SOPHIE RAWORTH:
Now “the British economy is out of intensive care”. Those were the Chancellor’s words last week - a sign perhaps that he expects growth to pick up soon. It is the lack of growth over the past three years that has killed his plan to eliminate the deficit during this Parliament and that means several more years of austerity to come. Now on Wednesday the Chancellor will set out the next round of cuts that each government department must make, and George Osborne is with me now. Good morning.

GEORGE OSBORNE:
Good morning.

SOPHIE RAWORTH:
So out of intensive care. Have we turned a corner?
GEORGE OSBORNE:
Well I think we are moving from rescue to recovery, and you can see that because the economy’s growing, unemployment is coming down, there’s a record number of people in work. Now it’s still going to be of course a challenge because the economic problems that Britain built up over many years are considerable and you can see what’s happening elsewhere in the world, but I think we are out of intensive care and our job now is to secure the recovery and I’m absolutely confident we can turn this country around.

SOPHIE RAWORTH:
So you have turned a corner? Green shoots out there?

GEORGE OSBORNE:
Well I think we can turn this country around, but we’ve got to stick at the plan, we’ve got to stick at the economic plan that is reducing our debts, making our businesses more competitive, helping to create jobs, making sure Britain can win the global race.

SOPHIE RAWORTH:
But you have turned a corner? That’s what I’m just trying to ascertain. I mean there’s no chance … You’ve said we’re out of intensive care. There’s no chance of a relapse and ending up back there?

GEORGE OSBORNE:
Well there certainly is a chance of a relapse if we abandon our economic plan. I think if Britain suddenly said we don’t have the confidence to deal with our debts, we’re not prepared to confront our problems as a nation, then we would go back into intensive care. And that’s what this week is all about. It’s about making clear that we are going to secure that recovery. We’re going to go on taking the difficult decisions, go on cutting back spending, go on prioritising spending on the things that help the economy and cutting the spending that doesn’t. That is what we’ve got to go on doing.

SOPHIE RAWORTH:
But you set great store by deficit reduction. At the moment it isn’t really happening
though, is it? Broadly it has remained flat.

**GEORGE OSBORNE:**
Well the deficit is down by a third since I …

**SOPHIE RAWORTH:**
*over* But the last …

**GEORGE OSBORNE:**
*over* … I first sat in this chair as the Chancellor.

**SOPHIE RAWORTH:**
Absolutely. But the last two years and possibly by the end of this year, it’s basically stuck around the 120 billion, hasn’t it?

**GEORGE OSBORNE:**
Well when I came into office, we were borrowing £159 billion. So yes we’ve made a substantial amount of progress, but I’m the first to say the deficit is still too high, we’ve got to go on bringing it down. It’s still higher than many other countries. That’s because we started from such a high place in the first place. So of course we’ve got to go on keeping the pressure on government spending, making sure this country earns its way in the world.

**SOPHIE RAWORTH:**
It’s still proving incredibly challenging for you and that’s what this spending review is all about. You have seventeen departments to settle with. How many of them have you settled with?

**GEORGE OSBORNE:**
Well actually we’ve made a lot of progress. It’s not all finished as of Sunday morning. I’m finalising the details of the spending round, but I can tell you today that I have settled the Defence Department, which people thought was going to be one of the biggest …

**SOPHIE RAWORTH:**
Absolutely.

**GEORGE OSBORNE:**
… and most difficult challenges. So I’ve agreed with Philip Hammond a defence budget. It’s going to involve some tough choices - the civilian head count is going to have to reduce in our defence department, we’re going to have to renegotiate with some of our big suppliers for contracts - but I can tell you there will not be a reduction in our military compatibility, we’re not going to reduce the numbers of sailors and soldiers and airmen; and in fact we’re actually going to be able to spend some more money on things like cyber, which is the new frontier in defence.

**SOPHIE RAWORTH:**
And you know that there are plenty of people who are worried that you will break the military covenant. Can you guarantee that you won’t be doing that?

**GEORGE OSBORNE:**
I can absolutely guarantee that. And I can do something more, which is we’re dealing now with a lot of people who’ve come back from wars in Iraq and Afghanistan with horrific injuries. They’ve recovered from those injuries, or are recovering. And I want to make sure that as a society we don’t forget about these people long after the war is over, so we’re committing for the rest of these people’s lives to support the military covenant, to support them, to go on spending £10 million a year on these sorts of causes. And we can do this in part because we’re using the money we’ve taken off bankers involved in the Libor scandal. So the people who demonstrated the very worst of British values in the Libor scandal in the City are now supporting those who demonstrate the very best of British values: our soldiers who gave so much to defend our country.

**SOPHIE RAWORTH:**
So defence is sorted. What about business? Vince Cable still holding out.

**GEORGE OSBORNE:**
Well business is one of the departments we have not yet sorted as of this morning, but I am pretty confident we’re going to do that in short order. There’s actually not a
massive argument. Of course we’re arguing about the small details, but not the big picture, and actually Vince Cable and I want to achieve the same things, which is support the things that back the economy. I as a personal priority want to see science supported - that’s part of this budget - because Britain leads the world in science and that’s all about Britain’s economic future. So …

SOPHIE RAWORTH:
But why is it so close to the wire? I mean this is you know three days away. He must be digging his heels in because you’ve sorted defence, you say, which we knew was going to be a problematic one. But business, still, three days away and it hasn’t been sorted out?

GEORGE OSBORNE:
Well I sorted defence last night, so these things are finished you know with a few days to go to the spending round. Actually in the past these things were often done the night before the spending round. I’m pretty confident you know we’ve got the deal. Everyone round the cabinet knows we’ve got to go on delivering our economic plan, make those savings, and so you know I’m absolutely clear we’re going to deliver this plan, we’re going to have the £11.5 billion of savings, and we’re going to do it in a way that prioritises the services that people care about, the things that support our economy, the things that make sure we can live in a world where we can pay our way. I mean the most fundamental thing for a country.

SOPHIE RAWORTH:
It’s going to get harder and harder, isn’t it? We know how difficult that 2015/16 is going to be. You’ve pencilled in something like 23 billion pounds worth of cuts for the years after that, for the two years after that. The ring-fences remain in place. Sixty per cent of spending is ring-fenced, so there’s a huge squeeze on the rest, as you well know. Those ring-fences are not going to be able to stay in place, are they, in the long-term on NHS, on schools, on international development?

GEORGE OSBORNE:
Well in the end they’re called ring-fences and they’re called ring-fences in Whitehall, but what they’re really about is the public’s priorities. And I suspect if we could talk
to the audience watching this show now, they’d want us to be supporting the NHS, they’d want us to be supporting our schools. Many people, not everyone in our country, but many people in our country want us to honour our commitments to the world’s poorest and we will absolutely do that and commit to the development spending that helps the poorest in our world have a better life. So we call them ring-fences, but they’re actually the public’s priorities; and whoever you get in this studio to ask about what they want to spend the money on, I think in the end they would want to be spending it on the NHS and education. So we’ll have to address of course as we approach the election exactly what we say about all these things, but I’m pretty clear they’re the public’s priorities, they’re my priorities. And if you look at things like the NHS, if you look at education, if you look actually at the police … I remember again sitting in this chair a couple of years ago being told if you make any savings, if you cut budgets, then things like crime are going to go up. That hasn’t happened. Crime has come down.

SOPHIE RAWORTH:

(over) No alright, well let’s talk about something else.

GEORGE OSBORNE:

(over) So you know I do think there’s been quite a lot of scaremongering about you know the choices we’ve had to make …

SOPHIE RAWORTH:

Fine.

GEORGE OSBORNE:

… and actually if you look three years on, we are proving that you can have quality public services that deliver for the public on a budget that the country can afford.

SOPHIE RAWORTH:

(over) It does though. If you continue those ring-fences, it does become a very unbalanced approach to public spending, doesn’t it? But the other issue I was talking to Ed Balls about just now where the pensioners, people over 60, because that is a huge amount of saving - how can you justify in these austere times still allowing the
wealthiest pensioners the winter fuel allowance?

**GEORGE OSBORNE:**
Well first of all, by the way, Ed Balls, after five questions from you, finally admitted that he would borrow more after all …

**SOPHIE RAWORTH:**
*(over)* Okay, I’m not talking about that. We know he said that, but I’m asking you about winter …

**GEORGE OSBORNE:**
*(over)* Okay, but it’s worth observing that after all the nonsense about Labour …

**SOPHIE RAWORTH:**
Yes.

**GEORGE OSBORNE:**
…. Actually learning the lessons of what went wrong on their watch, they would still borrow more. I make that … I make that observation first.

**SOPHIE RAWORTH:**
*(over)* What about winter fuel allowance then?

**GEORGE OSBORNE:**
Look on pensioner benefits, including the winter fuel allowance, you know what … I would say is first of all we made a very clear promise about this Parliament and the winter fuel payment in this Parliament. We believe in keeping our promises to the British people. Second, when it comes to pensions and pensioner benefits our society is getting older, we’re going to be spending more on our older people. I want to make sure that’s sustainable. And …

**SOPHIE RAWORTH:**
So that’s this Parliament. What about next Parliament?
GEORGE OSBORNE:
Well I am the Chancellor who has increased the pension age. That’s a very difficult thing to do. Actually it was not supported at the time, but is now.

SOPHIE RAWORTH:
(over) And what about fuel allowance in the next Parliament?

GEORGE OSBORNE:
And, look, all those pensioners benefits - not the basic state pension, all those other pensioners benefits - yes of course we’ve got to look at how we can afford them. But I do think the simplest thing we can do is to increase the pension age, as we have done, and set out those increases to 66 and 67. I don’t want pensioners to be impoverished. I want pensioners to have a standard of living that reflects the fact they’ve worked hard and saved hard all their lives.

SOPHIE RAWORTH:
But you …

GEORGE OSBORNE:
And I would focus instead on the fact we’re living longer than trying to cut the benefits that go to pensioners.

SOPHIE RAWORTH:
Absolutely, but still you are still open to the fact that after the next election, if you’re still in power, wealthy pensioners could lose those fuel allowance benefits? They could lose some of the benefits they currently get?

GEORGE OSBORNE:
Well look, we will have to consider the promises we make for the next Parliament, but I think, having looked at the way we’ve behaved in this Parliament - not only have we kept our promises, but we’ve made sure this country can afford the budget, and that is going to be what you get with us. You are going to get people who deliver credible economic plans to secure the British recovery.
SOPHIE RAWORTH:
Let’s talk about RBS because a big week, a big turnaround as well. RBS quite likely now to be split up into a good bank and a bad bank?

GEORGE OSBORNE:
Well this is something we’re now very closely looking at. So that people understand, you know there’s a big debate about whether RBS is too slow in recovering, whether it’s doing enough to support the British economy. It lends more to small businesses than any other bank, so it’s a very important part of the British economy. And what we are saying is maybe there’s a case - which we’re now going to look at - for taking away the bad loans of the past, so they can focus on lending in the future. That’s the work we’re doing. We’re going to have a new chief executive and we’re absolutely clear that RBS is not going to be some global bank with a massive investment bank. It’s going to very focused on Britain.

SOPHIE RAWORTH:
(over) Because you were raising this idea … This is why Stephen Hester had to go, isn’t it - because he has been working so hard to sell it off as one entire bank, privatise it as an entire bank? He would never have countenanced that. That’s why he had to go really, isn’t it?

GEORGE OSBORNE:
Well Stephen Hester chose to go in discussion with the board.

SOPHIE RAWORTH:
(over) Well people say you encouraged him.

GEORGE OSBORNE:
It had my consent and approval. And by the way, it would be extraordinary … I’m representing the taxpayer, I’m representing the people out there who worked hard and put £60 billion or more of their own money into these banks, so of course I’m going to have a view.

SOPHIE RAWORTH:
Okay.

GEORGE OSBORNE:
And I think the public want RBS to be a British bank …

SOPHIE RAWORTH:
(over) And the public also want to know …

GEORGE OSBORNE:
(over) … supporting British business and British families.

SOPHIE RAWORTH:
The public also want to know when they’re going to get some of their money back. Do you think they may get any of their money back from Lloyds or RBS before the next election?

GEORGE OSBORNE:
Well I’m pretty confident we can start getting our money back, as you put it, from Lloyds. In other words, I think we can start to sell Lloyds in a way that reduces our national debt. And you know Lloyds is in good shape, there’s a lot of progress been made there. And of course I’m the first person who wants to start …

SOPHIE RAWORTH:
Okay…

GEORGE OSBORNE:
… making sure we’re reducing our debts and getting out of our banks.

SOPHIE RAWORTH:
Chancellor, we’ll have to leave it there. Thank you very much.

INTERVIEW ENDS