ANDREW MARR:
Last week the Governor of the Bank of England, Mervyn King, made clear that he felt the greatest threat to Britain wasn’t inflation or rising unemployment, but the continuing uncertainty in the Eurozone. Well by tomorrow evening, we should know the outcome of that critical meeting in Brussels when European finance ministers decide what to do about the crisis in Greece - again - a crisis that is causing uncertainty across the EU. I’m joined by the Shadow Chancellor Ed Balls.

ED BALLS:
Good morning.

ANDREW MARR:
Good morning. You were famously in government, hostile to Britain joining the euro. What do you think should happen now with a country like Greece where they are absolutely up against it and really serious rising anger about other people you know turning the screw on them?
Well it was the right decision for Britain not to join the euro.

**ANDREW MARR:**
Yuh.

**ED BALLS:**
That’s something that William Hague and I can agree on, and I think it was the wrong …

**ANDREW MARR:**
*(over)* But what about Greece?

**ED BALLS:**
And it was the wrong decision for Greece to join the euro because I’m afraid that Greece was at a different stage of development, not integrated enough into the Northern European economy, and they’re paying a huge price as a consequence. The problem we’ve got is there is now no easy way forward. I’m afraid simply to say Greece should just leave the euro doesn’t solve the problems for the Eurozone - potentially it’s very dangerous and destabilising; but for Greece to stay in the euro - and the same is true for Ireland, for Spain, for potentially Italy too - means a long and protracted period of slow growth, high unemployment at a time when the German economy is not really willing to pull its weight. The Germans aren’t doing what needs to be done.

**ANDREW MARR:**
And the politics of that are lethal, aren’t they?

**ED BALLS:**
I think it’s a very dangerous situation. We’ve been here before - countries locked together in a deflationary environment, years of slow growth and high unemployment. We saw it in the 1930s. I think we are seeing history repeat itself and it’s important to learn lessons for that here in Britain but also in the euro area.

**ANDREW MARR:**
So although there’s no good outcome for this, would you agree that it is pretty much
inevitable now that Greece is going to have to leave the euro?

ED BALLS:
I don’t think it’s inevitable. I think the reality is that Greece is not really engaged in the global economy at the moment. They are propped up by public spending resources from the rest of the euro area. That can carry on. It won’t make it easy for the Greek economy to adjust. I think the real question though, the real policy question is what happens in particularly Spain and Italy. A messy Greek default which raises questions in the markets well us, Spain and Italy next, at a time when Germany and the European Central Bank are not able to face up to the common obligations you need in a single currency, that could lead to a crisis in the Eurozone which would be very dangerous indeed. If that crisis doesn’t happen though, what’s the consequence? A long (in my view) protracted period of slow growth, high unemployment. The political problems that can come from that …

ANDREW MARR:
(over) So better have a crisis in some respects. Better the crisis than the sort of endless no growth, slow growth and political despair?

ED BALLS:
Well the reality is that over the last two years European leaders have failed to face up to what needs to be done. They’ve kind of got to the edge of a crisis and then pulled away.

ANDREW MARR:
Yeah.

ED BALLS:
Our government in my view has not been giving the lead to try to get this sorted out. They’ve seen it as a convenient excuse for Britain’s own self-made problems.

ANDREW MARR:
Looking at this now, as I understand it Labour’s policy is we will join the euro when the time is right. Do you think it’s time to go beyond that and say actually, “In my
lifetime, no. In my political lifetime, if I’m on the bridge, we’re not going to join this thing ever”?

ED BALLS:
Well I think it’s inconceivable that in this generation the UK will join the euro. Ed Miliband said that, Douglas Alexander said that. I’ll say that as well.

ANDREW MARR:
(over) So for the next three to five years we’re out of it?

ED BALLS:
I don’t think in my political lifetime there’s any possibility of Britain joining the euro. Nor should we because I don’t think in the end the institutions, the consensus, the framework is there to make the single currency work properly. At least not at the moment, but certainly not for a country which is quite different in some aspects of its economy to Germany, to Luxemburg, to the Netherlands, to even France. So I don’t think we’re going to join the euro, and I think it was one of the most important decisions we made in the last ten years not to join the euro.

ANDREW MARR:
And we shouldn’t be contributing another big tranche of money to an IMF bailout either, should we?

ED BALLS:
Well it depends what it’s for. I’m a big supporter of the IMF. If the IMF goes in to help with a Greek adjustment or a Spanish difficulty, then we’ll support that. But if the IMF funding is supposed to go in to substitute for the funding which should come from the European Central Bank because Germany says we’re not willing to fund the European Central Bank, that would be not only the wrong thing, it would be completely counterproductive. You can’t go to China or the IMF and say please come and give us funds to support Italy and Spain …

ANDREW MARR:
(over) If we’re not prepared to do … I understand.
ED BALLS:

(over) … because we’re not prepared to do that.

ANDREW MARR:

Okay, let’s …

ED BALLS:

But it goes to a deeper issue, which is politically I don’t think Germany in particular has faced up to the reality it’s in a single currency and there’s collective obligations in a single currency. They joined it. They’ve now got to make the best of it, and that is not happening at the moment.

ANDREW MARR:

Okay, let’s retreat from the deeper issue and go onto some shallower issues. I don’t know if they are or not, but let’s talk about tax cuts in this country. You’ve said today you know there is now in your view a very strong case for tax cuts and you’d like to focus of course on VAT and people on the bottom. What about the argument that David Davis was making: actually if you want to create growth, you have to look at corporation tax, you have to look at some of the … even at the 50p rate because that is what’s going to drive more growth and get the jobs the country desperately needs?

ED BALLS:

Well, look, before you jump straight through my whole argument onto the how, can I just make the argument as to why this is important. And there is a parallel with the Eurozone. We’re not in the euro, but we are still imposing upon ourselves an austerity which has turned out to be self-defeating. You and I can agree there is now a big problem of growth and jobs. It’s leading the government not to borrow less - £158 billion more borrowing than they planned. George Osborne says, “There’s nothing I can do. I’m trapped by the credit rating agencies’ do nothing”. I say to him that is complacent and irresponsible and you should act. Let’s now debate how we can act. I’ve proposed a temporary VAT cut. The Liberal Democrats say raise the personal allowance. David Davis is saying cut capital gains tax. We need some stimulus into our economy to get the economy moving, to get growth and jobs back. It’s the only
way to get the deficit down. I don’t think, to be honest …

**ANDREW MARR:**
*(over)* And yet, sorry …

**ED BALLS:**
*(over)* … that capital gains tax will do the job.

**ANDREW MARR:**
Does the stimulus that you suggest not mean that the debt problem gets even worse and the triple A rating is dead? And wouldn’t the triple A rating have gone by now had the country been following your policies?

**ED BALLS:**
Well, look, we’ve discussed this many times …

**ANDREW MARR:**
We have.

**ED BALLS:**
… and let me have another go. You can get your deficit down through tax rises, spending cuts and growth and jobs. If you do your tax rises and your spending cuts, but as a consequence you crush and destroy growth and unemployment rises. Your borrowing doesn’t come down; it ends up staying high. And George Osborne is borrowing £158 billion more than he planned a year ago because of no growth in jobs.

**ANDREW MARR:**
So if, let’s just say, if Tory backbenchers were rallying around the idea of a cut in corporation tax, would the Labour Party support them on the basis that any tax cut at this moment, any stimulus was better than none at all; but get something through the House of Commons if you could?

**ED BALLS:**
Yeah, but David Davis talked about money leaking out of the country. You’ve got
families under real pressure with their living standards falling, hit hard by a VAT rise which is hitting them for £450 a year. That’s why confidence is down, unemployment’s rising, businesses aren’t investing. I don’t think a corporation tax cut or a capital gains tax cut or a tax cut for people on incomes above £150,000 is going to give the injection into our economy which we need. Actually the VAT cut is the fastest and fairest way to do a temporary boost to demand to get confidence moving.

ANDREW MARR:
Okay.

ED BALLS:
You could look at personal allowances, you could look at a rise in tax credits. I think there is a separate debate about long-term, but you need action now. And nobody thinks a cut in corporation tax now is going to get families spending and businesses investing. They’ve had a corporation tax cut and they’re not investing at the moment.

ANDREW MARR:
A one line final, if you don’t mind. If you take power at the next election, it’s going to be in a situation where there is no money, there is no new money. What is the Labour Party for in that situation?

ED BALLS:
First of all, whether or not there is money, and the state of the economy entirely depends on the decisions George Osborne makes right now, and that’s why I’m going to continually press him to not bow to pressure from backward looking credit rating agencies but to do the right thing for growth and jobs to get our deficit down. That will determine whether the inheritance is stronger or weaker. Secondly, if we carry on the way we are, we’re going to have high unemployment and a weaker economy. The Labour Party is about a strong economy, but also about making decisions which will be fair in difficult times whether that’s on energy bills, the bank bonus tax for youth jobs. There’s many things which we can do.

ANDREW MARR:
Okay.
ED BALLS:
What we can’t do now is make businesses about three years time because we don’t know where we’ll be.

ANDREW MARR:
What’s slightly odd in a sense is you know the economy is in trouble and all the rest of it, and yet your leader is not popular. If he did step down, would you put your hat in the ring?

ED BALLS:
Look, I don’t think our leader’s going to step down. He’s going to win the next General Election for Labour. I fought the leadership election. Ed Miliband won. I’m going to back him 100 per cent. The reality is whether it’s on phone hacking or on …

ANDREW MARR:
(over) That’s very disappointing for us all. We were hoping for a story there.

ED BALLS:
Yeah, yeah - pop round for lasagna and I’ll have a chat with you about it, Andrew. (Marr laughs) Phone hacking, responsible capitalism, he’s set the agenda. He’s made the argument that you can have fairness in tough times.

ANDREW MARR:
Yeah.

ED BALLS:
He’s said it’s not responsible to carry on with excess at the top when families are suffering. That’s why we’re saying look even if George Os…

ANDREW MARR:
(over) Alright, for the Lasagna King, I think that’s … we’ve run out of time, but come back another time. Thank you very much indeed, Ed Balls.
ED BALLS:
Cheers Andrew.

ANDREW MARR:
Thanks a lot.

INTERVIEW ENDS