AN: Can I ask you who the Jams are, how you define them?

PH: Well, they’re people who work hard and by and large do not feel that they’re sharing in the prosperity that economic growth is bringing to the country. We’ve got to make sure that the prosperity that comes from seizing opportunities ahead is shared across the country and across the income distribution.

AM: And in terms of income, they could be anywhere between sort of 20,000 a year to 36,000 a year, that seems to be the general.

PH: I don’t think it’s mainly about income; I think it’s about the way people manage their lives. It’s about people who feel that the system isn’t just working for them, the system isn’t supporting them enough.

AM: And when Theresa May became Prime Minister, she as it were looked the country in the eye, looked these people in the eye and said, ‘you are going to be my top priority.’ And you would agree with that?

PH: Absolutely right. And what we’ve done over the last six years in creating nearly 2.8 million new jobs is a very good start. Because for most of these people the most important thing they have is a secure job, and making sure that those jobs remain secure is a key priority as we go forward.

AM: But whatever you do in the autumn statement – and I know you can’t go into details – whatever you do you can’t make those people worse off now, not after what’s been said.
PH: Well, we don’t want to make anybody worse off. What we want to do is secure the gains that have been made over the last few years, recognise that over the next couple of years we’re going to face some uncertainty around the economy, but then we will have a whole raft of opportunities, and we need to get the country ready to be able to seize those.

AM: So you know where I’m going here. The only conclusion we can draw from that is that you have to reverse the cuts to universal credit and to welfare, because if you don’t those people will be an average of £1300 a year worse off by the end of this parliament.

PH: Well, I’m not going to go into details of the autumn statement that I shall make on Wednesday. But you’ve seen the forecasts, the range of independent forecasts that are out there. We’ll get the OBR’s forecast on Wednesday. And many of those forecasts are pointing to a slowing of economic growth next year, and a sharp challenge for the public finances. There are a range of reasons for that. We’ve got to make sure that what we do is responsible, that everything we do is compatible with building resilience in our economy as we go into a period when there will be some uncertainty around the negotiation over our exit from the EU, and focus on making sure that our economy is match-fit for the opportunities and the challenges that will lie ahead.

AM: But in that process you could be turning to those just about managing families and making them worse off by sticking with George Osborne’s benefit cuts.

PH: Well, we have to maintain our credibility. We have an eye-wateringly large debt. We still have a significant deficit in this country and we have to prepare the economy for the period that lies ahead. I want to make sure that the economy is watertight, that we have enough headroom to deal with any unexpected
challenges over the next couple of years, and most importantly, that we’re ready to seize the opportunities of leaving the European Union. That means improving the productivity of our economy so that we can compete in the world.

AM: There is an eye-wateringly large figure of £100 billion as a putative deficit as a result of Brexit, much discussed in the papers. Do you recognise that figure? Is there a big deficit black hole that you as Chancellor are faced with?

PH: Well, I read the forecasts made by independent forecasters, but the one I have to respond to on Wednesday is the definitive forecast that will be produced by the Office of Budget Responsibility. And until we see that forecast I can’t comment on how I will respond to it.

AM: Have you had conversations with the OBR – because it’s a very strange situation, they have to forecast what happens to the British economy over five years, which means after Brexit, so on what basis can they possibly make a forecast, given the government doesn’t yet know how you’re going to deal with that?

PH: Well, clearly that’s why there is a larger degree of uncertainty than usual about the economy over the next couple of years. And it’ll be for the OBR themselves to explain in their report how they’ve dealt with that higher degree of uncertainty. But of course we don’t know exactly where we’re going to end up at the end of that period of negotiation. That’s why we need to build more resilience.

AM: It’s an almost meaningless process. If you haven’t given them specific private information about what you intend to do, then they’re just making the same kind of guess that anybody watching this programme could make. And therefore there’s no particular
reason to think that their £100 billion black hole, if that’s what it is, is real, or anything else they say.

PH: Andrew, it isn’t about us giving them information. The fact is we’re going to enter into a negotiation with our EU partners about the terms of our future relationship with them. It’s not about the government’s view of the outcome; it’s about where those negotiations end up over a period of a couple of years of hard-fought negotiation. We will get the very best possible deal that we can for Britain. But the OBR will have to make its own judgement about where we’re likely to end up and how that’s likely to affect the economy.

AM: Now, I want to keep things simple, but basically, in terms of politics, the choice between, on the one hand, leaving the EU quite brutally, in a sense, and going to WTO rules and staying inside the EU, there is very little middle ground now. The European leaders are being very tough in what they’re saying about, you know, if you want to stay in the customs union, if you want to stay in the single market you have to accept free movement of people, like it or lump it. And your own Tory backbenchers are ganging up in the same kind of outcome. So that sense that there is a middle way between being inside the EU and being outside the EU seems to have vanished.

PH: Well, I don’t accept that sense. I think that what we’re seeing in Europe is a very disciplined approach to their opening position in what will be a long and complicated negotiation...

AM: Unlike us?

PH: ...We’ve explained repeatedly to people here, and I do understand the frustration among people who would like us to be much more open about what we’re thinking of doing, how we’re intending to conduct this negotiation, but look at what the
Europeans are doing, a very disciplined line, keeping their cards very close to their chest in order to maximise their negotiating advantage, and I want to ensure that Theresa May goes into these negotiations with all the cards in her hand, with the maximum negotiating flexibility, so that she can play her hand to the maximum benefit of Britain. That’s in all our interests. And with the greatest respect, those who are urging us to reveal our tactics are inviting us to undermine our own negotiation.

AM: And yet we have to know roughly speaking where we’re going as a country. Can I ask you, if we leave the... when we leave the EU - not if we leave, when we leave the EU - is it important that we set up our own trade negotiations, our own trade deals around the world with America and Australia and other countries? Is that important to us?

PH: Well, of course we will have new opportunities when we leave the European Union. And over the course of the negotiation we will discuss various options, various possibilities, various combinations of outcomes.

AM: But we have to be able to have our own deals, surely?

PH: Our key issue is to get the very best possible deal for the UK, for British workers, British companies, British businesses. And we need to keep the maximum flexibility, we need to approach these negotiations with an open mind but a single clear objective: the maximum advantage for Britain and the British people.

AM: But this suggests that we could, after Brexit, not be able to do our own free deal with other countries, because if we stay inside the customs union, as you know, we’re not able to do that. So maybe Boris was right when he said we probably will leave the customs union.
PH: But Andrew, I simply don’t think it’s helpful for us to go into a negotiation having unilaterally declared certain things we will or won’t do. I think we should go in there with a single clear objective, we are leaving the European Union. The terms of our future relationship with the European Union, the terms of our future trade with the rest of the world, are all on the table and we should be prepared to discuss all of these things with the clear objective of getting the best possible deal for Britain to protect the British economy and to protect the living standards of British people.

AM: You yourself said that the only honest alternative to the EU was WTO rules. Does Philip Hammond still agree with Philip Hammond?

PH: Well, WTO rules are the straightforward default option if we were to leave the European Union without any agreement with our European neighbours about future access to their markets and their access to our market. But look, both sides have huge stakes in this game. We trade huge amounts together. And I’m confident that we will be able to agree an arrangement with our European partners that ensures that our companies will continue to trade in and have access to European marketplaces.

AM: And yet that cannot happen unless we compromise on free movement. Every single European leader has said that. Mr Barnier, who’s in charge of the negotiations on their side has said that, there is no reason to think they’re bluffing about this.

PH: Well, Andrew, as I said earlier, I think the Europeans are being commendably disciplined in the line that they take, but this will be a negotiation. We will have our opening positions, they will have their opening positions. It will be a long and hard-fought negotiation. But I’m sure, because logic dictates that we will, that
we will eventually come to an agreement that works both for us and for our European neighbours.

AM: Can I put it to you that this is not really about the government hiding its hand from the Europeans, it’s about the government hiding its hand from the House of Commons because the government, the Cabinet and the Conservative Party are deeply split between, as it were, the hard Brexit people who want the WTO rules and get out and that’s it, and people like yourself, who would like to negotiate something in between current membership of the EU and simply relying on the WTO rules. And that split can’t be allowed to be seen visibly in the House of Commons because your party would fall to pieces.

PH: Well, I think you’d be surprised by the degree to which the Cabinet is coming together around a view of the challenges and the opportunities that we will have as we move this debate forward. We’re doing a huge amount of work. David Davis’s department, Liam Fox’s department. We work very closely together. And some of the messages we hear from people who haven’t gone into these issues in such great depth frankly belies the complexity of this issue. We all want the same thing. We want to get the very best deal possible for Britain.

AM: I’m hearing this, I get it. How important is it – you see the money coming in – how important is it to this country that we retain our banking sector in more or less the same state as it is at the moment in London?

PH: Well, financial services is a very important sector of the UK economy and a significant proportion of Britain’s financial services industry does – is – generated through trade with the European Union. And by the way, the City of London provides a vital resource to businesses, manufacturers, farmers across the European Union.
AM: Absolutely –

PH: But maintaining that access will be very important to us. And it will be a key demand in our negotiations.

AM: A key demand. And right now, as you know, a Mr Schäuble in Germany and Mr Barnier and others in France are making very, very disciplined and tough efforts to lure people to Frankfurt and to Paris, and we are not able to give any reassurance whatever to the banks based in Britain about our passporting rights in that relationship. Is there anything more you can say to help them stay?

PH: Well, I talk to the major banks and financial institutions based in London on a regular basis, and of course we provide them with reassurance - reassurance about the fact that we will argue very strongly for maximal access for financial services during these negotiations. But this will be a long process, and part of this process will be about the Europeans themselves thinking very carefully about what they want. Because some of what I’m hearing from European politicians I understand in terms of political rhetoric, but doesn’t make a lot of sense in terms of economics.

AM: You think they’re bluffing?

PH: Well, it’s not a question of bluffing. It’s a question of understanding the challenge of hosting a very large banking sector, for example. Understanding the value that this deep and complex ecosystem of financial and professional services in London delivers to the whole of the European Union, and working with them to find a way that works for both of us, has to work for Britain and for the European Union, because this is a negotiation and there’s got to be a win-win outcome.
PHILIP HAMMOND

AM: Now, you used the phrase ‘match-fit’ earlier on about where the British economy has to be after Brexit. We still have a huge productivity gap, we have many problems in the economy. To what extent are you going to be resolving this with major new infrastructure spending and spending on... you know... fibre optics and all the rest of it?

PH: Well, I’m not going to reveal what I’m going to say –

AM: Go on, go on!

PH: - on Wednesday. But this is about choices. We don’t have unlimited capacity, as one might imagine from listening to John McDonnell, to borrow hundreds of billions of pounds more for discretionary spending. That simply doesn’t exist if we’re going to retain this country’s hard-won credibility in the financial markets, if we’re going to remain an attractive place for business to invest and create jobs. But we do have to make choices and it’s very clear to me that as we move on from being members of the European Union to earning our living in the wider world, we do need to address the long-standing productivity challenge in this country, and that means investing in R&D, it means investing in economically productive infrastructure, it means investing in skills.

AM: Roads, railways, that kind of thing.

PH: It means all the network infrastructure, but in a modern economy, a knowledge-based economy, it goes much further than that. It’s about ensuring that we have the science base, the knowledge base that can build the kind of fourth industrial revolution businesses that we need for Britain to be successful in the 21st century.
AM: Are you still committed to having workers on the boards of big companies?

PH: We want to ensure that the voices of consumers, the voices of workers, are heard in the boardrooms of Britain. We think that makes sense, we think that’s good corporate governance, and we will discuss – we are discussing – with business how best that can be achieved.

AM: Finally can I ask you – I asked Mr McDonnell the same question – do you think it’s really right when things are so tough that we are spending quite such a lot of money rebuilding Buckingham Palace.

PH: Well, this is a Grade 1 listed building, an important and iconic monument, a key element supporting Britain’s hugely important tourist industry. It’s also a building owned by the government. We have responsibilities as a government, when we own heritage assets. And this building has –

AM: The royal family is very wealthy, should they not be contributing to this?

PH: This is a public building, it has not had its services renewed since the early 1950s. It’s frankly a hazard. There’s a fire risk, there’s flood risk hazard from the decrepit state of the services in Buckingham Palace. It’s never an easy decision to make but like the decisions that are being looked at around the Palace of Westminster, another iconic, historic heritage building that is fading away before our very eyes, sometimes we have to make these difficult long-term decisions.

(ends)