ANDREW MARR:
Now the government’s welfare reforms came in for a bit of a mauling during the week. The House of Lords voted for some significant changes to the proposals, which include a cap on benefits and changes to the Child Support Agency. MPs will have their say on Wednesday, and I’m joined now by the Work and Pensions Secretary Iain Duncan Smith. Good morning.

IAIN DUNCAN SMITH:
Good morning, Andrew.

ANDREW MARR:
There’s a series of reverses that you summoned in the House of Lords. First of all, the proposal to make people pay upfront to get help from the CSA in chasing fathers or sometimes mothers, I suppose.

IAIN DUNCAN SMITH:
Yuh.

ANDREW MARR:
A lot of people feel that this is unfair and will just put people off an essential service.

IAIN DUNCAN SMITH:
Well two things, first of all, have been established. The system that we’ve got at the moment is completely dysfunctional. We’ve got two major IT systems that don’t work; we’ve got a backlog of people who we can’t get hold of; it costs at the moment between £25,000 and £40,000 for a case to be settled, and for each case that we do about 40p or 50p out of every pound is what we have to charge for administration. It’s very expensive, it doesn’t work. And the worst bit about it is it actually helps divide parents from each other. And that’s the key thing - that when they go into the CSA, it becomes very hard on each of them because they are almost forced to be at each other’s throats about it.

ANDREW MARR:
So is this charge designed to stop people using the CSA and try and make them do something else?

IAIN DUNCAN SMITH:
Well the last government legislated for the charge, and what we looked at is behavioural economics show that if you have a relatively small charge there, that what happens is people think about it. We know, for example, that 50 per cent of those who are going into the system have said to us that had they thought again, they would have actually done it outside because they would have made a much better compromised arrangement. You know, for example, the parent without care complains not being able to see the kids and the parent with care wants the money, so there’s a sort of … there’s a thing they have to come together over. And we’d much prefer that. Better for the children.

ANDREW MARR:
And yet you know Lord Mackay of Clashfern, hardly a kind of wringing wet liberal as it were who partly created this system, pointed out that you know there are a lot of kind of pretty indigent, pretty desperate people …

IAIN DUNCAN SMITH:
Yeah.

**ANDREW MARR:**
… who want to use the system, and making them pay upfront with money they may not have seems unfair.

**IAIN DUNCAN SMITH:**
Well what we’ve said to him - and we’ve said to everybody - we’ve always been happy to look at different levels, etcetera, like that. That’s not the issue. The key point though that’s wrong with his amendment is that he’s not against charging. He wants all the charge to be on the parent without care. And of course the problem with that is immediately you have no charge on the parent with care, even if there’s a slight difficulty they’ll go straight into the system because it’s almost as though they could punish the individual twice.

**ANDREW MARR:**
So this isn’t something you’re going to allow to go through? You’re going to reverse this in the House of Commons?

**IAIN DUNCAN SMITH:**
Yes, absolutely. We want to make sure …

**ANDREW MARR:**
Okay.

**IAIN DUNCAN SMITH:**
… that this is a balance. And we’re not asking for much. It’s only about 9 per cent, 12 per cent of the amount that they receive - we’re still going to pick up the lion’s share of the cost - but we also have fairness to the taxpayer who’s paying huge sums of money to run this badly. We want to say to them we don’t need to take quite so much off you to actually do this system well.

**ANDREW MARR:**
Are you going to reverse the changes on the welfare benefits cap that were put in the
House of Lords as well?

IAIN DUNCAN SMITH:
Well the principle of the cap is very straightforward and actually it gets public response. And even amongst Labour and Liberal voters and our own voters, Conservative voters, it’s overwhelmingly popular. Why? Because it simply says look, why should somebody on benefits be earning more than the average wage at an absolute maximum? We have to make sure we manage it so we don’t have ridiculous positions where they’re living in expensive houses with lots of children, and we’re going to manage that down. So the reality is it’s fairness most of all to taxpayers who are on low and marginal income who pay taxes for people who earn more on benefits than they receive themselves, and that’s a principle of fairness.

ANDREW MARR:
Sure. But you know, as was pointed out by bishops and indeed Conservative peers as well as others in the House of Lords, there are families with a fair number of children who are going to be very, very severely hit by this. There is a suggestion that you should simply exclude child benefit from the cap and therefore … because child benefit goes for the children. You know whether the parents are feckless or whatever, it’s the children that child benefit is supposed to go to …

IAIN DUNCAN SMITH:
Yuh.

ANDREW MARR:
… so why punish them?

IAIN DUNCAN SMITH:
Because the principle behind all of our reforms - CMEC, the cap, universal credit - they have one principle which I am determined to see through, which is to get people who have fallen into benefits to get a sense of responsibility about what they do and to recognise they should always be striving to change their lives so that they actually contribute rather than take. And the cap lies behind this. The reason why I wouldn’t take child benefit out is first of all the level of the cap would rise in terms of salary to
£40,000 or even £50,000, which would be ludicrous. And the second thing is this: you cannot go on, as we’ve been doing, detaching children from their parents. We keep speaking as though children are somehow there and what their parents do has no bearing. We have to show the parents that what you do, what choices you make in life have an effect on your children. You want to make positive choices, so that your children get positive outcomes.

ANDREW MARR:
Right, so that’s why you’re going to reverse what the Lords have done on that.

IAIN DUNCAN SMITH:
Absolutely.

ANDREW MARR:
What about the idea, the same argument against having a regional variation because it’s argued that house prices in London and the South East are so much higher, housing benefit’s a very big part of this and you’re going to be forcing lots of families to move house quickly?

IAIN DUNCAN SMITH:
Yeah, but of course remember two things first of all. That the overall level is critical because we’ve got people living in London - in some cases in flats that are costing over £100,000 a year to rent. I know that’s the extreme, but that’s the kind of nonsense that we’ve got ourselves into under the last government. So it’s important that we settle the London issue. The second point about the regional cap …

ANDREW MARR:
(over) So, sorry, no regional cap is what you’re saying?

IAIN DUNCAN SMITH:
Well I’m not going for a regional cap, but I do say this to the Labour Party. If they really want a regional cap, then that must mean they want regionalising of benefits as well because you can’t have one without the other. I’m happy to have a debate about
that with them if that’s where they want to go, but you can’t detach one and just say
we’d like a bit of this but not the other because that would make the whole system a
chaotic mess.

ANDREW MARR:
You said rightly that you have public support for this; the polls show that. There is
also overwhelming support in the polls for higher taxes on the rich - a sense that this
government is cracking down on people at the bottom end of the scale but not doing
nearly enough about people at the top end of the scale. People like the idea for
instance of the mansion tax overwhelming and they like the idea of overall higher
taxes on higher earners, and yet your government is against both of those things.

IAIN DUNCAN SMITH:
Well you say that, but actually the government has done a lot already. I mean we’ve
got the 50 per cent tax at the upper rate, which is a big increase on people that earn
high incomes.

ANDREW MARR:
That was a Labour move and George Osborne says he will reverse it in due course.

IAIN DUNCAN SMITH:
(over) Well yeah, but we stuck to it. You know you might have expected a
Conservative Government to have got rid of it. He’s sticking to that. The point also is
that we haven’t just watched by. We’ve had the bankers’ levy, for example, which is
an annual levy on their bonuses etcetera, which raises more every year than the
Labour Government’s one-off raises. We’ve also gone for massive transparency in
what people are going to be paying. We’ve got some big proposals coming forward
on executive pay. This government is doing a huge amount about trying to get people
to understand that there is a relationship between the higher earners and the lower
earners.

ANDREW MARR:
Okay.
IAIN DUNCAN SMITH:
But I must say under the last government, you know income inequality was at its worst it’s been in the whole of our lifetime …

ANDREW MARR:
Sure.

IAIN DUNCAN SMITH:
… so we don’t need too many lectures from them about that, I think.

ANDREW MARR:
Just before we leave the welfare issue, you’ve mentioned the idea of transitional payments, transitional measures - there should be some kind of grace period if somebody loses their job or whatever before these new changes kick in. Can you tell us more about that?

IAIN DUNCAN SMITH:
Well I can’t tell the details, but I have to tell you that this has always been clear from when I made the speech at Third Reading. And clear to the members of the Lords, the reality is we will take discretionary measures; and where there are issues like people falling out of work, we’ve always said they were looking at greater …

ANDREW MARR:
(over) Any sense of how long that’ll be?

IAIN DUNCAN SMITH:
(over) … but that’s the reality. I mean the fact is that most people are back in work within six to nine months. And the idea behind this …

ANDREW MARR:
(over) So six to nine months would be a sort of reasonable …

IAIN DUNCAN SMITH:
(over) Well no, no, I’m simply saying that the Prime Minister and myself have said
this from the word go. This is not news …

ANDREW MARR:
Alright.

IAIN DUNCAN SMITH:
… this has always been clear to the members of the Lords. That we’re always looking at discretionary measures, but the key to the cap is it comes in at £26,000 and we will apply it.

ANDREW MARR:
Stephen Hester - that near million pound bonus causing intense anger around the country. The government could have done something about it.

IAIN DUNCAN SMITH:
Well the government has. The government actually made it very clear to the board …

ANDREW MARR:
(over) Well stopped it happening. I mean …

IAIN DUNCAN SMITH:
(over) Well the government made it very clear to the board that they should take into consideration the nature of the concern in the wide public. The board has actually set this bonus at the moment at a level which is half of what it was the year before.

ANDREW MARR:
But there’s a lot more to come. I mean you know he’s got …

IAIN DUNCAN SMITH:
(over) Yeah, but there are some facts on this which are really important, Andrew, to understand.

ANDREW MARR:
… many, many million pounds coming …
IAIN DUNCAN SMITH:
I accept that, but two things first of all. This is in shares. They’re not exercisable until 2014 anyway, so it’s deferred, and they can be clawed back if he doesn’t achieve what he wants.

ANDREW MARR:
Yuh.

IAIN DUNCAN SMITH:
So that’s the first and most important feature. The second thing is I’ve heard a lot of talk about what the government can do and can’t do. The reality is the contract that we inherited from Labour meant that very clearly the board takes the decision on this. You can’t interfere and tell them what to do. And if we didn’t like that, of course the only option would be to get rid of the board. Now if you do that, imagine what would happen in the banking sector and imagine what would happen to RBS. You’d have chaos.

ANDREW MARR:
(over) So you can’t push this issue because you can’t lose the board is what you’re saying?

IAIN DUNCAN SMITH:
Well you know the fact is if people want to do that, just think of the chaos. After all, remember RBS’s balance sheet is as large (if not slightly larger) than the GDP of the UK. What would that do to ordinary people? We need to get this bank to a point where we can actually sell it back and get the money for the taxpayer which has been put in - hundreds of billions of pounds.

ANDREW MARR:
(over) Would you like Stephen Hester not to take his bonus?

IAIN DUNCAN SMITH:
Look, I’ve always said from the word go many years ago that I felt the whole bonus
culture, they need to think very carefully about being detached from the rest of the British public. It’s for him individually obviously to make a decision about that. As a member of the government, I don’t have a collective opinion on that, but I must say to you nobody would be happy with the government if of course he took such decisions, but it’s up to him.

ANDREW MARR:
It now seems that the euro group of countries is going to use the European Commission, is going to use European court, is going to use that whole structure of officials and so on to push for much deeper fiscal and political union. Are you happy with that?

IAIN DUNCAN SMITH:
Well we know very well something which is very important. The Prime Minister made it very clear at the last summit that we, the UK, was not going to play a part in their treaty, we were not going to be involved in it and we did not want it to damage the single market or our own banking structures and financial sector.

ANDREW MARR:
And didn’t want the EU structures to be part of this, but we’ve now …

IAIN DUNCAN SMITH:
(over) Well he’s vetoed, but he’s vetoed.

ANDREW MARR:
(over) … it now looks as if the EU structures are going to be part of it.

IAIN DUNCAN SMITH:
I wouldn’t let speculation go too far. The fact is the Prime Minister vetoed them using the institutions, and he’s always said that veto was because we had no guarantees that what they were proposing would not damage the single market or, for that matter, would actually cause problems to the financial sector. And we don’t know what they’re coming forward with yet. They still haven’t completed their treaty and they aren’t anywhere near signing it, and we don’t know that everybody will go down that
road with them. So best to wait until we get there to figure out what it is that they’re actually coming forward with.

**ANDREW MARR:**
But if the structures of the EU, which we are part of - are used for that end - to drive much deeper fiscal union - what would be your attitude to that? That’s something that you would find intolerable presumably?

**IAIN DUNCAN SMITH:**
Well the Prime Minister’s already made it clear about that because he vetoed any such possibility of that happening.

**ANDREW MARR:**
And you trust him on this?

**IAIN DUNCAN SMITH:**
I absolutely trust the Prime Minister on this because I know where he stands. He stands on the basis that we must protect the single market. You know we want them to get their economies sorted out because that’s what’s causing us problems over here, but we do not want them, their thrashing around to damage the very thing that we set up, which was the access to the marketplace and the free flow of capital to the financial sector. And he’s been clear about that.

**ANDREW MARR:**
Yes.

**IAIN DUNCAN SMITH:**
I mean, after all, he’s the first Prime Minister to go out and actually veto a treaty. That says a lot about his leadership, I think.

**ANDREW MARR:**
And when you look at the proposal of an EU official to basically take over the entire tax and spending of a sovereign country like Greece, what do you feel about the way the European project is going?
IAIN DUNCAN SMITH:
Well I think there’s a little lesson for all of them and I think it’s one that the Prime Minister will have enunciated to them, which is if you fiddle around with democracy because you don’t like quite what it does at the times it does it, then you open the door to those who say why democracy at all. So you need to be very careful about how you deal with sovereign states and their ability to govern themselves. And I know the Prime Minister has said this to them, and I think as one of the great historical democratic nations we should always stand up for democratic freedoms all over Europe. After all, lack of democratic freedoms is what caused the Second World War.

ANDREW MARR:
Iain Duncan Smith, for now thank you very much indeed.

INTERVIEW ENDS