Speech: Mansion House 2017: Speech by the Chancellor of the Exchequer

My Lord Mayor, Ladies and Gentlemen, I am delighted to be able to deliver this speech here today.

And I am immensely grateful to the City Corporation for hosting us so soon after the cancellation of last Thursday’s banquet in the wake of the appalling tragedy which was then unfolding in West London.

We have suffered a series of shocking events in the past few weeks: the Westminster, Manchester, London Bridge, and Finsbury Park terrorist attacks; and the terrible fire at Grenfell Tower.

This fire was an unimaginable tragedy. My thoughts are with all those in the community who lost loved ones, and with the many people who are still suffering in hospital, and those who have lost their homes.

Our immediate focus is to ensure that survivors have everything they need in terms of housing, clothes, food and other essentials.

But we must, and will, also get to the bottom of the failure at Grenfell, and take decisive action to ensure nothing like this ever happens again.

As Her Majesty the Queen observed on Saturday, none of us can escape the sombre mood that these events impose.

But we should be cheered by the resilience of our communities and the strength of our shared values which shine through the dark clouds wherever such tragedies and outrages unfold.

And even in the face of such events, the business of government must go on: managing our economy in challenging times, improving our public services, taking the steps that will deliver on our ambition of an economy that truly works for everyone, and, of course, the huge, complex and vital task of negotiating the end of our membership of the European Union, and the terms of the partnership which we want to see replace it.

We have much work to do, and we’re determined to get on with it.

And we have a solid foundation on which to build.

Our economy has come a long way since the dark days of 2009.

Last year we grew faster than any other major advanced economy bar Germany, business has created 3.4 million more private sector jobs, the deficit is down by three-quarters – and below 3% of GDP, while at the same time we have lowered income tax for 31 million people and taken 4 million out of income tax altogether through raising thresholds, with more to come.

Inequality is at its lowest in 30 years, and the poorest households have seen their wages rise more since 2010 than in any other country in the G7, thanks to the introduction of the National Living Wage, adding £1,400 to the annual income of those in full-time work on minimum wage.

A record of which we are proud.

But that's enough of our past achievements!

I'd rather talk about the future.

Travelling the country in the general election campaign I've had hundreds of conversations reflecting the challenges and issues that people face in their daily lives: fears about job security; about wage levels; the need for good schools for their children; a well-functioning health service; decent care for elderly relatives; or access to the housing market.

And it's clear, as many of my colleagues have noted, that Britain is weary after seven years of hard slog repairing the damage of the great recession.

When I took office last year, I reset the fiscal rules, recommitting to achieving fiscal balance, but doing it over a longer timescale, creating additional fiscal space to support the economy, if needed.

But we must not lose sight of the unchanging economic facts of life.

Funding for public services can only be delivered in one of three ways: higher taxes; higher borrowing; or stronger economic growth.

And only one of those three choices is a long-term sustainable solution for this country in the face of the inexorable pressure of an ageing population.

Higher taxes will slow growth, undermine competitiveness, and cost jobs, so the government will remain committed to keeping taxes as low as possible.

And higher discretionary borrowing to fund current consumption is simply asking the next generation to pay for something that we want to consume, but are not prepared to pay for ourselves, so we will remain committed to the fiscal rules set out at the Autumn Statement which will guide us, via interim targets in 2020, to a balanced budget by the middle of the next decade.

Stronger growth is the only sustainable way to deliver better public services, higher real wages and increased living standards.

I thought we had won that argument.

But I learned in the General Election campaign that we have not.

That we must make anew the case for a market economy and for sound money.

The case for growth.

And we need to explain again how stronger growth must be delivered through rising productivity.

That means more trade, not less: maintaining our strong trade links with European markets after we leave the EU, as well as seeking out new opportunities for trade and investment with old friends and fast growing emerging economies alike.

It means the UK remaining open to the talent, the ideas and the capital that have driven the success of our economy in the past, and will drive it in the future.

But it also means addressing the domestic weaknesses that have plagued us: under investment, both public and private; inadequate skills; and regional disparities.

This government has a plan to address all three.

The National Productivity Investment Fund starts to address under-investment in economically productive infrastructure; T-Levels will overhaul our provision of technical education; and the Industrial Strategy will tackle regional economic disparity.

Lifting productivity growth by even one quarter of one percent a year, on a sustained basis over 10 years would add £67 billion to GDP – that’s £2,400 for every household in the UK.

Productivity is the elixir that raises incomes and living standards, and it must be a national priority to make every learner more skilled; every worker more productive; every business more competitive; and every public service more efficient.

That is the route to higher wages, higher quality public services, and a brighter future.

Productivity in the private sector, as in the public, is driven by investment.

One of my immediate priorities is making sure government is doing all it can to facilitate access for firms, large and small, to patient capital, to allow them to grow and bear the fruits of the flow of innovation that is pouring out of UK universities.

The European Investment Bank, and its offshoot, the European Investment Fund, have been an important source of funding for infrastructure investment and for growth businesses.

I want that access to EIB funding to continue while we are members of the EU on equal terms, so I am engaged with EIB and will provide the assurances it needs to sustain the flow of EIB and EIF funding to UK businesses and projects.

And to ensure that finance continues to be available after Brexit, alongside these discussions with the EIB I can also announce I am expanding the support available to capital funding in the UK.

For infrastructure projects, we will broaden the range of the UK Guarantee Scheme by offering construction guarantees for the first time.

And we'll consider other credit enhancement tools, such as first loss guarantees, to reduce the financial risk that complex projects face.

To support the venture capital funds that are so important to growth and innovation in our economy, the British Business Bank will raise the limits on the amount it can invest in venture capital funds from 33% up to 50%.

And it will be able to bring forward some of [the £400m additional investment that I announced at the Autumn Statement].

In the long-term, it may be mutually beneficial to maintain a relationship between the UK and the EIB after we leave the EU.

And we will explore the options together.

But we cannot take chances. So we will be prepared, in case we do not maintain that relationship.

Because investment is crucial for the economic future of this country, and we will not let Brexit uncertainty slow us down.

Investment is critical to securing economic growth; And so is trade.

The British public know that.

A recent poll showed that 90% of respondents believe that free trade is positive for our economy, regardless of how they voted in the referendum.

We are not about to turn inward. But we do want to ensure that the arrangements we have in place work for our economy.

Just as the British people understand the benefits of trade – so, too, they understand how important it is to business to be able to access global talent and to move individuals around their organisations.

So, while we seek to manage migration, we do not seek to shut it down.

Let me quote you from our manifesto, (just in case, by chance, any of you didn't read it):

> Britain is an open economy and a welcoming society and we will always ensure that our British businesses can recruit the brightest and best from around the world.

Britain has benefited from globalisation.

But we must not turn a blind eye to the growing tide of hostility to it in parts of the developed world.

To counter that, we must push for a new phase of globalisation, to ensure that it delivers clear benefits for ordinary working people in developed economies.

To date, much of the thrust of globalisation has focused on the removal of barriers to trade in goods.

“Globalisation 1.0” if you like – expanding the opportunities for major goods exporters like China and Germany to sell their products to a larger market.

But our economy is 80% services.

And many of our areas of greatest competitiveness are in services – for example, finance and insurance, ICT and communications.

So for the UK to be able to share fairly in the benefits of globalisation, we need to lead a global crusade for liberalisation of services.

And we must employ that logic in our Brexit negotiations, to agree a bold and ambitious free-trade agreement with our EU counterparts that covers both goods and services.

Let me talk in a bit more detail about what we want to achieve from those Brexit negotiations.

The Prime Minister’s Lancaster House speech in January set out clearly the arrangements that the UK would like to agree, built around a comprehensive trade agreement in the context of a deep and special partnership that goes much wider than trade.

But we recognise that this is a negotiation, and our negotiating counterparts, while broadly sharing our desire for a close ongoing relationship, will have their own priorities.

So we must be clear about ours.

I have said before, and I remain clear today, that when the British people voted last June, they did not vote to become poorer, or less secure.

They did vote to leave the EU.

And we will leave the EU.

But it must be done in a way that works for Britain.

In a way that prioritises British jobs, and underpins Britain’s prosperity.

Anything less will be a failure to deliver on the instructions of the British people.

So, how do we achieve this “Brexit for Britain”?

Firstly, by securing a comprehensive agreement for trade in goods and services.

Secondly, by negotiating mutually beneficial transitional arrangements to avoid unnecessary disruption and dangerous cliff edges.

Thirdly, by agreeing frictionless customs arrangements to facilitate trade across our borders – and crucially – to keep the land border on the island of Ireland open and free-flowing.

To do this in the context of our wider objectives will be challenging.

It will almost certainly involve the deployment of new technology.

And therefore we'll almost certainly need an implementation period, outside the Customs Union itself, but with current customs border arrangements remaining in place, until new long-term arrangements are up and running.

And finally, by taking a pragmatic approach to one of our most important EU export sector – financial services.

Let's be honest, we are already hearing protectionist agendas being advanced, disguised as arguments about regulatory competence, financial stability, and supervisory oversight.

We can have no truck with that approach.

But we acknowledge that, as Britain leaves the EU, there are genuine and reasonable concerns among our EU colleagues about oversight of financial markets that will then be outside EU jurisdiction, but which provide a vast proportion of economically vital financial services to EU firms and citizens.

We saw just such a concern articulated in the EU's proposal on supervision of CCPs last week.

We must, and we will, engage with all genuine concerns.

And we must be flexible and pragmatic in responding to, and resolving them.

While never losing sight of the principal purpose of the regulatory and supervisory regimes: to ensure financial stability and to protect taxpayers from having to step in to deal with failure.

Getting this right will be critical to the future success of the British economy.

But it will also be critical to the future success of the EU economy.

Remember, 60% of all EU capital markets activity is executed through the UK.

UK banks provided more than £1.1 trillion of cross-border lending to the rest of the EU during 2015.

And almost half of all British private equity investments in 2014 went into companies across mainland Europe.

The financial ecosystem that underpins this activity is large and complex.

And critical mass is important.

Let me be clear about this.

Fragmentation of financial services would result in poorer quality, higher priced products for everyone concerned.

And when we talk about complex financial products like derivatives – we need to remind ourselves that these seemingly esoteric instruments are crucial to facilitating everyday commercial and domestic transactions across our continent, allowing households to obtain fixed rate mortgages, airlines to hedge their fuel costs, and farmers to have certainty over the price they'll get for their produce.

Avoiding fragmentation of financial services is a huge prize for the economies of Europe.

And I believe we can do it if we approach the challenge with three simple principles.

First, we will need a new process for establishing regulatory requirements for cross-border business between the UK and EU. It must be evidence-based, symmetrical, and transparent. And it must reflect international standards.

Second, cooperation arrangements must be reciprocal, reliable, and prioritise financial stability. Crucially they must enable timely and coordinated risk management on both sides.

Third, these arrangements must be permanent and reliable for the businesses regulated under these regimes.

The industry needs confidence in the structures if it is to provide the financing needed to underpin growth in the real economy.

In the UK. And across the European Union.

The future of our economy is inexorably linked to the kind of Brexit deal that we reach with the EU.

And I am confident we can do a Brexit deal that puts jobs and prosperity first, that reassures employers that they will still be able to access the talent they need, that keeps our markets for goods and services and capital open, that achieves early agreement on transitional arrangements, so that trade can carry on flowing smoothly, and businesses up and down the country can move on with investment decisions that they want to make, but that have been on hold since the Referendum.

The collective sigh of relief will be audible.

The benefit to our economy will be huge, in established sectors like manufacturing, the car industry, financial services, and pharmaceuticals; in emerging areas like biotech, and fintech; in the housing market; in the services sector; in the travel industry, in companies, large and small, right up and down our country, employing, between them, millions of people.

Our departure from the EU is underway.

But ensuring that it happens via a smooth pathway to a deep and special future partnership with our EU neighbours, one that protects jobs, prosperity, and living standards in Britain, will require every ounce of skill and diplomacy that we can muster.

Yesterday was a positive start.

It will get tougher.

But we are ready for the challenge.

And confident that we can deliver, for British jobs; British businesses; and British prosperity.

Thank you. I’m now pleased to hand over to the Governor of the Bank of England, Mark Carney.