

ANDREW MARR SHOW, 16<sup>TH</sup> JULY, 2017

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CHANCELLOR OF THE EXCHEQUER

AM: According to repeated, if anonymous, Cabinet sources overnight, the Chancellor offended some of his own colleagues at the week's political Cabinet meeting by saying that public sector workers were overpaid. Now this may be simply malicious, there's a lot of Cabinet level malice in today's papers, but I'm joined now by the man himself to clear it up. Did you say it?

PH: Andrew, I'm not going to talk about what was or wasn't said in a Cabinet meeting and it's easy to quote a phrase out of context, but I'm very happy to talk about the substantive issue. Public sector pay raced ahead of private sector pay after the crash in 2008-9 and taking public sector pay before pension contributions, that gap has now closed. Public and private sector pay on average are around about the same level. But when you take into account the very generous contributions that public sector employers have to pay in for their workers' pensions, their very generous pensions, they are still about 10% ahead. And I don't for a moment deny that there are areas in the public service where recruitment and retention is becoming an issue. That there are areas of the country where public sector wages and private sector ways are getting out of kilter in the other direction and we have to look at these things and we have to discuss them. But it's important that we discuss them on the basis of the facts, not rhetoric from the Labour Party or the trades unions.

AM: Your own department denied that you had used the word 'overpaid.' Can I ask you directly, do you think that public sector workers in this country are in general overpaid?

PH: So this is a relative question. This is about the relationship between public and private sector pay and it is a simple fact, independent figures show this, that public sector workers on average are paid about 10% more than private sector workers. So we have to bear in mind –

AM: Do you think relatively to private sector workers, are they overpaid?

PH: Relative to private sector workers they are paid about a 10% premium. Now I know this includes pension contributions. You can't eat your pension. You can't feed your kids with your pension contribution, so I understand that. I understand all the issues that public sector workers are facing –

AM: Think of that cleaner that John McDonnell described just now. I've got her payslip here, it's a weekly payslip. £297 is what she takes home. Do you think that's overpaid?

PH: No, of course it's not overpaid. And look –

AM: That's very very hard to live on that.

PH: - but John McDonnell needs to remember that it was a Conservative government that introduced the National Living Wage. And he also should know that the only way we can sustainably increase pay – low pay is not just an issue in the public sector, it's an issue in the private sector as well. Millions of workers on really relatively low pay. The only way we can address that, the only way we can create the high wage economy that we want to have sustainably, is to increase productivity, to get our public finances into good order. There isn't a shortcut. There isn't a free lunch.

AM: So you think in relative terms public sector workers are overpaid and when you write those letters to the Pay Review bodies in due course it will be more pretty tough messages. Those people watching who are public sector workers should expect more austerity, more of the pay gap, more of the going backwards in terms of their actual pay?

PH: Well our policy on public sector pay hasn't changed. We've sought to be fair to public sector workers, but also fair to the tax payers –

AM: They've had a seven year freeze.

PH: They've had a seven year – not a freeze.

AM: Well inflation's gone backwards – most of them have gone backwards over so many years.

PH: Seven years of pay restraint, but let's also be clear about this. Teachers for example in 2015-16 had a 3.3% pay increase. NHS staff last year about – over half of them had a pay increase averaging just over 3%. So it isn't the same picture across the board. But look, our position is that we have to be fair to public sector workers, we have to look at recruitment and retention problems, we have to be fair to tax payers and we have to try to protect jobs in the public sector. Those are the bits of the equation that we have to juggle. We do keep this under constant review and I think the fact that, as is now apparently well known, the Cabinet's been discussing this issue, sends a clear signal that we do understand the concern, both the public sector workers and of the wider public about this issue.

AM: I think most people watching this interview will concluded that you did say that they were overpaid.

PH: Well, I've told you, I'm not going to talk about what comes out of a private Cabinet meeting.

AM: Five of your colleagues have.

PH: Well they shouldn't have done, frankly, because Cabinet meetings are supposed to be a private space in which we have a serious discussion. I'm the Chancellor. You would expect me to put any discussion about public sector pay into the context of the fiscal and economic situation that we face. Others, who represent spending departments employing large numbers of public sector workers will bring their experience and their realities to the table and that's how we have a discussion and how we eventually reach decisions.

AM: And this morning they have gone for you publicly all over the papers. Are you angry about that?

PH: Well look, I – I don't know who said what. I do know – I think David Lidington, my colleague David Lidington who appeared on your show last week was probably spot on the money when he said we're in the middle of the silly summer season with lots of warm Prosecco and late night –

AM: Pol Roger I think.

PH: Well it may have been, I wasn't there. It may have been Pol Roger, but lots of parties going on, lots of tittle tattle, lots of gossip. We've got a summer recess coming up. The government has –

AM: And they should belt up now?

PH: Well, I do think on many fronts it would be helpful if my colleagues, all of us, focused on the job in hand. This government,

as Iain Duncan Smith said earlier, is facing a ticking clock over the Brexit negotiations. David Davis will be going tomorrow to Brussels to start the next round of negotiations. We have a very crucial job to do here in getting a Brexit deal which protects jobs, prosperity and British businesses and that's what we should be focused on.

AM: But they're after you in particular. Can I ask, did you say that trains now are so easy to drive these days that even women could do it?

PH: No, I didn't and I wouldn't say anything like that. But what I have said, and I was transport secretary –

AM: Did the Prime Minister say, 'I'm going to take your shovel away from you'?

PH: Well again, I'm not going to get into what was or wasn't said in a Cabinet meeting, but I've got two daughters in their early twenties, both high achievers. I don't think like that, I wouldn't make a remark like that. But what I would say is this. And I've been saying this since I was transport secretary in 2010-11. It is a disgrace that 95% of train drivers are men. There is no reason at all why that workforce shouldn't be more gender balanced, except that the unions control the recruitment and training process. And in the context of a discussion about industrial relations on the railways I think it's very important to focus on that control that the unions have over the training process.

AM: So why are people going for you in today's papers? Is there now a fight for the leadership of the Conservative Party under way in Cabinet?

PH: Well, I certainly hope not.

AM: It appears to be the case.

PH: If there is I'm no part of it. I think my colleagues should focus on the job that we've been elected to do. This government will be a stable government because people understand that there is a crucial job that needs to be done. They'll support us while we get on with that job, but they won't indulge us if we start turning our attentions elsewhere. If you want my opinion, some of the noise is generated by people who are not happy with the agenda that I have, over the last weeks, tried to advance of ensuring that we achieve a Brexit which is focused on protecting our economy, protecting our jobs and making sure that we can have continued rising living standards in the future.

AM: So these are hard-core Brexiteers who want a hard Brexit and a fast Brexit attacking you for that reason?

PH: Well, you'll have to ask Tim Shipman, James Forsyth who it is. I don't know who their sources are.

AM: I think you can guess. Can I turn to the economy and ask you about the recent OBR report which was quite worrying to a lot of people. We looked at it and it said the economy's in a pretty poor condition -

PH: The Fiscal Risks Report.

AM: The Fiscal Risks Report.

PH: So this was a report that we asked the OBR to produce bringing us into line with IMF guidance and one or two of the most advanced economies in the world in terms of fiscal transparency, to look at our position and tell us where the future risks are in our economy and I think it's a very good exercise and I very much appreciate the report that they've produced. And what it warns, which is particularly germane to the discussion that

we've just been having, is that the levels of debt we have in this country and the level of deficit we're still running means that we would be vulnerable to any future shock. So, unlike 2008, we would not have the capacity –

AM: So we can't borrow more to put it simply?

PH: That's simply the point. We would not have the capacity for government to intervene and protect the economy as it did in 2008-9 because our level of debt and our level of deficit is too high.

AM: Can I continue asking you about Brexit in particular because there's reports again in today's papers about Paris, perhaps not surprisingly, trying to steal the trade of the City of London. There's been reports of quite a sharp fall in levels of investment, particularly in the British car industry, heading towards a 75% fall in investment in the British car industry. You're getting all these businessmen coming to you, getting all these reports on your table, are you worried about the state of the economy as we go into these Brexit negotiations? Is the slow down happening?

PH: Well I think it's absolutely clear that businesses where they have discretion over investment, where they can hold off, are doing so. And you can understand why. They're waiting for more clarity about what the future relationship with Europe will look like. And the way to get the economy moving, the way to restore business confidence and then consumer confidence, is to give as much clarity as possible as early as possible, which is why I have been talking over the last four or five weeks about the importance of a transition arrangement. And I believe the great majority of my colleagues now recognise that that is the right and sensible way to go, both in the UK and in the European Union.

AM: And this could go on for three or four years, the transitional arrangement. That's what a lot of business wants.

PH: Well I'm not going to speculate on the length of it. In my view it needs to be a defined period. We've got to do this in a way that meets the concerns and requirements of both people who want a softer version of Brexit and those who campaigned hard to leave the European Union. I think most people are willing to accept a transition, so long as it's of a limited duration, in order to avoid a hard landing.

AM: But this would be a number of years during which in effect we'd still be members of the single market, in effect we'd still be paying in, in effect we'd still be coming under the ECJ.

PH: Well we would not be members of the single market because we would leave the single market when we left the European Union on the 29<sup>th</sup> of March, 2019. That is fixed. I don't think anybody's suggesting that we should change that. And look, how long should a transition period be? I think that's a technical question. It depends how long we need to put in place new customs systems, now migration systems. These things can't be magicked up overnight. There is a piece of work going on inside government now to look at how long it will take to build the infrastructure, hire the people, put in place the IT systems and so on.

AM: Have you any idea about how long we're talking about?

PH: Well I think we're not going to be talking a couple of months. I think we are going to be talking a couple of years.

AM: All right. What we do know for sure at the moment is that Mr Barnier and the European team desperately want to sort out the

money before anything else happens. You're the man in charge of the money. Have you budgeted for an exit fee for the EU?

PH: Well we don't have a sum of money included specifically for that purpose, but our current public finances include our contributions to the European Union and what the OBR has done, if you read its last report looking forward, is assumed that although those monies might be used for different purposes, on domestic programmes, on continuing to contribute perhaps to some European programmes, broadly speaking the amount of money will remain the same. So they haven't budgeted a bonus from leaving the European Union but nor have they budgeted a cost.

AM: But do you accept, because there was a statement in the House of Lords that appeared to suggest this, that we have ongoing obligations to the EU which are financial which we must settle early in the negotiating period?

PH; Well, we are discussing precisely that question this week in Brussels with the European Union and what we've said repeatedly is that we are a country that always honours its obligations, as we expect others to honour their obligations towards us, and if there is any amount that is due when it's been properly quantified and audited of course we'll deal with it. We're not a country -

AM: So they should just go whistle for it then?

PH: We're not a country that walks away from our debts. Well look, if you're referring to the comment that Boris Johnson made earlier in the week -

AM: I am, yes.

PH: Boris was talking specifically about this fanciful hundred billion figure that's been bandied about by some in Brussels.

AM: Well a lot of people are talking about 40 billion.

PH: That is a ridiculous figure. It's plucked out of thin air. There is not substance to it.

AM: Okay, is 40 billion a ridiculous figure?

PH: I'm not going to get into a process of talking about specific figures when David Davis is about to open a negotiation in Brussels tomorrow. That would totally undermine his position and I'm not going to do it.

AM: Is it possible for this government to negotiate a proper Brexit when the Cabinet is divided over the issue?

PH: Well this is a sort of media line that the Cabinet's divided.

AM: I was just picking up what you were saying, that people are going for you because they don't like the kind of Brexit that you want.

PH: But I think the Cabinet is coming much closer together on issues like transition for example. Five weeks ago the idea of a transition period was quite a new concept. I think now you'd find that pretty much everybody round the Cabinet table accepts that there will be some kind of transition. We're into a real process now with the start of negotiations and I think you'll find the Cabinet rallying around a position that maximises our negotiating leverage and gets the best possible deal for Britain.

AM: Is it almost as simple as if you and David Davis can agree the proposed terms of Brexit you can sell that to the Conservative Party?

PH: Well, David and I work very closely together and we're both looking to get the best possible deal for Britain and we both know that continued growth in the economy is actually the measure by which people will judge their political leaders. They can talk about a lot of other things but in the end it will be about whether they see their incomes rising, their standard of living rising, their jobs being secure. And that's our objective and certainly we try to work together to agree on these things.

AM: Back in 2010 you warned that a Labour government could raise the national debt to 1.5 trillion pounds. What is it now?

PH: It's 1.7 trillion, as you very well know Andrew.

AM: So you've done worse?

PH: Look, because –

AM: That is a big failure isn't it?

PH: Well, there were choices, weren't there, about how fast we wanted to do deficit reduction. How much we wanted to impose on the economy to do that. We could have done it more quickly as some countries in the European Union have done, at the price of soaring unemployment.

AM: And we've got a weaker economy now than before the crash...

PH: We chose in this country to protect jobs as a priority and we've done brilliantly well creating 3.4 million new jobs since 2010.

AM: One very last final quick question. You'll have heard John McDonnell suggesting that people who died in Grenfell Tower were the victims of political murder. How do you respond to that?

PH: That's a disgraceful suggestion, in line with many other things John McDonnell said over the years. There is absolutely not a shred of evidence to support that. It was a terrible tragedy but of course we must wait for the outcome of the public inquiry to understand exactly what happened and to learn the lessons from it and we will learn the lessons.