t understand where the optimism and the growth is - what can you say to them about what you’re actually going to do in response?

GEORGE OSBORNE:
What I would say to them is we are straining every effort we’ve got to get the economy moving, to get enterprise going, to get businesses hiring people. You know what I would say …

ANDREW MARR:
(over) So what more are you going to do?

GEORGE OSBORNE:
Well what I would say to the people who voted on Thursday - and indeed of course the very many people, the majority of people who didn’t vote on Thursday - is this. The government understands your message. We take it on the chin. We’ve got to learn from what you’re saying. And I think what people are saying to us is focus on the things that really matter - focus on the economy and on welfare and education and healthcare; focus on those things. Don’t get distracted by too many other issues. Make sure that you understand that the people in this country are having a tough time. We do understand that and we are doing absolutely everything to take Britain out of this horrendous mess that it got itself into over the last decade and make sure we have a brighter future not just for ourselves but for our children.

ANDREW MARR:
And yet you are part of a government which appears to be going to spend a large chunk of the next year engaged in a debate about Lords reform and gay marriage.
That is not what your Conservative MPs want.

**GEORGE OSBORNE:**
Well look, first of all I would say the idea that people voted Labour on Thursday or didn’t vote at all was because of our plans for gay marriage or House of Lords reform is I think clearly not the case.

**ANDREW MARR:**
(over) No, but they may think you’re not focusing enough on what you should be focusing on.

**GEORGE OSBORNE:**
(over) Well I think we do need to focus on the issues that really matter. That’s what I’ve just said to you. I think we do need to focus on the economy of course at a time like this and other issues like welfare and education and healthcare. Look, when it comes to the House of Lords, parliament will debate this - and parliament’s perfectly capable of debating many things, that’s what parliaments do - but it is not going to be the number one overriding priority of this government, absolutely not. The number one overriding priority of this government is fixing the economy.

**ANDREW MARR:**
Given the preponderance of Conservative MPs over Liberal Democrat MPs, should you not just turn round to the Lib-Dem leadership and say I’m terribly sorry; given the stage of the economic crisis that we’re in, we are not going to spend time on Lords reform. It might be a nice idea for one day. We are not going to get bogged down in this now?

**GEORGE OSBORNE:**
Well again I would say this. All three parties - Labour, Liberal Democrats and Conservatives - promised to look at Lords reform in their manifesto. That’s what we will do, but it is not going to be occupying the bulk of the time of people like myself and David Cameron and indeed Nick Clegg. You know we are focused on the really important issues that matter to people watching this programme.
ANDREW MARR:
(over) It’s a great sticky morass, Lords reform, as we all know, and you are at the moment walking straight towards it. I mean are you going to be able to dodge it?

GEORGE OSBORNE:
As I say, parliament can discuss these issues, parliament’s very good at discussing constitutional issues, but it is not … certainly not my priority, it is not the priority of the government. It is something which of course we will debate over the coming weeks, but it is not where the efforts of the government and the executive are going to be directed.

ANDREW MARR:
Yes. There are huge numbers now of unemployed people, including young unemployed people. If you don’t get them into work soon, they may never work. What plans do you have, are you thinking about for new infrastructure, new building, things to actually get people working again?

GEORGE OSBORNE:
Well we’ve got huge plans for infrastructure. We’ve got roads that are beginning construction as we speak. We are putting more money into school building now. We have got housing …

ANDREW MARR:
(over) House building…I mean Lord Oakeshott was saying we need more house building.

GEORGE OSBORNE:
Well actually I don’t always agree with Matthew Oakeshott, but I agreed with some of the things he was saying. And I think on house building - yes we need to look at what more we can do to get the house building industry going. There there’s a problem with the mortgages that people can’t get at the moment, so it is a problem with finance for families. And we have got mortgage schemes. They’ve just started this last April.
ANDREW MARR:
Yes.

GEORGE OSBORNE:
But you know if there is more we can do on housing, we will definitely do more. And also on banking. Here’s something I absolutely agree with. We need to do more on our banking system. It remains deeply damaged because of the financial crisis; it is not lending as it should. And you will see over the next few weeks the government coming forward with plans to make our banking system safer, to protect retail banks from their investment banking arms …

ANDREW MARR:
(over) And we’ll see that in the Queen’s speech, will we?

GEORGE OSBORNE:
Well I don’t want to pre-empt what the Queen says, but it is something we’re going to be talking about in the next few weeks.

ANDREW MARR:
Is it true that you’re going to soft pedal on gay marriage as a core coalition policy?

GEORGE OSBORNE:
(over) No, that … Well it’s not true as it’s presented in the papers. There was never going to be a bill in the Queen’s speech on gay marriage - that wasn’t the plan months ago and it’s not the plan today - but we are consulting on gay marriage. You know personally I’m someone who believes that this is the right policy, but I understand there are people who disagree with it, so let’s listen to opinion on that. But I think actually we are a socially progressive country and it’s something I support, but let’s hear what people say.

ANDREW MARR:
If you were a Conservative chancellor of a Conservative government, would you be doing what you’re doing at the moment or would you be going further in labour market deregulation, further in getting rid of the deficit?
GEORGE OSBORNE:
Well, first of all, I think a Conservative government will still be doing socially
progressive things, but …

ANDREW MARR:
(over) No, sure, but I’m just talking about on economics.

GEORGE OSBORNE:
(over) We are not a Conservative government. We’re a coalition government.

ANDREW MARR:
No but if you were, would you be going further?

GEORGE OSBORNE:
If we were a Conservative government, there are things we’d be doing on the
European Court of Human Rights, which we’re not able to do because we’re in a
coaition. You know …

ANDREW MARR:
(over) And on the economy?

GEORGE OSBORNE:
(over) … on employment law, I don’t think it’s any secret that there are changes to
employment law that we would like to make that you know our colleagues in the
government, in the Liberal Democrats are not happy with. You know …

ANDREW MARR:
(over) Because many people say that’s what’s holding back growth actually, those …

GEORGE OSBORNE:
(over) What I’d say to you, Andrew, is no party got a majority in the last General
Election and we could have been in a complete political crisis in this country if David
Cameron and Nick Clegg had not agreed to work together in the national interest, if
the two parties, the Liberal Democrats and the Conservatives, hadn’t worked together. And even in last Thursday’s results, which were not great for either party, close to half the population voted for either Conservative or Liberal Democrat candidates. So you know people understand we didn’t get a majority.

ANDREW MARR:
Okay.

GEORGE OSBORNE:
And, look, if you’re saying to me at the next election would I like a Conservative majority - yes, I would.

ANDREW MARR:
Okay, all right. Let’s turn to some other aspects of this. Nadine Dorries is now saying that David Cameron can be challenged for the leadership by Christmas. She was disobliging about posh Tory boys and all the rest of it. How long can you carry on giving the Conservative whip to somebody who’s behaving like this?

GEORGE OSBORNE:
Well, look, Nadine Dorries for the last seven years, I don’t think has agreed with anything either myself, David Cameron or indeed most Conservatives in the leadership of the party have done. She …

ANDREW MARR:
(over) Are you going to do anything about it?

GEORGE OSBORNE:
(over) Well you know she has objected to the modernising of the Conservative Party, as I would put it, and that is her business. But we’ve got to stay focused on what really matters and I think you know the issues that matter are actually not House of Lords reform, not gay marriage - which are the issues she raises. They are the economy …
ANDREW MARR:
Yuh.

GEORGE OSBORNE:
… the education system, the welfare system, our police …

ANDREW MARR:
(over) And …

GEORGE OSBORNE:
… the NHS.

ANDREW MARR:
Yes.

GEORGE OSBORNE:
You know these are the issues …

ANDREW MARR:
Absolutely.

GEORGE OSBORNE:
… and these are the issues that the public want us to address.

ANDREW MARR:
Well the public are also interested of course in what’s been the Leveson Inquiry focus on relationships between your party and the Murdoch empire. It has been said that Andy Coulson got his job in No. 10 because you brought him in. You were the guy who ushered him in, introduced him and got him that job. Is that true?

GEORGE OSBORNE:
Well, I mean, first of all, there is an inquiry going on …

ANDREW MARR:
Yeah, but it’s a straight question.

**GEORGE OSBORNE:**

... so I don’t want to pre-empt the inquiry. Look, as I’ve said many, many times in the past, you know I approached Andy Coulson to see if he was interested in getting the job as Director of Communications for the Conservative Party. I’ve made no secret about that.

**ANDREW MARR:**

He’d just left a newspaper under difficult circumstances. Why did you approach him?

**GEORGE OSBORNE:**

Well we needed a new Director of Communications and he was the best person for the job of the shortlist of candidates we had.

**ANDREW MARR:**

Did you think so?

**GEORGE OSBORNE:**

Well I actually have said, I mean I’ll repeat exactly what I said …

**ANDREW MARR:**

... a year ago, which is you know knowing what I know now, of course we regret that decision. But at the time …

**ANDREW MARR:**

(over) And if you’d known that he had News International shares which he kept at No. 10, what would you have thought about it?

**GEORGE OSBORNE:**

I … Look, as I say …
ANDREW MARR:

(over) BSkyB shares.

GEORGE OSBORNE:

… knowing what I know now, knowing what the Conservative Party knows now, we would not have appointed him; and by the way, he probably wouldn’t have wanted to have been appointed. You know I’m repeating what I said a year ago about that. But I think sometimes people forget why is there a Leveson Inquiry. The reason why there’s a Leveson Inquiry is because David Cameron set one up. And the idea that David Cameron is the first Prime Minister of this country or first leader of a political party to talk to the Murdochs is of course nonsense. You know the last government had a deep relationship.

ANDREW MARR:

Okay.

GEORGE OSBORNE:

And actually …

ANDREW MARR:

(over) Are you worried about what’s going to come out this week …

GEORGE OSBORNE:

(over) Well no, no …

ANDREW MARR:

(over) … with tweets from Rebekah Brooks and the Prime Minister and all of that? You must be a little nervous?

GEORGE OSBORNE:

You know we set up the Leveson Inquiry. We wouldn’t be … You know if we didn’t want a Leveson Inquiry, we wouldn’t have set one up.

ANDREW MARR:
You didn’t have a lot of choice at that point, it might be said.

**GEORGE OSBORNE:**
Well do you know, that is not true. Of course we could have said no.

**ANDREW MARR:**
Okay.

**GEORGE OSBORNE:**
It’s easy for governments to say no and ride out a couple of days of bad headlines.

**ANDREW MARR:**
Alright, okay.

**GEORGE OSBORNE:**
But actually we wanted to take on this issue of the relationship between the media and politicians and that’s what’s happening.

**ANDREW MARR:**
Okay. If Francois Hollande wins tonight, how much of a problem is that for you and for the Conservative-led government?

**GEORGE OSBORNE:**
I don’t think it’s a problem. I mean …

**ANDREW MARR:**
*(over)* He’s anti-austerity. He says he wants to open up the pact…

**GEORGE OSBORNE:**
He’s not anti-austerity actually. What’s interesting about Francois Hollande - and we don’t know if he’s going to win this or not …

**ANDREW MARR:**
Sure, sure.
GEORGE OSBORNE:
… but you know what’s interesting about Francois Hollande is he has not actually departed from the message in France that you've got to deal with the French deficit. He’s made it very clear he wants to deal with the deficit. He wants to enact into French law a balanced budget rule. So what’s interesting about Francois Hollande is yes of course he wants growth - we all want growth. He wants to look at measures that will free up the French economy, get it growing, like I want to see the British economy growing. But he is a Centre Left politician who has not stood against austerity. He wants austerity and other measures. And that is actually quite a contrast to the Labour Party in this country and particularly Ed Balls you know who actually is anti-austerity or anti-dealing with the deficit and the debt …

ANDREW MARR:
(over) And this is important because …

GEORGE OSBORNE:
(over) … the very debt and deficit that he created.

ANDREW MARR:
The Prime Minister when he was here last week said that you know we were not even halfway through this euro crisis. Do you share his grave worries about what may happen next?

GEORGE OSBORNE:
Yeah, of course I do. And I think what you see in countries like Spain and Italy is that they have got years of difficult, painful adjustment - let alone Greece, which also has an election today. So you know the impact of this crisis is being felt. But actually one of the advantages Britain has by not joining the euro …

ANDREW MARR:
Right.

GEORGE OSBORNE:
… is that we can deal with our debts and keep our monetary policy loose, so we can
get our economy growing.

ANDREW MARR:
Chancellor, thank you very much indeed for joining us today.

INTERVIEW ENDS