SOPHIE RAWORTH:
Now for the past three years, he has criticised the coalition for cutting too far and too fast, but now the Shadow Chancellor, Ed Balls, is promising iron discipline on public spending if Labour win power in 2015. He and Ed Miliband are now saying for their first year of government, they’d stick to the spending plans about to be unveiled by the Chancellor, George Osborne. So what’s going on? Has Labour done a u-turn and converted to austerity economics? Well Ed Balls is with me now. Good morning. Let’s just get a few things completely clear on the record. You will stick to these plans a hundred per cent 2015/16?

ED BALLS:
We said on current spending, excluding capital, then that’s what we’re going to do. We’re going to inherit a very difficult situation, a huge deficit, because, as you said, the Chancellor’s plan has just not worked to get the deficit down; living standards are falling. Far from healing, the economy’s been flat lining for three years. We’ll have a big deficit to inherit, we’ll have to make very difficult decisions. And I’ve said to my shadow cabinet colleagues, there’s no point coming along and saying we want to
spend more. There’s going to be cuts, lower spending, and we will have to find different ways to make different choices to deliver the strong economy in the fair society which Labour stands for in very difficult times.

**SOPHIE RAWORTH:**
In that first year, would that include borrowing more to spend on capital projects, capital spending, for example?

**ED BALLS:**
Well we’ve said on current spending, that our plan now two years ahead … We don’t know where we’ll be, but I’m expecting to have a big deficit and, therefore, we’ll be matching their plans.

**SOPHIE RAWORTH:**
Would you borrow more?

**ED BALLS:**
On capital spending, we're saying right now that this year and next year the Chancellor should do a £10 billion boost for houses and road building and those kind of things to get the economy growing because if you get more growth, more tax revenues coming in, then we’ll actually get the deficit down; then we could ease the pressure on spending cuts. I can’t say to you in two years time where we’ll be on the economy. I fear we’re going to have weak growth. In two years time, if there’s still a case for capital investment, we’ll make the case. And there may well be for our long-term infrastructure, but on day to day spending we’re going to be very tough.

**SOPHIE RAWORTH:**
Okay, but you are leaving the door open here.

**ED BALLS:**
Yes.

**SOPHIE RAWORTH:**
Even in that first year, 2015/2016, you’re leaving the door open to possibly borrow
more money in order to spend it on big projects, things that you think will encourage growth. But you may borrow in that first year?

ED BALLS:
Well, look, the Chancellor’s going to be borrowing £96 billion.

SOPHIE RAWORTH:
I’m asking what you’re going to do.

ED BALLS:
He said he was going to borrow 18. He’s borrowing 96 because the economy is flat lined, living standards are falling. He’s lost £270 billion in tax revenues.

SOPHIE RAWORTH:
That’s about the Chancellor.

ED BALLS:
I know, but …

SOPHIE RAWORTH:
I’m asking what you would do in that first year. You could borrow. That is the bottom line. You could borrow more money to spend on big projects which you say would benefit the economy.

ED BALLS:
The reason I’m saying we’d make really tough decisions - different decisions but tough decisions - is because we’re going to inherit a weak economy and very high levels of borrowing. And I want to get the deficit coming down. On current spending, day to day spending, we’re saying we’ll have to make changes within their plans; we’re not going to be spending more. On capital spending, we’re saying this year and next year, the Chancellor should be investing to get the economy grown. I’m not going to say to you today two years ahead what our judgement will be. We’ll wait till nearer the time. But do I think there is a case, could be a case in two years time for still investing in roads and our infrastructure to get the economy moving and the
deficit down, yes.

SOPHIE RAWORTH:
And that will mean you have to borrow more. You are leaving the door open for that in that very first year?

ED BALLS:
The economics of this is important to explain. The Chancellor said three years ago he by cutting faster would get the deficit down because he’d get growth. In fact we’ve been in intensive care for three years because his plan failed. The result is he is borrowing billions, billions more. I’m saying to him today, look, rather than simply focusing on cuts two years ahead, why doesn’t he act now on growth?

SOPHIE RAWORTH:
Okay …

ED BALLS:
The International Monetary Fund have said borrow £10 billion now, in the next two years, to get the economy growing. That might be the right thing to do in two years …

SOPHIE RAWORTH:
(over) I’m just trying to clarify. You know what I’m trying to do. I’m just trying to clarify. I mean you know for people who want to vote Labour, they want to know what you are going to do …

ED BALLS:
Well …

SOPHIE RAWORTH:
… and you have said on day to day spending, you will stick to those spending plans. You have left the door open on borrowing, haven’t you …

ED BALLS:
Of course.
SOPHIE RAWORTH:
… for capital projects, and I just want to know - yes or no - you could borrow?

ED BALLS:
Yes, yes of course. The reason is because if the economy is still weak then, living standards are still falling, if youth unemployment is still high and if there’s still a case on our long-term infrastructure to get things moving with interest rates low, of course there’s a case for doing that. It would be economically very foolish to deny that. If George Osborne had done that last year and the year before, we wouldn’t have had such a flat lining economy. I think he’s so complacent and out of touch. I’m not going to make the same mistake.

SOPHIE RAWORTH:
From 2016 then? We know what you’re going to do on the Chancellor’s spending plans from 2015/16. Beyond that, the Chancellor has pencilled in something like £20 billion plus more cuts. Will you be following those or do you think from 2016 you will start spending again because that is what you’ve spoken about in the past - spending to boost recovery?

ED BALLS:
Look, the position for the next Labour government is going to be very different from past Labour governments because we’re going to want to make our society fairer, get living standards rising, invest for the long-term, but we’re going to be spending less, not more. I can’t say to you after 2015/16 where we’ll be on the economy. I don’t think George Osborne knows where it’s going to being two months time. We were just hearing in the paper review look round the world - falling stock markets, the Eurozone in crisis, Brazil, Turkey, the China slowdown. I’m very fearful that we could be in for a very difficult few years. It’s very foolish for me to make promises three, four years ahead, but do I think after 2015/16 the next Labour government will be making very difficult decisions which will involve some cuts? Yes. However, would we be cutting the top rate of tax for millionaires? No. Would we be introducing a mansion tax to give help for hard-pressed families to get the living standards rising? I hope we can do that. Those are the kind of things where we’d make a real
SOPHIE RAWORTH:
You’ve come a very long way on this personally, haven’t you? I mean you look back to 2010. You gave a speech just I think it was in the autumn of 2010 and you talked about the coalition’s spending plans. You called them “heartless”, “wrong-headed”, “un-necessary”, “unsafe for our public services”, “deeply unfair”. They’re all yours now. Are you accepting that what the Chancellor has done is right?

ED BALLS:
The opposite of that. I think we have had a catastrophic, wasted, damaging three years. Healing? There was a recovery in 2010 and it was choked off by George Osborne’s plans. It’s not only been deeply unfair what he’s done - cutting taxes for the richest people, but then hitting the most vulnerable people in our society with a bedroom tax - but, more importantly, it’s not worked. Living standards are down for families. The deficit rose last year compared to the year before. The national debt is rising. We’re going to inherit a very difficult inheritance because the Osborne plan was not only unfair, but it has totally failed on growth and the deficit.

SOPHIE RAWORTH:
But having voted against so many of the cuts, you are now going to accept them, aren’t you? You’ve now said you will stick to these plans for 2015/2016?

ED BALLS:
Look, there’s no point me denying the reality of the situation we’re going to face in two years time. We’re going to come into government in 2015, if people give us their trust, having been told by this government they would get rid of the deficit and the deficit is going to be huge, huge. And we’re going to have an economy, I fear, which is going to be weak; long-term unemployment high; investment decisions not made; the global situation very bad. In that situation, can I as a Labour Chancellor really say to people we can say we’ll spend more here, we’ll just make things better there? It’s not going to be like that. It’s going to be very tough because of George Osborne’s failure. I’m going to have to clear up George Osborne’s economic mess and that’s going to be hard.
**SOPHIE RAWORTH:**
The Head of the GMB union says that everyone who wants to support Labour is crying out for a new hope, a new direction, but you have out-Osborned Osborne.

**ED BALLS:**
Well not everybody is going to agree with what I’m saying and there’s going to be some people …

**SOPHIE RAWORTH:**
(*over*) There are a lot of people who don’t, aren’t there?

**ED BALLS:**
… (*over*) in the Labour Party and in the Conservative Party. I think I’m being very straight and very honest with people. I’m not going to make promises that I can’t keep, but I am going to be very clear: we can do things in a different way on growth and on fairness, but we’re going to have to make cuts. And not everybody’s going to like that, but that, I’m afraid, is the real world. It’s the real world of these years of failure from David Cameron and George Osborne: falling living standards, a high deficit not coming down, the national debt rising year by year by year.

**SOPHIE RAWORTH:**
Public sector workers will have to accept pay freezes again under Labour. I mean the cuts that you are going to have to bring in if you win the next election are going to be just as painful, aren’t they?

**ED BALLS:**
Well, look, unless we can get the economy growing - and George Osborne should act now, this year and next - unless we can get people back into work; we say have a bank bonus tax to get young people into jobs. Unless we can do that capital investment now - you’re right, we’re going to have a very, very difficult inheritance with a very big deficit. I think we can do things differently - business investment bank, an emphasis on vocational education, a jobs guarantee for young people, fairness in taxation, tackling tax avoidance - but if I said there wouldn’t be cuts for the
next Labour government, I don’t think people would believe me. There will be.

**SOPHIE RAWORTH:**
What about the older voters, older people, pensioners? You’ve opened up that debate. You have said that almost I think half of welfare goes on people over the age of 60. It is an important debate that is going to have to be had at some point. You say, writing in a paper today, you’re going to protect pensioners, but what about pension spending? Is that included in your welfare cap that you’ve announced?

**ED BALLS:**
Well the Chancellor’s not announced his welfare cap, so we’re going to see …

**SOPHIE RAWORTH:**
*over* But I’m asking about you.

**ED BALLS:**
*over* … on Wednesday. We’ve said we’re going to have a cap and it needs to look across all of social security and welfare spending. Of course it’s the case. Over the next twenty, thirty, forty years, there are rises in the retirement age coming, which we’ve supported. Because people are living longer, people are going to have to work longer. We’ve said on the basic pension for the next few years, we’ll support the Government on the triple lock, which means that pensions are being uprated. The Tory scares about Labour on pension spending are just nonsense. But we are going to make difficult decisions. I’ll give you one example which we would do in government. We would say on the winter allowance, which we introduced for all, we would say you can’t justify paying that to the richest pensioners with pensions over £40,000 when the NHS is under such pressure and living standards are falling. David Cameron and George Osborne are saying they’re going to keep the winter allowance even for the richest. They’re cutting taxes for millionaires. Those are different choices.

**SOPHIE RAWORTH:**
*over* But what about pensions though, what about pensions? Are you going to cap pensions?
ED BALLS:
Well there has been a debate since the Turner Report ten years ago about how we make sure that our pension spending over the next forty or fifty years is affordable. And that’s why the pension age is rising above 65 over the next fifteen years, which we’ve supported. There is a debate to be had about whether or not we’ve got long-term affordability in pensions. There have been some very difficult reforms in public sector pensions, which have been supported by the trade unions after negotiation because we’re all facing up to difficult decisions.

SOPHIE RAWORTH:
So that sounds like you’re looking at capping pensions?

ED BALLS:
Well I don’t think it’s possible to have a debate about affordability in our social security system and welfare state in the next fifty years and ignore the part of spending, which is more than half of spending, which goes to people over 60. It means that people of my generation or younger generations are going to work longer than our parents and grandparents. That’s all about making pension spending affordability. In the short-term ignore the Tory scares. We will make sure the pension rises and is properly protected, but we will make a difficult decision on the winter allowance for the richest pensioners which David Cameron denies.

SOPHIE RAWORTH:
(over) Well that’s not so difficult, is it? That’s not so difficult because that’s, as you say, for the richest pensioners. We’re talking about pensioners across the board. We’re talking about the state pension here, the basic state pension, aren’t we, and that is a far more painful decision and a far more difficult one you know electorally?

ED BALLS:
It’s very important that the basic state pension is affordable for the long-term. When it was introduced by Lloyd George in the beginning of the last century at 65, people were only living for on average a few years longer than that - two or three years. People are now living for ten, fifteen years and more. I hope that people are going to
live longer and medical technology will mean that we can all live longer. It means that our generation … It’s not about existing pensioners. The next generation of working people, we are going to end up working longer and that will be necessary for affordability and so that we can be better off in retirement.

**SOPHIE RAWORTH:**
A lot of the problems at the moment when we’re looking at the spending review are because so much of the spending is ring-fenced. NHS, for example. Will you continue ring-fencing the NHS?

**ED BALLS:**
Well we’ll make decisions in our manifesto on those things. I think it’s really important … You know the last government said they’d cut inheritance tax and then they didn’t, and that loses trust in politics - people breaking promises - so I’m not going to come along and make promises now. But look, we’ve always supported spending rising in the National Health Service. I think it’s likely that all parties will continue to prioritise the NHS in the next Parliament.

**SOPHIE RAWORTH:**
And finally, VAT - a temporary cut which you’ve talked about in the past. Is that still going ahead?

**ED BALLS:**
Well it’s not going ahead because our Chancellor, George Osborne, has got his hand in the sand and won’t do the right thing.

**SOPHIE RAWORTH:**
*(over)* No obviously under you. We’re not talking about George Osborne. We’re talking about you. Would you do that? Would you still introduce a …

**ED BALLS:**
Today, in government, we would …
I’m not talking about today. I’m talking about after the election. Are you still planning to bring in a temporary VAT cut?

**ED BALLS:**
In my speech two weeks ago, what I said was that today and for the last two or three years, to get the economy moving …

**SOPHIE RAWORTH:**
Today is irrelevant because you’re not the Chancellor.

**ED BALLS:**
Well it’s not irrelevant.

**SOPHIE RAWORTH:**
Well it is.

**ED BALLS:**
No, no …

**SOPHIE RAWORTH:**
You’re not the Chancellor and I’m asking you what you would do if you were the Chancellor in 2015.

**ED BALLS:**
It’s not irrelevant. No, it is not irrelevant because the argument is important. If George Osborne had done this two years ago, then we’d be in a better place.

**SOPHIE RAWORTH:**
Okay, but in 2015 …

**ED BALLS:**
Over the next year, if the recovery takes hold - as I hope it will … Not a strong one, but if it takes hold - I said last week or two weeks ago the balance of advantage will shift from a VAT cut, which is what we would do now and would have done, to
long-term capital investment as the best way to keep the economy growing. So no, do I expect the VAT cut to be part of our manifesto in two years time? No, of course not and I never envisaged that. To be honest, we’ve been advocating it for a year and a half longer than I expected because George Osborne’s failure on economy has been so catastrophic and …

SOPHIE RAWORTH:
Ed Balls …

ED BALLS:
And you know will he admit to that today? I very much doubt it.

SOPHIE RAWORTH:
We will leave it there. We’ll see you back later on though. Thank you very much.

INTERVIEW ENDS