

Philip Hammond



Secretary of State for Transport May 2010 – October 2011
Secretary of State for Defence October 2011 – July 2014
Foreign Secretary July 2014 – July 2016
Chancellor of the Exchequer July 2016 – July 2019

13 and 20 November 2020

The coalition and the referendum

UK in a Changing Europe (UKICE): During the Coalition Government, did you – prior to the Bloomberg Speech – come to the conclusion that a referendum had become inevitable?

Philip Hammond (PH): No. I think there's a distinction between, 'Had a referendum become inevitable?' and, 'Had a language which incorporated the idea of a referendum one day, somehow, as a theoretical concept become inevitable?' But I don't think the idea – I don't think the referendum itself – had become inevitable, no.

UKICE: In that case, why do you think it happened?

PH: Politicians are not always purely reactive. Sometimes they're trying to get ahead of the curve and shape the debate. David Cameron, if you go back to the Bloomberg speech, I think was trying to do two things. He was trying to shape the debate and trying to head off a UKIP threat, but he was also trying to apply pressure to the Europeans.

You've got to remember that we were collectively guilty, on my side of the argument, of a tremendous complacency at that stage. We always assumed, I think – pretty much all of us – that, although there was noise out there about a

referendum and the EU, the economic case was so clear-cut in our minds that, if it was ever tested, people would vote with their pocketbook rather than their emotions: first mistake.

In a sense, I think quite a lot of the Bloomberg speech was designed to prepare the ground for a campaign in Europe. I remember very well, when I became Foreign Secretary in the summer of 2014, my immediate priority was to visit every EU country – I didn't quite make it, I think I made 25 out of the 27 – and try to convey to the political establishment, not just the Government, but the political establishment more widely, senior parliamentarians, civil society leaders, journalists, opposition members, that the UK was serious about change.

I found myself in a rather curious position of, inside the UK, being a protagonist of remaining closely associated with the European Union while, when I travelled to Europe, actually arguing quite aggressively that this thing has to change and warning that, if it doesn't, the Brits will be packing their bags and heading out.

UKICE: Were your officials in the Foreign Office confident that we could achieve what David Cameron had set out to achieve from the renegotiation?

PH: I think they were probably a bit sceptical and a bit less enthusiastic about the renegotiation. Remember, it wasn't being led from the Foreign Office. By this stage, the Cabinet Office had control of Europe policy so the Foreign Office was not the lead department. Tom Scholar was the Prime Minister's Sherpa, so the Foreign Office was a slightly miffed bit-player in all this.

I spent a lot of my time, as Foreign Secretary, urging the Foreign Office to react to what appeared to me as a systematic humiliation over the years – having first lost its role in relation to Europe, to the Cabinet Office Europe Unit and then surrendered many of its functions to the National Security Council. The NSC sucked away a lot of the Foreign Office's traditional role. I thought that the Foreign Office needed to re-think its role and work out how it was going to rebuild its stature.

I have to say, even then, the institutional response was, 'The easiest way to do this would be to take over DFID,' because that suddenly makes you a

department with a huge budget and lots of footprint. Evidently, that's the way it has gone, but the Foreign Office never really fought back against the attrition from the national security apparatus and the Cabinet Office on its traditional territory.

UKICE: Do you think that that lack of Foreign Office input led David Cameron to overpromise, or at least overestimate, what he could get out of his European interlocutors?

PH: Maybe. I'm not sure whether it was specifically a lack of Foreign Office input. He had good lines directly into UKRep in Brussels that was always pretty well plugged in. Look, I'm sure David Cameron would himself admit that in the early stages he overestimated the supportiveness of (Angela) Merkel. I think we all did. We all interpreted German pragmatism as support for a more British view of the future of Europe. That was clearly not correct, so we definitely overestimated the flexibility of the Europeans.

I think the other thing that the British establishment – at least the British political class – has systematically done is underestimated the influence of the French in the Brussels machinery. Viewed from London, it has been a cliché to say that the EU is a German-dominated institution. The Germans obviously play a very, very important role, but the Germans are diplomatic novices compared to the French. The French are one of the world's most sophisticated diplomatic powers – you could argue the most sophisticated diplomatic power.

The way the French network and manage their assets, and build their positions within institutions, is pretty impressive. As British influence in Brussels has declined since the referendum, the French have moved in with a very impressive force. But, even before the referendum, they were operating quite a lot of the levers of power in Brussels, perhaps not always visible even to the Germans.

UKICE: On the specifics on reducing migration from the EU – at least movement from the EU to the UK, and some of the propositions that were made, perhaps, on using the welfare system to do that – did you ever think that they were runners?

PH: Yes, we did. Funnily enough, I was discussing this with Olaf Scholz just a

few months ago who, as Mayor of Hamburg, claims to be the author of the compromise idea of limiting access to social welfare rather than limiting freedom of movement itself. We thought that there was a real community of interest with the Germans, who also had problems from the far right based on a perception that freedom of movement was a route to out-of-control migration into Germany.

Certainly, I'm pretty sure David Cameron believed that a really rather modest concession from the Europeans would satisfy enough of the public opinion concern in the UK to put this thing back in its box. I think that was very much how we saw it, and I've described it this way many times.

The British have never been enthusiastic about the European Union. To the British – including me, and we'll come on to my views, no doubt, later on – the European Union was a construct of necessity and convenience, rather than some 'Grand Projet'. We never saw it that way.

It was always a balancing act: what are the benefits? What are the costs? When the costs and benefits got out of kilter, you had to either ensure that the benefits increased or that the costs decreased. It was clear that, to the British public, the cost that was most in focus was the supposed burden of freedom of movement. That was very much a reflection of the surge in immigration from the A8, from the accession countries, after 2004.

I've said this to his face, so I'm not speaking out of turn, but I think Tony Blair has to bear a significant burden of the responsibility for turning British public opinion. Not against the EU, because I think British public opinion was always gently against the EU in the sense of a grumbling dislike of the institution. But that's fine, that's not a problem at all. British public opinion has a grumbling dislike of lots of things, but it tolerates them because it accepts that they're part of the furniture and, actually, they do have some benefits. But, if you were to take a single decision in this whole saga that has led to where we are now, it would be Tony Blair's decision not to impose transitional controls in 2004.

Undoubtedly, a decision that had a very positive impact on the UK economy – but the short-term gain has been bought at a very high long-term price. I think David Cameron had a strong sense that what he was trying to do was tilt the playing field back a bit. Blair's decision on transitional controls had tilted it

away. Okay, there had been some economic benefits, but his decision tipped public opinion too far against the EU and focused it on this one issue. We had to somehow get it back into kilter.

There were other issues. George Osborne in particular was very, very worried about the development of the single currency and how that would ultimately develop to Britain's disadvantage, as a major financial services centre. This was not an issue that registered with public opinion but, as part of this renegotiation package, we had to make sure that Britain, as a country that would always retain its own currency and a major international traded currency, could not and would not be disadvantaged by not being part of the Eurozone. That was an important part of the renegotiation process, as well.

UKICE: Was the public commitment in 2010 to reducing net migration from the EU to tens of thousands ultimately counterproductive – shooting yourselves in the foot?

PH: Almost certainly so, in the sense that it was never a credible proposition to reduce inward migration to tens of thousands. The huge improvements in living standards and the economic growth we did achieve would not have been possible if we had reduced immigration to tens of thousands.

It's a little bit like President Trump and the wall. The wall has a symbolic importance. But, if ever delivered, it would have created a massive problem for him. I love reminding my American counterparts that one of America's strategic strengths versus China is that it has good demographics and China has appalling demographics, mainly because they've never managed to build the wall. Therefore, they have a constant flow of younger, high-fertility immigrants from Latin America.

Look, no-one – at least no-one in the senior ranks of the Tory Party, I don't think – at that time ever believed that this was a pledge that would be delivered in practice. It was rhetoric. As President Trump's people would say, it was directional. The 2010 manifesto was signalling that we wanted to control migration, not that we'd actually get to tens of thousands.

UKICE: What was it like, as Foreign Secretary, on 24 June, the day after the referendum? What was in your in-tray? What did you have to do?

PH: We were in a state of complete disarray and disbelief, really. I think that the Government split into three groups. It was split into three groups: those who'd been campaigning for a Leave vote, and then the Remain camp which immediately split into two groups, which I would describe as 'refuseniks' and 'pragmatists'.

The refuseniks immediately went into a holding pattern of, 'How soon could we have another referendum and reverse this decision? What was it we didn't explain properly? Maybe we should have published a couple of additional economic annexes to the paper.'

The pragmatists, of which I'd like to think that I was one, focused on the fact that Brexit was a highly ill-defined concept during the referendum campaign. The Leave campaign deliberately, for its own reasons, didn't define Brexit. Therefore, there was still an opportunity to curtail the economic damage and to deliver Brexit in a way that, while I don't believe could ever have been to Britain's economic advantage, could have delivered it in a way that minimised the disadvantage. This is the wrong characterisation, but probably the phrase people would have used at the time is a 'Norway-type' relationship with the European Union.

UKICE: Where was the Treasury institutionally at this stage, not least because of the material that was put out by George Osborne during or just in advance of the referendum on the different options? Was the Treasury reeling?

PH: Yes. First of all, the Treasury felt battered by the narrative that it had been conducting some kind of disinformation campaign. People in the Treasury were clear that what they did was produce, objectively, the analysis they were asked to produce, based on the assumptions they were given. Perhaps naively, they were rather shocked to find that they were then placed firmly in the spotlight, centre stage.

The Treasury was slightly – well, not slightly, severely – bruised by that experience and as being painted as the villain of the referendum campaign. Yet there was never any doubt that the overwhelming majority of people in the Treasury saw a hard Brexit as an economic catastrophe, as did I – a potential economic catastrophe to be averted.

Since this is an opportunity for putting things on the record, I'd like to respond to the many people who, throughout this period, said to me words to the effect of 'But you used to be a Eurosceptic, didn't you? I always thought you were a Eurosceptic. Why have you suddenly become this eurofanatic?' I never was in the category of people like Ken Clarke who were philosophically, ideologically committed to Britain being at the heart of the European project.

For me, this was primarily about economics. For better or for worse the European Union existed and, for better or for worse, the UK had become a part of it. Its economy had become irreversibly shaped around that membership of the European Union and participation in the Single Market.

Those who argued for leaving the Single Market had never really accepted the reality of the fact that our most important trading partners – in the plural – across the European Union, none of them were able to deal with us on a bilateral basis. Leaving the European Union might have made sense if our European trading partners could have done bilateral deals with us, but they couldn't. We either dealt with the European Union or we had no trade deals with any of the 27 European Union member states outside the UK.

So, I was never impressed at all by the sometimes ridiculous political posturing of the European Union. It was not a union. It didn't have a single political position. It didn't have a foreign policy. As Defence Secretary, I found the European Union's posturing over a European defence policy to be beyond ridiculous, laughable. The French did too frankly, unless it was going to be a defence policy that the French controlled in every detail.

As Foreign Secretary, I discovered that the European Union was a very useful platform and a multiplier of British influence because there were only 2½ countries that were credible foreign policy players in Europe: the UK, France, and the Germans in respect of certain areas of activity and certain geographies. Then smaller players, like the Dutch, Swedes and Danes who were absolutely present but small scale. The UK was able to exert significant influence through that medium, but it was the creation of the Single Market – frankly, a British, or we like to think, a British invention – that leveraged the value of Europe for the UK.

When the chips were down, while my preference would have been to have

retained the status quo, for me, fundamentally, it was about the Single Market. If we had to leave the political institutions and structures of the European Union, fine. So long as we could have protected our access to the Single Market.

Since this is a document of record, I should record that when I joined the Government in 2010, I would have described myself as a Eurosceptic, meaning not that I was looking for Britain to leave the European Union but that I was looking for Britain to use its influence to curb the growth and extension of power of the European Union.

I would have been very happy to see the European Union progress no further towards ever-closer union, if you want to describe it thus, than it was in 2010. Indeed, in some areas, I would have liked to see it unwind some of the things it was trying to do, but I had no desire at all to take Britain out of an association of nation states and the Single Market.

I remember very well going to my very first European Council as Transport Secretary, the European Transport Council – a hideously ineffective body – and going with a very determined mind-set that I was going to be an outsider, that I was going to sit there. I was going to roll my eyes – something I'm told by Cabinet colleagues I do routinely – and generally fold my arms and look distinctly sceptical about all of this stuff.

Actually, much of the European Transport Council, which ludicrously had responsibility for Galileo, was exactly that: absurd posturing about creating European strategic capabilities that could face off the US and so on. Through my time as Transport Secretary, I don't think my views changed.

When I became Defence Secretary, I had a lot more to do with Europeans. But that only reinforced my scepticism, really, about whether the European Union was getting ideas above its station in areas like defence. I was deeply sceptical of the idea of a European defence policy.

When I became Foreign Secretary in 2014 I started to see immediately how, contrary to what both political parties had been telling the British people for years – and I had swallowed, along with most of the British public, that this European Union thing was something over there in Brussels that was being

done to us poor, defenceless Brits, and all these things coming down the line were actually imposed on us by perfidious foreigners – actually the truth was slightly different. The European Union had been shaped, to a very significant extent, by British influence. Partly because the British had been very assiduous in working the room in Brussels, partly because we talked a lot of sense, partly because we were actually pragmatic. There's a lot of hand-wringing, and flag-waving, and visionary stuff being talked by, particularly, Southern Europeans. The British tradition was to get on, and try and produce a paper proposing a specific way forward.

British civil servants, in particular, had established themselves in positions of significant influence in Brussels. This was because they got the work done, because they delivered and, in the shaping of the Single Market, because we understood the dynamics of trade and some of the more complex economic issues in financial services. We clearly dominated the debate.

I found that actually, the rather more sophisticated view was that the UK had an influence that far exceeded its population or GDP proportion inside the European Union. The Foreign Affairs Council, for example, was dominated by an Anglo-Franco-German triumvirate. I would routinely go to Foreign Affairs Council, have a pre-meeting with my French and German colleagues, where I would say we made most of the running.

Once we'd agreed with them, we simply spread the word around the room – that the French, the Brits, and the Germans had agreed. That was typically the end of the debate. Occasionally, the Greeks would pop up and say something contrary. But effectively, once we had agreed, that was what happened. Baroness Ashton at the time was the High Representative, and I became, quite quickly, really very conscious of how valuable this structure was to the UK and how much leverage we were getting out of it. So, I started to rethink my view – though not, it must be said, around the trappings of the “European nation state” idea which always, frankly, embarrassed me, and still does.

It's anecdotal, but I'm going to mention this for the record. I went to Brussels in August 2014, with the Duke and Duchess of Cambridge, to commemorate the beginning of the First World War. We went to an event with the King of the Belgians and the President of the European Commission. In Belgium, in the presence of the King of the Belgians, the European anthem was played first,

before the Belgian national anthem. The King of the Belgians had to suffer the humiliation of having to stand for the European anthem to be played, in his own country, before the Belgian national anthem was played.

That, to me, made a huge impression and summed up for me everything that was wrong. This was a ludicrous over-extension by the European Union. But if you stripped away the ambition of some for a European superstate, which was definitely there, at the working level what we had was, frankly, an extremely valuable forum which leveraged British power. It allowed us to triangulate, because we were one of the few member states that had a comprehensive diplomatic capability, and to influence. It was a multiplier of British power, not a diminisher of British power, as many people in this country had been led to believe. By the time I ended my stint at the Foreign Office, I was firmly of the view that we would be better off staying in the European Union but that we should seek to use our influence to shape that union, and focus it on building the economic elements and moving away from ambitions to building a political union.

I understand entirely the conflict that political decisions have to be made to shape an economic union but, in my view, those were trade-offs worth making. The very small inconveniences of having common standards and common sets of rules were far, far outweighed in my judgement by the economic benefit to the UK.

As I saw it, in January 2012, (and I remember having this conversation with David Cameron), the UK was in an incredibly strong position. Many economists were forecasting at that time that the UK's economy would overtake that of Germany in terms of size sometime in the 2030s, because of our dominance in the fast-growing services sector. We were ahead of many of our European competitors in high-tech industries, areas like FinTech were growing very fast. Our financial services sector dominated the European Union. The EU's thinking was moving closer to an Anglo-Saxon view on free trade and market economics. And we were shaping the EU's foreign policy agenda most of the time. We were winning the arguments, economic and diplomatic.

Across the board, it looked to me as though Britain was set to become the dominant power in the European Union. My approach in January 2012 was that, if we can just win this argument now, with some modest concessions to

convince British public opinion that we should stay in, we can carry on building on Britain's advantage. It will become progressively obvious to the British public that we not only benefit from the European Union, but increasingly we can steer the future direction of the European Union and shape it in an image that works for Britain, and which is sensitive to those concerns of the British people about sovereignty.

While we were never going to get what the extremists would describe as 'full sovereignty', because we would always be having to pool sovereignty around issues of trade and economic governance, in areas like foreign policy it was clear to me that we would be increasingly in a position to shape Europe's policy.

That's why I wanted to stay in. I saw it as a way of leveraging British power, and multiplying British power and influence, and multiplying the benefit to the British people, and a way of cementing Britain's economic lead in Europe. That was, I believe, in January 2016, a realistic view of the future: that Britain would have become the dominant power in the European Union.

The First May Government

UK in a Changing Europe: When you agreed to become Chancellor, did you have a clear sense of the sort of Brexit that Theresa May wanted? Or did you get a sense that there was a clear sort of Brexit that she had in mind?

Philip Hammond (PH): No, she didn't know. She didn't know. We were at the 'Brexit means Brexit' stage.

UKICE: That was a holding pattern?

PH: I don't think at that stage Theresa had any ideological views about this at all. Theresa is essentially a pragmatic politician. I think that she will have been – she was – very conscious of the fact that she had been nominally a Remainer, although extremely reluctant to put her head above the parapet. That will be partly because, I expect, a lot of her core support in her own constituency would have been pro-Brexit. She was about to become Prime Minister of a country that had just voted to Leave, as well as leader of a party that had clearly, in some significant numbers, voted to Leave. So she wanted

to lead the party.

Theresa has always been ‘country and party first, ideology very much second’. So, I think she saw her task as to unite – in very grand vision terms, in a way that looks a bit ambitious to put it mildly, with the benefit of hindsight – to unite the country behind a vision of the future that included leaving the European Union, protecting the economy, building a better Britain, etc, etc, etc. But how you actually did that, what the masterplan was, she didn’t know – because Nick Timothy hadn’t formulated it at that stage.

UKICE: So, you have the long summer of 2016. Was there much in the way of a conversation going on within Government then to try and firm up ‘Brexit means Brexit’? Were there lively debates?

PH: There were debates, and there was manoeuvring, and shuffling, and jockeying for position, but there wasn’t – or at least to my mind there wasn’t – an immediate sense of urgency about this. We’d voted to leave, and in due course we’ll have to get on with this issue. But it didn’t feel, in the late summer, that that was the primary – that that was the dominating – theme. There were lots of other things. Theresa May was trying to assert a domestic agenda. I think, in her mind, she was hoping that she could put her own stamp on Government, as somebody with a huge and ambitious domestic programme.

Remember, the public was in love with her at that stage. She had a tremendous approval rating. She thought she could use that to gain control of the agenda. Really, I think, while she absolutely always accepted that Brexit had to be delivered because Brexit was what the people voted for – and I never once heard her deviate from that view in public or in private – she absolutely did not want Brexit to dominate the agenda.

At that stage, I think she believed that she could park Brexit as just something we will get done: ‘It has been decided. Now let’s move on, and let me tell you about the Theresa May vision of the future’ She became increasingly frustrated that everything was dominated by Brexit in the internal politics of the Cabinet and the politics of the country. That wasn’t what she wanted at all.

UKICE: Did you interpret the creation of the Department for International Trade

as a signal that the Prime Minister has already decided that we would be outside the customs union?

PH: Do you know what? I do not think it was as deeply thought through as that. It was part of the day-one agenda. You've got to remember the psychology. She walked into Downing Street, thinking of herself as a Remainer at the head of a Leave Government. She wanted to send out signals. She would have thought of this as uniting the party behind her.

She wanted to send out signals to what she, in her private moments, will have feared would become a very reluctant, unhappy, and very large part of the party that had supported Brexit and would have liked a Brexit Prime Minister. So, having stolen the crown, she wanted to send out reassurance signals.

Creating a new Government department, frankly, is a pretty cost-free signalling mechanism for an incoming Prime Minister. So, the Department for Exiting the European Union – a ludicrous notion, absolutely ludicrous; a rookie civil service trainee could tell you that that was a stupid idea – and the Department for International Trade, were both gestures.

They were ways of bringing in clear, committed Brexiteers to the Government, and plonking them in a place where they could assert their views, rally their troops, and, she hoped, provide a focal point for the hard-line Brexiteers in the parliamentary party. As well as finding out the hard way how difficult this was all going to be in practice.

I'm not convinced that there was some deep piece of politico- economic thinking that had gone on that said, 'We will be leaving the customs union, therefore, we'll need a Department for International Trade.' I think they hadn't had time to do that.

Frankly, they hadn't got the intellectual support to do that. They didn't have an economist on their inner team at all. They didn't have anyone who would have been able to think through and talk them through the implications of that kind of thing.

UKICE: You're then watching Brexit unfold in the initial stages, before the triggering of Article 50, through the Prime Minister's party conference speech

and then the Lancaster House speech. How were you able to influence those speeches and what was your impression as to the initial direction and shape of 'Brexit means Brexit'?

PH: By the way, you asked me earlier on, at the time of accepting the role as Chancellor, did I have a clear idea of the Prime Minister's view? I didn't say this, but I've just remembered this. When I sat in the Cabinet Room on that evening – and the only other person in the room was Fiona Hill – I did ask her about Brexit, and she said to me, 'Brexit means Brexit.' That was it. That was the only discussion we had about it.

Look, what happened, I was completely stunned by the speech that she made at the Conservative Party Conference in October 2016. I hadn't seen the relevant part of it in advance. I'd had no input to the speech. Nick Timothy kept me completely away from it. I did see some text on the economy the day before, but I had no idea that she was going to describe Brexit in the hardest possible terms.

I was absolutely horrified by what I was hearing. All I remember thinking was, 'There will be a television camera that will be on your face. If you move a muscle, it will be the story on the front page of every newspaper tomorrow.' I remember I wasn't even really listening to her. I was just sitting there. I remember exactly where I was sitting: on the end of a row, to the side of the stage, looking up diagonally at the stage, looking up at her. I just remember focusing my entire energy on maintaining a rictus half-smile, and trying not to show any reaction at all, and then get out of the room without speaking to any journalists. I was completely and utterly horrified by what I felt was almost a coup: a definition of Brexit without any proper Cabinet consultation at all.

My assessment of Theresa May's Prime Ministership, in terms of Brexit, is that she dug a 20-foot-deep hole in October 2016 in making that speech and, from that moment onwards, cupful by cupful of earth at a time, was trying to fill it in a bit so that she wasn't in such a deep mess. Every speech she made on Europe since then was rowing back from the original proposition. Lancaster House rowed back from what she implied in the October speech. Florence rowed back a bit further. Mansion House a bit further still. Every time we moved on this, it was to move backwards from the brink. That was why she never dominated this agenda: because she was always on the back foot,

retreating, fighting rear-guard actions, rather than being on the front foot with her campaign.

I left that room – I remember this very well – and had to go immediately by car to a helicopter landing site just outside Birmingham, to be flown to Heathrow to catch a plane to the US because the IMF annual meetings were coincidental with the party conference. When I arrived in Washington, it was to discover that the pound was in free-fall, on the back of the Prime Minister's speech and the market's reaction to it. I then had to get out on the TV in Washington, to try to reinterpret the Prime Minister's speech for the markets in a way that would try to stop the slide in sterling. We had what looked like a genuine sterling crisis on our hands in the couple of days immediately after the speech. It was a disaster on all fronts, a total unmitigated disaster that scarred her Prime Ministership and should have sealed Nick Timothy's fate, but I think she only realised later how badly that had constrained her ability to deliver any kind of practical Brexit at all.

Remember, the complex narrative about the nuances of Brexit and so on came much later, so I'm not even sure that she understood, as she was delivering that speech, how extreme the words coming out of her mouth really were. I think if she'd understood, if she realised that she was lining up people like me and metaphorically kicking us in the groin, I don't think she would have done it. I don't think that was her intention.

UKICE: Was it not, though, to some extent a function of the fact that she, perhaps because of her experience as Home Secretary, interpreted the referendum result as all about immigration? Therefore, leaving the Single Market was almost the 'sine qua non' of respecting the referendum result.

PH: Part of Theresa May's challenge – she's not going to like me saying this, but if we're doing a historical record – was that her experience was exclusively in the Home Office. She was the world's leading expert on everything to do with security and immigration. You couldn't touch her on it. There was no point even arguing with her on it, but she didn't have a well-rounded view of the economy.

You're absolutely right: she will have seen this through the prism of immigration and security. For her, the economy would have been very much a

secondary thing. She didn't really have a deep interest in how the economy worked. Of course, she wanted a successful economy, because she understood that GDP growth underpinned everything else. But, as to the mechanics of it and what the implications were, that wouldn't have been her primary focus at all at that time.

UKICE: If we go to the period up to the 2017 general election, do you think that those economic arguments had started to cut through at all with the slight movement, as you say, at Lancaster House?

PH: The run on the pound certainly scared the bejesus out of them. I suspect that was – well, I know – that it was a deep wound. Imagine you're a new Prime Minister, giving your first party conference speech as Prime Minister, pretty pleased with yourself. It gets a good reaction from the crowd in the hall. Then, suddenly, you find you're in the middle of a full-blown sterling crisis because you've said something which you didn't even realise would provoke that reaction.

If you'd gone out there knowing that you were going to say something that would cause a run on the pound and you decided to do it anyway, that's a political judgement. But to go out there and say something that you didn't think, or you certainly didn't understand was going to cause that reaction in the markets. That was unforgivable.

I blame her closest advisors. They should have checked all this with the Treasury. If the Treasury had seen the speech, the Treasury would have told them that this is liable to cause destabilisation in markets, because at that stage the markets had not priced in a hard Brexit. They had all assumed that the trade relationship would continue much as before.

UKICE: Yes. What was your view on holding an election in 2017? Were you one of those who thought it was a good idea?

PH: I'm not sure if Anthony Seldon's book covers this or gets it exactly right. I was in favour of an election in the spring of 2017, but for a completely different reason to the Prime Minister.

It's difficult to remember this now but, after the October 2016 speech, even the

idea of a transition period – that there would be a prolonged period in which we remained with access to the Single Market – was regarded as a heretical thought.

I was roundly condemned in the media and by the hardline Brexiteers, the ERG, for suggesting a transition period. The conventional wisdom after the October speech was that we would leave the European Union sometime at the end of 2018 or early 2019, and that would be it. It would be a hard stop.

In my engagement with business – particularly financial services, but business more generally – it was absolutely clear that business was in a bit of a tailspin after the party conference speech and was focused very heavily on getting a transition. The consensus was ‘Okay, we’d like to stay in the Single Market but look, the minimum and absolute requirement is that we have some kind of transitional provisions’. I wanted to secure – and I set myself up primarily to secure – a transition so that, at the very least, business would have four years to prepare for life outside the Single Market. That was my ambition.

It was easily obvious, to anyone who thought about it for 10 seconds, that there was a problem here because we were lined up to have a general election in 2020. If we were going to have a general election in 2020, extending Brexit – extending a transition period – would run into a conflict with the timing of the general election, as my ambition in early 2017 was to ensure that we had two years to Brexit, plus at least another two years’ transition, taking us into 2021.

Although many of my colleagues were perhaps more attuned to the politics than I was, even I could see that it would be bloody difficult going into an election in 2020 having promised to deliver Brexit, with Brexit still not fully delivered. So, I set about a campaign to persuade David Davis, for purely tactical reasons. David Davis, although he was a hard-line Brexiteer, was also very sensitive to the needs of business and was someone who believed that we could deliver Brexit – and a genuine Brexit – without necessarily having to sever our economic ties with the European Union. Indeed, I think it was him who famously said that ‘Doing a trade deal with Europe would be the easiest negotiation ever.’

So, I set about persuading David Davis of the case for the transition. Indeed, somewhere deep in the annals of history, he and I even did a joint workshop

with financial services businesses in Canary Wharf, in early 2017, to get the views of business on how we should manage this process. David and I used to talk a lot. The Prime Minister listened to David Davis. She liked David Davis, they had a personal chemistry which, frankly, was quite difficult to achieve. I certainly didn't feel that I had that personal relationship with the Prime Minister, but he did. He was her favourite Brexiteer.

I spent a lot of time and effort seeking to persuade David of the case for a transition and then of the logic that, if we wanted to be able to have a transition, we had to have a general election in 2017 off the back of the Prime Minister's bow wave of popularity and secure a five-year mandate. That would then mean that we effectively had five years in which to deliver Brexit, with a proper transition and a bit of time and space to think about the whole thing, ideally delivering the final coup de grâce, the big flag-waving Brexit moment, in the run-up to what would then have been the 2022 general election. It would work economically and it would work politically.

We went to Theresa together to put the case for a general election in 2017. Unusually, she invited us up to the flat – the flat which is actually over Number 11, as you know, it's actually over Number 12 technically – to the Prime Minister's flat for a drink, and we put the case to her. She listened carefully, she asked questions and, as was invariably the case with her, she gave no indication of whether she agreed with it or not. She simply asked questions and said, 'Hmm,' and, 'Let me think about it,' and took it away.

Several weeks later – a couple of months later – I got a call on a Sunday afternoon from Number 10, saying, 'The Prime Minister would like to see you at seven o'clock this evening in the flat at Downing Street, with Mr Davis, for a drink.' Which was unprecedented, completely unheard of. Not least because she never used to go back to Downing Street on a Sunday evening.

I called David. We had a chat. Neither of us had any idea what it was about. When we got there, she told us in confidence that she was going to tell the Cabinet on Monday morning that she was calling a general election. She didn't say, 'Because of the arguments that you guys put forward,' but she certainly allowed us to believe – she was a smart enough politician to allow us to believe – that we had influenced her thinking. But, of course, I will never know to what extent that argument, that we needed to create some space to do a sensible

Brexit, really influenced her thinking on this issue.

UKICE: Did you expect a change of approach towards Brexit in the aftermath of the election, given the numbers? Did you expect the Prime Minister to reach out more over the aisle to try and secure cross-party backing?

PH: I don't know what I thought at that point in April 2017 but, as the campaign went on, her intention became clearer as to how she was going to position herself.

Let me just back up a bit. We'd gone through a series of iterations. The Lancaster House speech is a good example, where she actually rowed back from the extreme October 2016 position, partly because her advisors – Jeremy Heywood would have been extremely influential in this – were gradually persuading her that there was very high risk around the most extreme version of Brexit. At every occasion, she had a massive stand-off with the hardliners. Then they stared into the abyss, recognising that the alternative to backing her was possibly a different outcome – one that lost Brexit altogether: a second referendum, something like that. On each occasion, they decided to swallow their pride and endorse what she had done.

So, a kind of model was created where Theresa May was at position A. She pencils out position B. The hardliners react brutally. There's a bit of negotiation, toing and froing, and she then sets out, publicly, a position which is closer to B than A, but nonetheless not quite at B. They enthusiastically endorse her position and pronounce her the true saviour of Brexit from the evil Hammonds, and Gaukes, and Lidingtons of this world.

As we got into the general election campaign, it became clear that her strategy was going to be to plump for a position that was somewhere in the middle, but appeased the hardliners by dumping the likes of me from her Cabinet. Not just because of Brexit. To be fair, she will have concluded by that stage, or at least her advisors will have concluded by that stage, that the Treasury – this was Nick Timothy's starting prejudice, anyway – was a block to the kind of radical transformation of Britain, standing everything on its head, smashing up the establishment, that he had in mind.

I don't think it was ever really Theresa's agenda, but it was his agenda. Nick

Timothy was an anti-establishment figure. Theresa is an archetypal establishment figure. They were a very odd couple but it became clear that, if she won the election with a good majority, she would certainly be axing me. I would have been the big symbolic sacrifice that would have allowed her, I think in her own mind, to have a little more of a centrist position on Brexit – by making that sacrifice to the hardliners.

I know probably all politicians say this. In my case it actually is true. You can believe it or not. History can believe it or not. But for me I was far more interested in securing what I thought was the right kind of Brexit than protecting my own political career. I was always ready to go back to the private sector. I always used to say that there are two kinds of politician: there are those that had nowhere else to go, because politics was their life, and that there were those who'd come from somewhere else and could go back to somewhere else.

I always felt that, if you're in the latter category, you're able to take a more balanced view of things because you didn't have quite the same personal stake in the game. If I'd been fired after the 2017 general election, I would have done exactly what I've done now, and return to my largely private sector roots and found a whole set of different things to do. And if I'd done it in 2017, my pension fund would have been in a lot better shape than it is now. I was quite phlegmatic about this. I was fully expecting to be fired. The general election, for me, was about what do I do next? I was even discreetly talking to one or two old friends about whether we might catch up for a beer pretty soon after election day.

I had a pretty clear view of where she would go. In her mind, this would have all been about how to manage the hardliners, how to manage the ERG, the Jacob Rees-Moggs, how to keep them onside. She thought that she could do that by positioning herself in what she would have felt was a sensible place.

I'm just going to say one other thing at this stage. I can't be sure, because no-one ever knows what was happening in her head, but I don't think by this stage she'd really started to internalise quite how big a challenge this would be for the economy. But I absolutely know that she had not yet seen how big a challenge it would be for the union.

The Northern Ireland problem hadn't really become front and centre in her mind, or indeed anybody's mind, at this point. The big change in Theresa's attitude to Brexit came when she understood – and it was like a light bulb going on – when she understood that the problems over Northern Ireland would inevitably lead to the break-up of the United Kingdom if we were not able to secure an arrangement with the European Union that allowed us, effectively, to be able to access the Single Market. Once she understood that, Theresa then became a fanatical devotee of an ambitious deal with the European Union. Not because it would save the economy, but because it would save the union.

UKICE: When do you think that light-bulb moment was?

PH: It would be remiss of me to give an exact date. It was sometime between the general election and the big focus on the Northern Ireland protocol, which was during the summer and autumn of 2018. It was sometime in the second half of 2017 to early 2018 that it started to become the dominant theme in her mind.

The Second May Government

UKICE: Once we've come into the immediate post-election period, there are three big tasks going on in Government. One of which is negotiating the withdrawal agreement, one of which is thinking about the future relationship and where that might go, and one of which is preparing for the end of the Article 50 period and no deal preparations.

On negotiating the withdrawal agreement, the Treasury obviously had one quite big strand which it led on, which is not now focused on very much – the financial settlement. I just wondered if you had any thoughts about how the Government went about that, and the role the Treasury played in that with Olly Robbins and his team.

PH: It was fairly cut-and-dried, to be honest. We had pretty clear legal advice about what our obligations were, and the European Union didn't really try and push us with any vigour to go beyond that position. The Treasury's position from the outset was, 'We're going to have a commitment for quite a lot of money here. We're liable for it. Clearly, politically, it makes sense to try and offer it up in exchange for something,' but the Europeans are not stupid.

They're going to have the same kind of legal advice, so it was never the leverage point that the hardliners believed.

David Davis in particular had this very crude 1980s approach to negotiation. I know David quite well, I knew him before I went into politics – David's backstory is that he was the trouble-shooter for Tate & Lyle. When there was a problem, they sent David Davis. Shut down a refinery, fire a load of people, get rid of the troublemakers: the bare-knuckle fighter. That's how he liked to see himself. David Davis' approach to negotiation is you slap it on the table, you lean across, and you eyeball them. If they don't give way immediately, you say, 'I'll see you round the back.' That was always his view on this. 'We've got the money, they want our money, so we wave a cheque at them then we stick it in our back pocket and we say, 'Right, show us what you've got'. In the end, they'll want our money. They'll want access to our market. How long is this going to take, 15 minutes? Give me 15 minutes in a room with these people. I'll sort them out.' That was his view of the world, and it was widely shared among the Brexiteers.

So they always assumed that this was entirely discretionary and we could just threaten to withhold it. That would give us this huge bargaining leverage. It never did. We knew that because we had legal advice. I have no idea whether the European Union had access to our information during the negotiating period. I have no idea whether our system leaked, so whether they would have known that. But they certainly would have had their own legal advice. That wasn't a big thing from the Treasury's point of view. Handling it in public was a massive thing. How we presented it in public was a massive thing, but it wasn't a substantive issue.

UKICE: As you said, the Prime Minister moved slightly in Lancaster House, but then we get a series of moves at Florence and Mansion House in March the next year. One of the perceptions we have from outside was that the Treasury started to actually have a bit more of an influence after the election, on the developments. How did that all unfold?

PH: Through this whole period, it felt like trying to run through treacle. The whole thing was an exercise in trying to move her a millimetre at a time in the right direction, and constantly making sure that she didn't slip backwards. She would vacillate – so she would move a few paces in the direction of

pragmatism then something would happen, or she'd get a delegation led by Jacob Rees-Mogg, and you'd suddenly go in there or get a message to say she'd gone 90 per cent backwards. We would spend weeks, and weeks, and weeks trying to move her a tiny distance in the right direction. Then something would happen and she'd give up 90 per cent of the ground. It was like the First World War. It really, really was like the First World War.

Each of those three big set-piece events, the speeches, the detailed texts, and the concessions and the movements were argued over and angsted about for weeks beforehand. Not the whole text, because she didn't share that, but bits of text would be discussed in little secretive meetings. Sometimes, I lost track of whether the Prime Minister knew I was being 'confidentially' shown a bit of text or whether I was being shown it on the quiet by someone. She showed, or her team showed, different bits to different people, and they were constantly triangulating and juggling, right up to the last moment, as to where she would land on the day.

Then what she always did, at the very last minute, was call a Cabinet meeting. She'd have a draft of the speech in the Cabinet Room; you'd go in and you would have half an hour before the meeting to look at it. Nobody had a chance to even get through the speech, never mind critique it. There would then be a Cabinet meeting in which the Cabinet would be required to endorse it or resign, basically. Surprisingly, on every occasion everybody endorsed it, even though not everybody was happy with it.

Who had the influence? Olly Robbins became hugely influential. She liked Olly. He played his cards well. I think Olly was, by personal instinct, strongly pro-European, but he was a consummate civil servant. He didn't overplay his hand, and I don't think he allowed his personal prejudices to get in the way of doing what the Prime Minister asked him. What he did regard as his duty was to ensure that she was always fully aware of the economic consequences of everything that was being contemplated.

I suspect Jeremy Heywood, for as long as he was there, also played a very important role in the background in gradually making her more aware of the extent to which the British economy, for better or for worse, had become utterly dependent on its European supply chains and its European customer base, almost without us noticing.

So, did the Treasury become a bit more influential? Probably, it did. Tom Scholar certainly, with his experience of having been David Cameron's Sherpa, would have been an influence in the background. He sometimes come to meetings I had with the Prime Minister to present a Treasury view, but it was rare.

Gavin Barwell, of course, was the other key influence. If there was a single thing that changed the dynamics, it was the transition from having an instinctive Eurosceptic managing access to the Prime Minister, in Nick Timothy and Fiona, to having an instinctive Euro-pragmatist managing that gateway. Gavin became a tremendous confidante of the Prime Minister, and she trusted him. He never let her down but he absolutely, I think, developed the most productive relationship with her, in that he knew exactly where his boundaries were. You'd have to talk to him, but I always had the sense that she never said to him, 'Go and see if you can square Hammond off on this,' or, 'Go and have a quiet word with Boris.' He just knew when her wish was that something got resolved, and he knew instinctively how far he had permission to go. He almost never got it wrong.

He would come and talk to me in conspiratorial terms about how "we" had to persuade her of something – but I absolutely knew he was going straight on to have the exact mirror-image conversation with Boris immediately thereafter. He was a sort of Medici-esque, Machiavellian negotiator between the various factions. He would have had a big hand in where we came out on those later speeches.

There was an enormous amount of effort went into the exact nuance, and sometimes it was individual words. We'd end up in arcane debates about whether this word would send a different signal to the Europeans than that word. In some cases, I remember we even decided to let the Europeans know, on a back channel, that a piece of language was being used because it played in a certain way in the UK, and that the original words had actually been different, to try and help them to understand how to interpret the speech.

A lot of effort went into helping the European Union in particular interpret the different speeches, because there were two audiences: there was the European Union audience and there was British public opinion. I can't tell you what a painful exercise each one of those speeches was, and how carefully

crafted every single word and sentence was.

UKICE: What do you do, as Chancellor, when some of your colleagues are deliberately pooh-poohing the forecasts that your department is coming out with? How do you deal with that?

PH: It was very difficult. The Treasury wanted to soft-pedal. The Treasury was very bruised by the 2016 experience, and it very much didn't want to be in the forefront. So, when we did the next set of economic analysis around Brexit that was published in the autumn of 2017, the Treasury was very insistent that it shouldn't lead on that, and that there should be a cross-Whitehall economists group so that it couldn't be read as a Treasury exercise.

But, of course, it used the Treasury model, which is the only model we have of the working of the UK economy. The ITEM (Independent Treasury Economic Model) Club uses a model which is closely based on the Treasury model. The Bank of England model is broadly the same model, so there isn't another working model of the UK economy that you could just reach for instead.

We knew it was right. I mean, 99 per cent of practising economists supported the output of the Treasury modelling, there or thereabouts. There was only really Minford, and Bootle as outliers. The point was that we always knew the analysis was correct, but we were very, very careful about how we presented it to the public and to Parliament, because we didn't want to go through the 2016 experience again.

UKICE: Did you see the place that Chequers ended up as really an inevitable consequence of the Northern Ireland protocol and what had been signed up to in the Joint Report?

PH: Yes, I suppose it was. I was very disappointed with the outcome of Chequers because I thought, going into Chequers, that those on the other side of the argument had understood that, essentially, they'd lost this round and that they would have to compromise. I was a bit surprised because at the beginning, in the meeting, it all seemed to go quite well. It felt as though we were all exploring the inevitabilities of things. Then, suddenly, it all went wrong at the end.

Again, in my view, the Prime Minister was less robust than she needed to be at Chequers. She allowed a head of steam to gather in the room. I went into that room confident in my own mind that she was going to nail it, and she didn't. She allowed it to go on, and on, and on. Just when you think you've got to the point where you can bring this to a conclusion now, she tried to get more people to contribute. It was almost as if she was trying to make sure that we didn't get the result we thought we might have got, but there you go.

UKICE: Did you actually then get the result that you expected, or was the substantive outcome of Chequers different from the one you expected, going in?

PH: We knew what the outcome was going to be, so the question was 'Could we keep everybody on board?' because the outcome was, in a sense, predefined. The trick was to try to do it while keeping everybody on board. And I thought she could. At one stage during the discussion, I thought we were there, but then it went on too long. Obviously, at the end of the session, nobody spoke out. Nobody said, 'Up with this I cannot put.' Everybody toddled off. Then, of course, the gremlins got to them afterwards.

UKICE: Did you buy David Davis's line that somehow he was suddenly bounced at Chequers and didn't know what was happening, he'd expected something different? Or do you think, actually, as much had been done as possible pre-Chequers to inform him and others about what was to come?

PH: It's difficult for me to say. A lot of brokering went on in the background, setting expectations, persuading different people to take specific lines, not to get too excitable too early on in the process and so on. Obviously, a lot of work will have been done with Boris and with David.

The problem with David is that, in a sense, he's one of the more realistic people in this debate because he's a person who has lived in the real world and knows one or two things about how things work. But he's also sometimes strangely naïve in expecting that, just because he was called the Brexit Secretary, he was somehow going to control some of this process.

Yes, he did think he was going to write a white paper. In fact, I think he'd got a large part of it already written. He was clearly not best pleased to find that that

wasn't the plan at all, but you never know, with David in the room, whether he's just playing a game or not. He never takes anything too much to heart, whatever happens. You could knock nine bells out of him with an iron bar and you'd find him twenty minutes later in the pub, laughing and chuckling about it. He's not a person who allows life to get him down very much, generally.

UKICE: If you go to some of the Chequers proposals, there are the options lurking around on the option on customs – the Facilitated Customs Arrangement. Did you, in the Treasury, think that that was a real runner?

PH: We spent a lot of time on this. I spent a lot of time on it with HMRC, and a lot of time with Olly Robbins. The answer is that I think we thought that, in the longer run, there quite possibly was the prospect of some technology being able to provide a solution, but there was absolutely no prospect of it being able to be done by 2020 because there were formidable technical challenges. Even once the technical challenges were overcome, the arrangements would have had to have been approved by the WTO (World Trade Organisation) and the WCO (World Customs Organisation) as compliant with their requirements, and we'd have had to persuade the EU that it was going to deliver, in a robust way, what they needed. So, we always knew that there was never a potential solution, based on technology, that could be rolled out within this timescale.

The logic of that position to me was that we should stay in the customs union – calling it something different – but we should stay in the customs union in the short-term, with a stated purpose on both sides that we would work flat-out to develop this technology on an accelerated basis. Then we would be able to end the customs union, while still being able to have open trade across the Irish border.

Basically, I think that the people who know about these things were pretty comfortable that for goods – manufactured goods – it would be possible with technology that's either readily available or is going to become available and we know enough about it to know what it looks like, over the next couple of years. So, it would be possible to implement a system for tracking goods, using secure blockchain-type tracking arrangements. It would be possible to develop a system that worked. It might not be 100 per cent fool-proof, but it would be good enough. The problem was for bulk materials and agricultural produce. They were always going to be much more difficult to track.

UKICE: Clearly Chequers has the UK staying in something that looks like the Single Market for goods, but not for services – clearly a key sector from the Treasury’s point of view and from the economy’s point of view. How did you weigh the balance of interests on what to do about services? There were stories of tensions with the Bank of England on the importance of maintaining regulatory autonomy on financial services.

PH: The Bank of England was always keener on regulatory autonomy than the Treasury was. The Treasury was more focused on the hit to the financial services sector of losing passporting rights. I’d have to think about my chronology, but I think, by the time of Chequers, we’d more or less given up on passporting. I made a speech on this. I’ve got a feeling it was about two months before Chequers where I made a speech saying that ‘We’ve moved on. It’s not passporting. It’s going to be about getting a sensible equivalence regime and talking to the EU about enhanced equivalence,’ basically warning the financial services sector off and signalling that it should stop lobbying the Government for passporting – because passporting was not going to be available unless we remained a member of the European Union, subject to the ECJ.

UKICE: In parallel, and this is slightly outside Chequers, but the Prime Minister was clearly very keen to end freedom of movement. Treasury had, in the past, been much more relaxed than other parts of the Government about immigration. Was there any sort of thinking in the Treasury about, or involvement in, the development of post-EU migration regime?

PH: I think the Treasury broadly agreed with my view on this, which was that the UK had benefited enormously from freedom of movement economically, but that the political reality was we had to place some constraints on freedom of movement. The hope and expectation was that we would be able to get the Europeans, who were also under their own pressures in this area, to agree to something that wouldn’t do too much damage to economies but would deliver a win for public opinion, as it were.

I think there has always been a healthy debate about the extent to which this should be based on skill levels, because the problem we have in the UK economy is mainly at low-skill levels. Obviously, we’ve benefited from people with high skills, but just saying, ‘We’re going to carry on admitting people with

high skills, but we're going to stop low-skilled immigration' would really not have helped the economic situation at all.

The key issue for me – and I think the Treasury as well, I don't think there was an official position that was different – was that I recognised that this was a political agenda and that there was going to be a political red line here. But if the political red line was less than the extreme version of ending freedom of movement, then we should trade it in exchange for something with the European Union.

My fear was that we were going to take a dogmatic position in the negotiations that we couldn't agree anything on movement at all. That it would be our own unilateral decision how we manage our own borders after independence. We'd decide our regime and then, in practice, let in hundreds of thousands of European workers because our economy would have collapsed without them. My argument was always: 'Since we can clearly anticipate that we're going to have to let these people in anyway, this is an important bargaining chip because it matters a great deal to our European counterparts that they maintain a narrative of freedom of movement of some kind, even if it's curtailed freedom of movement.' There was a big bargaining chip which we essentially gave away by saying, 'We're not discussing freedom of movement at all. That's off the agenda.' That was the UK's position.

UKICE: Why did your argument fail to cut through?

PH: Because the Prime Minister was obsessed by migration, as were a sizeable chunk of the Tory Party. Even people who weren't in the extreme wing of the party were very nervous about delivering something on migration. I also think most colleagues – political colleagues – frankly, have only a really rather tenuous grip on, or interest in, how the economy works, and were not particularly taken with the argument that we need these people.

I would routinely get the response: 'We've got a million people unemployed, so they'll be able to do this work,' but, unfortunately, the problem of basic skills in the UK, and the relatively generous welfare system, means that actually you can't. You struggle to fill those jobs at the margin.

UKICE: What would you have said to the argument that some make in that

respect: that actually reducing freedom of movement, reducing immigration, will encourage employers, or the country as a whole, to do better on training?

PH: We do have a problem with skills and training, but I don't think creating a hermetically sealed labour market, however much training it may deliver in response, is the right answer for maximising the UK's economic potential.

UKICE: On Chequers, did you have any talks with your European Finance Minister network about whether they might accept the Chequers proposals? It clearly would have given the proposals a bit more life if people had come in and said, 'These proposals are a good starting point.'

PH: Yes, we did. I did, all the time. I had talks with them all the time, for which I was roundly condemned by the other side. I think that there was a chance. When we left Chequers, at that point in time I think we could have negotiated a fair-wind response from Brussels.

If I remember rightly, the initial response from Brussels was guarded, but not hostile. I think (Michel) Barnier said, 'Interesting,' and, 'We'll want to study further.' I can't remember the exact words, but he didn't dismiss it out of hand.

The problem was then, over the weekend, the whole thing got reinterpreted. The gremlins got into the system. The hardliners pushed back, and, as usual, the Prime Minister's team started to retreat so that they moved backwards in their interpretation and their characterisation of what Chequers meant. Then I think, if I remember, it was Monday when the Europeans actually came out with something quite negative about it, but I think that they would have engaged.

It's the same old story: we were always fighting – I say, 'We,' but yes, we – were always fighting on two fronts. You came out of something like that, and you immediately had the Europeans saying, privately, 'It's not terrible, but we'd need you to go a bit further here. Or we'd need you to come out and say something that clarifies this point or elaborates that point a little bit.'

Then on the other side you'd have the hardliners saying, 'You'll absolutely need to be out there in the Sunday media, making absolutely clear that this

sentence doesn't mean what people are saying it means.' Immediately, it becomes clear that the careful fudge of wording that was trying to reconcile both sides is going to come unstuck because you're forced to take one side or the other.

UKICE: Just one final question on Chequers. When you went home in your ministerial cars, did you anticipate what would happen with Davis and Boris?

PH: No.

UKICE: You had no inkling?

PH: No.

UKICE: You didn't feel uncertain or unsettled?

PH: No. We had a dinner at the end, and David was in very jovial form. Boris was his usual self. You made the comment earlier on about David saying that he had expected that he was going to be writing the white paper. I think that might have been one of those things that he sought to clarify after the meeting and was disappointed with the answer he got.

I think, with all of these things, there is an element of trying to allow people to believe what they want. 'Hammond has to think it means this, but, hopefully, Johnson thinks it means that.' Throughout the whole process, there was a lot of that. Then you go back and you say, 'Can I just be clear that what we've said here is that...?' or 'I'm not sure you can interpret it in exactly that way.' Or you'd read in the paper that someone else was interpreting it in a different way. There was a lot of deliberate ambiguity in these things.

UKICE: Did you ever think that the Prime Minister was really going to go for no deal, and that it was worth investing money in no deal preparations?

PH: No, I didn't think she was going to go for no deal, but that was never the issue, that the Prime Minister would be seeking no deal. The concern was that we would end up there because we didn't have enough room for manoeuvre to negotiate a deal that the European Union would accept and that we could get through Parliament, which clearly was where we were at by the end of the

life of the Government.

There was too big a gap between what we could get through Parliament and what the EU's minimum requirement was. And I reject the accusation that I blocked spending on no deal. We spent quite a lot of money on no deal. I think £4bn overall, during the period that I was in office.

Actually, Boris Johnson's Government has been in power for 15 months now and we are no better prepared for no deal than we were in July 2019. The work hasn't been done. I'm hearing from the business representative organisations and other bodies that monitor these things, that the work hasn't been done. There's still a massive gap between the identified needs in a no deal situation and what the Government has delivered. It isn't just about building a barrier down the middle of the M20. It's about recruiting and training enough people to do customs paperwork. It's about getting business to engage and understand the challenges that it'll face on day one.

What I tried to do was to steer the programme as far as possible to focusing on areas where we knew, deal or no deal, we would need this investment, of which there were quite a lot. Whether or not there was a deal, we were always going to need additional customs infrastructure and capacity at ports, so that was worth investing in. There was no nugatory expenditure there, but some of the things that I was invited to support in the name of preparing for no deal were just ludicrous gestures.

The chartering of ferries that didn't exist springs to mind. This was pure gesture politics. The idea of the Government chartering ferries to move lorries: one thing I can be absolutely sure about is the private sector will be better at getting lorries moved and finding hulls to move them in. If the private sector can't do it, the army might have a go at it, but the Government should be the very last port of call on anybody's agenda for organising a logistics exercise, as I think we've just managed to demonstrate over the last six months.

UKICE: If we then get to the parliamentary shenanigans, after Theresa May brings back her concluded deal in November 2018, did you ever, at any point, think there was a prospect for a slightly softer form of Brexit emerging from those parliamentary debates?

PH: The only way a softer Brexit could have emerged would have been if a deal had been done with the opposition, because there just weren't the numbers any other way. After the first defeat, the Prime Minister stood up at the despatch box and basically said, 'I'm going to reach out across the House, and try and build a consensus.' She said it, she walked out of the chamber, and she never came back to that thought, really.

(Jeremy) Corbyn wasn't temperamentally inclined to support that. (Keir) Starmer was pushing for a second referendum so, although he played the game, he wasn't really interested. (John) McDonnell was much more interested in trying to bring the Government down than in trying to get a solution, so it didn't really feel as though there was anything serious going on there.

We had endless discussions with the Ulster Unionists, sometimes friendly, sometimes fractious. But even this was all based on the premise that, if the Ulstermen could be swung, maybe the ERG would start to break down and move behind the Government, which was a lost cause, really.

My own personal view is that Theresa May made a strategic mistake – her third and last big strategic mistake – in pushing to a vote in I think it was early December. She was being told by the whips she would lose by an enormous majority, and yet she just ploughed on. There's something about Theresa that sees the – I don't know, what is it? – the romantic notion of charging into the valley even though you know you're going down to certain defeat. She sometimes confused stubbornness with heroism.

I think if she'd conserved her powder, if she'd made a tactical withdrawal at that stage and sought to look at ways of engaging the opposition, or parts of the opposition, because we had this rather ill-conceived approach to trying to buy off a few Labour MPs with I think they were called 'town deals' weren't they, the odd bauble for a northern town in exchange for support?

That clearly wasn't going to work. That was too piecemeal a solution. The idea of taking the whole Labour Party on board, with Corbyn waving the flag, was also an unrealistic outcome. But there may well have been a middle ground that might have been able to be forged at one stage.

UKICE: One option on the indicative votes got quite close, which was Ken Clarke's customs union motion. If that had passed, do you think the Government might have gone for that, knowing it could go through Parliament, or thinking it could go through Parliament?

PH: I would certainly have been very happy with it. The problem always was that the different parts of EU membership are not easily severed from each other. A customs union – the customs union – inevitably means the Court of Justice, and then you start to run into the theocracy of this, the theological arguments of the Bill Cashes of this world.

I think a more realistic solution was a customs union between the UK and the European Union which would have allowed the relationship to be governed by treaty, with the courts of each entity interpreting, and then some kind of international body to deal with conflict-of-laws type issues.

But this was never what the hardliners wanted, of course, because they wanted – and they still do, in my view – an alignment with the social and economic norms of the United States. That's their objective. It's not about trade or tariffs. It's about, 'Do we look like New Jersey, or do we look like Belgium?' They don't like Belgium, and they do like New Jersey.

UKICE: Did you ever think when you were actually having those formal negotiations with Labour there was any prospect they'd get anywhere?

PH: I've got this reputation for being a pessimist, and it's absolutely not true. I'm actually an optimist. I did. I thought that there was a chance, but my colleagues were telling me from the beginning that the agendas of the individual players – McDonnell, Starmer ... It was McDonnell and Starmer, really. Rebecca Long-Bailey was there, but she didn't play any part in it of consequence. That wasn't that their game. They weren't looking to do a deal.

Corbyn certainly wasn't looking to do a deal of any kind. Corbyn has always been – what's the word? – emotionally hostile to the European Union. He goes right back to the mid-1970s-left view of the European Union as a capitalist conspiracy. He was never up for doing anything in that space, I'm quite sure.

UKICE: There was talk about a possibility of a Government of National Unity

ultimately happening. Was that, as far as you're concerned, ever on, or was it pretty laughable?

PH: It's difficult to see how it could have come about, because you always have to ask yourself the question: 'What happens next?'

There may have been 30 or 40 people on the Labour side who might have been prepared to support some kind of unity government on a specific single issue, through a series of votes over a few weeks, that then led to a dissolution of Parliament. But you have to ask yourself: 'What happens next at that point?' The problem is everybody recoils because in our system, as some of my colleagues demonstrated very neatly at the 2019 General Election, if you're outside the party system, you drown when an election comes.

UKICE: That seems like a cue to come on to the post-leadership election autumn.

PH: The autumn of discontent.

UKICE: Reading Anthony Seldon's account of the May Premiership, he talks about your relations with Theresa May right at the end and sets up this idea that she came to you, asking for additional funds for education and you refused. Is that an accurate account of what went on: you wouldn't give her what she wanted, so she couldn't have her legacy?

PH: I took the view, and the Treasury definitely took the view, that an outgoing Government should not make strategic long-term commitments. Once a Prime Minister – maybe this was naivety, but in my view, once a prime minister has announced that they are retiring on a certain date, they can't then say, 'I think I'll just launch a five-year multi-billion-pound policy agenda.' That would have been completely wrong.

She was very nonplussed by my lack of cooperation, but I'm afraid this was an issue that I just felt was a straightforward right-and-wrong thing. The Chancellor is the custodian of the public purse. By the standards of what has happened since, of course, it looks positively parsimonious. But at the time the idea that, having marshalled the public finances so carefully and taken such a beating for it, we were just going to open up and give away billions of pounds

on a rather ill-conceived agenda...

At the risk of making myself unpopular all over again, there is absolutely no evidence that the UK's underperformance in education is due to lack of funding. We sit solidly in the middle of the OECD funding table. Countries that fund education per capita far lower than us do far better than us in the league tables, and countries that fund much above us are clustered around us – some a little bit better, some a little bit worse. There's just no evidence at all that suggests that it's money alone.

If you wanted to look at the UK education system – school system – and say, 'What is it that distinguishes us from all our peers?' it's the use of non-qualified adults in the classroom. No other jurisdiction uses non-qualified adults on the scale that the UK does. There is little evidence that this practice enhances our outcomes, but it does cost a lot of money. I think, from memory, we spend a third as much on teaching assistants as we spend on teachers in the UK school system. That's a lot of extra teachers you could pay.

After Government

UK in a Changing Europe (UKICE): I'm keen to ask you about the period on the backbenches.

Philip Hammond (PH): I hate the backbenches. I've always hated the backbenches. I didn't like it when I was there briefly at the beginning of my career, and didn't like it when I was there at the end of my career.

UKICE: Did you have a view, when you had to retreat to sit on the backbenches, of what you would be trying to achieve while you were there with a new Government?

PH: Yes, so my intention at the time – I should say, 'Thank God I was thwarted,' but my intention at the time – was to remain in the Commons and to continue the fight. I fully anticipated standing at a general election and being re-elected, but the immediate challenge was to stop Boris Johnson crashing us out without a deal.

What I saw was a leadership of our party that had got itself elected by assuring

the world that it absolutely wanted a deal – not only wanted a deal but was totally capable of getting a high-ambition deal that would make all of this work brilliantly for the UK. I never believed it. It may be that the Prime Minister was sincere in his belief that he could get a deal. I have no doubt at all that he would like a deal, even now. But key people and influences around him did not want that outcome. Of course, they wanted a deal, but only a deal that was entirely on their terms, so a naïve view of a deal. They weren't prepared to compromise at all in order to get a deal, so their position on the Northern Ireland border was either naïve or duplicitous. I'll leave it to history to decide which.

My fear was always that they were going to try and head for an 31 October exit with no deal, and get it done with. The paramount objective, was to stop them doing that, to cause them to pause and think. A number of colleagues, including people like Oliver Letwin, consistently urged me and others to give Boris the benefit of the doubt; that Boris' instincts are basically okay. That Boris is not one of the hard-line Brexiteer: 'Just give Boris the space, and force him to pause and think about these things, and he will come to acceptable decisions.' That was the theory of a not insignificant body of opinion on the soft Brexit Conservative backbenches: that Boris will be okay if we can just keep him away from some of these other more dodgy people. The name of the game was to stop the exit on 31 October, which we did. At a price, but we did it.

UKICE: Was that a price worth paying, personally?

PH: I didn't enjoy being on the backbenches. Having held Cabinet posts over a period of nine years, I'm not really quite sure what the point of being on the backbenches is. Some of my former colleagues in Government are doing precisely that. I don't know what motivates them. I would have found it deeply frustrating.

Look, let me answer the question this way: if the general election had been a close-run thing and Boris Johnson had inherited a balanced Parliament – a hung Parliament – then I would deeply have regretted not being there, because I would still have thought that there was everything to play for. But one of the life skills that you have to have is knowing when you're beat.

I didn't accept that the referendum decision meant that we had to have a hard Brexit, because I am completely convinced – it was only won by a couple of per cent – I'm completely convinced that there was more than two per cent of Brexit voters who were voting to Leave on the basis of a very, very gentle Brexit and a very close future relationship.

I didn't accept that the 2017 election endorsed the harder view of Brexit that Theresa May had set out, but I could hardly pretend that the December 2019 election didn't endorse Boris' view of the future.

Of course, Boris was still saying, 'We will get a deal, and it will be a great deal,' but by this stage the public knew Boris Johnson and knew that these were just words. I think you can't save the people from themselves every time. You have to just say, 'That's what they've decided.' In my view, more fool them, but that's it. I don't regret not being in this Parliament, in this House of Commons, at all.

UKICE: You headed off no deal on 31 October, which obviously meant we entered a transition and had a withdrawal agreement in place, but we clearly still have the possibility, as we're speaking now in November 2020, of a 'no trade deal' Brexit, and no security deal. Did you have a view, when you were in Parliament with the people you were speaking with in October 2019, of what the route after frustrating that no deal Brexit on 31 October might look like to get to some different sort of Brexit to what we now have?

PH: If Boris Johnson had been returned, but with a very small majority, or even in a minority government, I think we could have expected, first of all, that they would probably have had to agree to an extension of transition in June. That would have been a good outcome in itself.

There were a number of routes open. Look, there were people – particularly on the Labour benches, but one or two on the Tory side as well – who fantasised about a second referendum. People like Blair never really gave up on the idea of a second referendum reversing the decision, but I think the much more numerous group were people who recognised that the die was cast. We were definitely leaving the European Union.

The issue was about what our future relationship from outside the union would

be with the union. Although the European Union made a lot of noise and posturing about, 'You can't be in this, that, or the other when you're outside the European Union,' I personally think there would have been quite a lot of scope to have negotiated a deal where the UK was in a very close associated orbit with the European Union for matters of trade and economic management.

I think we could have found common ground where there was enough of value to them that we could have done a deal. Whether we could have fully protected financial services is a bit more questionable because of the determination of the French, in particular, to ensure that we couldn't.

UKICE: Okay, so for you, anyway, the second referendum that some of your colleagues were talking about was never a runner?

PH: No. People like me and David Gauke, discussed all this; we concluded there was a political, constitutional objection to holding repeat referendums on an issue, but there was also a much more practical issue: we didn't actually think we'd win it because, with the benefit of hindsight, it's blindingly obvious that you can't fight an emotional argument with a logical argument.

There's a direct read across there to the Scottish independence debate. If the argument for independence is pitched in emotional and cultural identity terms, trying to beat it off by saying, 'But you'll be tuppence ha'penny better off if you stay in, or you'll have a bit less debt,' is a hopeless argument. You've got to pitch an emotional argument in response.

The big mistake in the referendum was that those who thought that Britain would be better off in the European Union – and I'm completely guilty of this – the argument was dry as dust. Ken Clarke might have wanted to make an argument that said, 'Our cultural and historic identity is with the continent of Europe. Our society is shaped along the same lines. We're emotionally with the Europeans.' That wasn't what I wanted to say at all. I wanted to say, 'For better or for worse, this thing exists. Our economy, for better or for worse, is intimately tied up with it. Unless you want to be a whole lot poorer, we'd better get used to that.' The marginal loss of sovereignty – net loss of sovereignty, after allowing for Britain's influence on the way the place operates – is modest, compared to the economic benefits we gain. Mine was an extremely dry, unemotional argument, if you like. Not an argument based on empathy, but an

argument based on logic.

Those of us who'd argued that way recognised that we'd lost the argument. We didn't really have an emotional argument, because, speaking for myself – and I think I can safely speak for people like David Gauke: we did not want to go out there, gushing about what a wonderful institution the European Union was, because we didn't believe it was. We don't think it is. We think it's a weird institution, frankly, trying to be something much more than the citizenry of its 28 members really wanted it to be, for the most part: an association of nation states trading effectively.

UKICE: Do you have any reflections through the whole process on what it has done to the Conservative Party's relationship with business.

PH: Business is split on this. I'd like to be able to say that the business community has been full-throatedly behind a softer Brexit, but it hasn't. Across business, there are all sorts of people who, either for self-interested reasons or for reasons that I don't understand, have been quite relaxed about this process.

For some businesses, it has been shocking to see the Conservative Party abandoning the best interests of business. But many others – I could reel off lists of names, you'll find quite a few of them in the Honours Lists – who run successful businesses have supported the Government's line and approach on this. Presumably, they think they won't be affected by it, or they've already succeeded and it's manageable for them.

It's certainly not the case that business has a single, clear view. Large businesses tend to be a bit clearer, but medium-sized and smaller businesses are genuinely split. If you talk to the business representative organisations, who have the difficult job of presenting a view to Government that fairly represents their membership, they've been pretty paralysed on this issue because they don't have a clear mandate from a membership that is overwhelmingly of one view or the other.

The bit that matters to the Conservative Party is the relationship with owner-managed businesses. Those are potential donors. FTSE 100, FTSE 350 companies, it's all very nice to have some kind of endorsement for

Government policies, but those kinds of businesses do not endorse political parties – or give them money. By their very nature, however irritated they are with the Government, they will always want to work with Government if they can, and on things where their interests do align. So, they're not emotional. They're rational about their relationship with Government.

Smaller businesses, I think it splits just as it splits with the population. There are plenty of smaller businesses out there who say, 'Don't darken my door again. My business has been destroyed by this mismanagement of the political agenda,' just as there are voters who say, 'I've voted Tory all my life, but I couldn't do it again.' But then there are others who take the exact opposite view.

History will decide. I think I said at the beginning of this interview that the terrible thing here is that I am pretty sure that, in the end, the one thing I can guarantee is that, whether we have a no deal Brexit or a hard Brexit with a deal, the price, the cost that that imposes on the economy, will be pretty much 100% absorbed by exactly the demographic profile that voted Leave and then voted Boris Johnson, having never voted Tory before, in December 2019. I'm pretty sure that is almost exactly the definition of the people who are going to bear the costs of Brexit.