Forget staying close to EU after Brexit, chancellor tells business

Sajid Javid sets out his vision for UK economy in interview with the Financial Times

Sajid Javid, the UK chancellor, has delivered a tough message to business leaders to end their campaign for Britain to stay in lock-step with Brussels rules after Brexit, telling them they have already had three years to prepare for a new trading relationship.

In an interview with the Financial Times, Mr Javid quashed any prospect of the Treasury lending its support to big manufacturing sectors — which include cars, aerospace, pharmaceuticals, and food and drink — that favour alignment with EU regulations.

“There will not be alignment, we will not be a rule taker, we will not be in the single market and we will not be in the customs union — and we will do this by the end of the year,” Mr Javid said, urging companies to “adjust” to the new reality.

Speaking in a sandwich bar near the Treasury, the chancellor nevertheless gave an upbeat assessment of Britain’s prospects outside the EU, insisting that British companies would flourish and that his guiding mantra for the post-Brexit economy would be “human capitalism”.

He vowed to pump more money into “skills, skills, skills” and backing infrastructure schemes in the midlands and north, even if they did not offer as much “bang for the buck” as those in London.

He added that he wanted to boost growth rates to between 2.7 and 2.8 per cent a year — the average for 50 years after the second world war. Last week, Mark Carney, Bank of England governor, told the FT he thought Britain’s trend growth rate was much lower at between 1 and 1.5 per cent.

But with Brexit now less than a fortnight away, business leaders are eyeing the upcoming trade talks with Brussels with trepidation.

The EU wants the UK to stay in line with its regulations in return for a zero tariffs, zero quotas trade deal but Boris Johnson, prime minister, has repeatedly said he wants to break free from the bloc’s rules.

Some UK business sectors are worried about the risk of falling out of the current trading arrangement with the EU at the end of the year without a new deal that reduces friction at borders. Last October, big UK manufacturers warned ministers of “huge new costs and disruption”.

Philip Hammond, the previous chancellor, fought to maintain alignment with the EU but Mr Javid made it clear that the Treasury was now under new management. He suggested being comfortable with some companies suffering from Brexit.

“There will be an impact on business one way or the other, some will benefit, some

won't," he added. But Mr Javid said the important thing was that companies had certainty and should get on with preparing for the new trading relationship.

"Once we've got this agreement in place with our European friends, we will continue to be one of the most successful economies on Earth," he said, adding that the UK had continued be a highly popular destination for inward investment.

Asked how regulatory divergence might impact industries such as automotive and pharmaceuticals with intricate supply chains spanning Europe, Mr Javid said: "Japan sells cars to the EU but they don't follow EU rules."

He added: "We're also talking about companies that have known since 2016 that we are leaving the EU. Admittedly, they didn't know the exact terms."

Mr Javid declined to say which EU rules he wanted to ditch. He said he wanted financial services to trade with the EU on the basis of "outcome-based" equivalence of rules: it is far from clear if Brussels will agree.

The chancellor is the only cabinet minister publicly assured by Mr Johnson that he or she will still be in their job after a February reshuffle.

As he spoke, he cut a relaxed figure as he contemplated a post-Brexit economy.

Pickles café is a down-to-earth backdrop for a chancellor to set out an economic strategy spanning not just a year but potentially a decade. But the whole point of Mr Javid's vision of "human capitalism" is to demonstrate how a Conservative government can work for ordinary people.

Next week, Mr Javid will travel to the World Economic Forum in Davos — sidestepping Mr Johnson's half-hearted ban on ministers attending the "billionaires and champagne" gathering — to persuade global investors to buy into his vision.

"I hope that in five years from now, we've made really good progress towards dealing with the big economic challenges," he said. "And there's two sort of biggies — growth and productivity".

Mr Javid's big plan to reinvigorate growth is to raise capital spending by around 50 per cent over the next few years, spreading prosperity and raising the productive potential in constituencies which may have just voted Conservative for the first time.

The new budgetary rules he set out before the election allow public sector net investment to rise from 2 per cent of national income to a limit of 3 per cent, justified by historically low interest rates which he said would be "low for long".

"I think it's almost a signal to me from the market — from investors — that here's the cash, use it to do something productive," the chancellor said.

There was no doubt that it would be weaker parts of the country that would have first call on the new cash, even if the returns were low. "That is how we spread opportunity," the chancellor said. "And that doesn't mean always that when you

make the investment decision it goes to the highest bang for the buck. We have to take a different approach."

The Treasury's "green book", which sets the rules for project appraisal across government, will be rewritten: it has traditionally favoured investments where the returns were greatest, removing bottlenecks in areas of already strong economic performance. Mr Javid says this has helped to "entrench" inequality.

"One of the reasons to rewrite the rules is to have that flexibility to promote human capitalism," the chancellor said, while refusing to accept this meant sacrificing national economic performance for better regional performance.

Treasury officials were going to be sent to the regions of the UK for more regular visits — starting on Friday in the north-east — and the chancellor is looking to send policy officials to work in a satellite office outside London.

He said that his focus for his March 11 Budget would be on "people and place". A second Budget in the autumn could also include the sweeping comprehensive spending review which will flesh out this big new regional agenda.

Aiming to promote lifetime learning and reskilling in areas where the traditional industrial mix has changed, Mr Javid highlighted education colleges, in which he wanted to instil a sense of pride, starting with repairing the dilapidated fabric of many such institutions.

Mr Javid, who grew up in a working class district in Bristol and saw his life prospects transformed at an FE college, said: "I like FE colleges, right. But when you go around the country looking at FE colleges, they don't look good," he said.

He accepted, however, that money for FE colleges was generally not capital spending, where he has significant scope to borrow under his new budgetary rules, but rather day-to-day spending. With this he has precious little scope to increase budgets.

This has raised speculation that the chancellor will use his first Budget to raise taxes in addition to the pledge in the manifesto to reverse the planned corporation tax cut rate in April from 19 per cent to 17 per cent.

The chancellor hinted at more tax rises to come in either of the upcoming Budgets, saying he was determined to take the "hard decisions you need to sometimes [take], especially at the start of a new government".

Asked specifically about taxation, he said "you'll have to wait for the Budget" but his allies say more money will have to be found to tackle the crisis in social care. Tackling climate change will also be a priority.

Before considering higher taxation, he has told ministers that they would need to go through a line-by-line exercise of prioritisation in a multiyear comprehensive spending review to release resources for his priorities.

This, he also hoped would provide the money to pay for the pressures he accepted would increasingly threaten public finances in the 2020s as the costs of an ageing population are felt seriously for the first time.

Over the decade, Mr Javid said: “I don’t think the answer to [demographic challenges] is more taxation. I think that, clearly, part of it is going to be about prioritising government spending and when you come into day-to-day spending, I would like to actually try and find opportunities to cut taxes, not raise them.”