

The key lesson from OmNICshambles is how urgently the Government needs a reboot



ALLISTER HEATH

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Philip Hammond has u-turned on the Budget's National Insurance hike, just one week after its announcement CREDIT: UK PARLIAMENT/MARK DUFFY/PA WIRE

There are your traditional U-turns, and then there are vicious, extraordinary punishment beatings of the sort Philip Hammond has just had to submit himself to. The Government ought to be congratulated for abandoning its absurd, manifesto-defying tax hike on the self-employed. But the way in which good sense has prevailed has been shocking, and casts grave doubt on the Chancellor's political future.

His fall from grace has been astonishingly swift. No Budget in living memory has disintegrated so fast; no Prime Minister has resorted to forcing a Chancellor to confess in writing to having got it so utterly wrong. His tax plan had already been kicked into the long grass, and the spotlight had moved on to Scotland; and yet No 10 still felt the need to distance itself further from Mr Hammond's omNICshambolic

Budget, even at the cost of exposing a terminal breakdown in the relationships at the heart of government.

Listening to the Chancellor humiliate himself on Monday, one could almost begin to feel sorry for him: he sounded like a dissident who, after several rounds of torture in a sordid cell, realised that he would be forced to repudiate his core beliefs to avoid a full auto-da-fé.

Yet still he remained stubbornly defiant, clinging to the delusion that he would in time be able to reinstate his beloved tax increase, and even claiming, laughably, that nobody in officialdom or government had noticed that the policy was in breach of the manifesto.

His performance bore the tell-tale signs of a lame-duck Chancellor who has been assured that his job is safe but who in fact is now already on his way out, a mere eight months after being appointed.

Never mind that Theresa May had signed off on Hammond's plans, and that it was she who hired Matthew Taylor, the Blairite, to shake up self-employment rules and taxes; the Chancellor has been ruthlessly sacrificed. The brutality of the put-down suggests that tensions over other aspects of policy were coming to a head, and that patience had been running ever thinner on both sides.

His relationship with the Prime Minister may thus never recover, an insurmountable problem in any administration but an especially dangerous and untenable one in a Government that is preparing to embark on the most complex project since the Second World War.

The events of the past week will have been watched closely in Brussels, Berlin and Paris, and they haven't sent out the right message. The Government has been flat-footed, divided and slow to react, and has neither responded well under immediate pressure nor, indeed, proved able to engage in proper long-term planning.

Given that the Budget was largely meant to be a non-story, how will the Government react when the going truly gets tough? How will it respond to ridiculous demands from Brussels, or a concerted campaign by overseas governments to encourage their companies to pull capital out of the UK, or any of the myriad pitfalls that the Brexit negotiations will throw up? Our opponents will have been emboldened by the chaos and incompetence of the past few days.

Mr Hammond may bounce back, but the fundamental problem is that his economic policy is disastrously misaligned with the Government's central mission of extricating the country from the EU. The Chancellor's immediate, lethal mistake was to wage war on the Tory base; but his more profound error was to produce a Budget fit for a very different, pre-Brexit era.

Full Treasury buy-in is required for Brexit to work, yet the Chancellor's support has continued to be half-hearted, and his Budget was a head-in-the-sand exercise, pretending that nothing was about to change. It wasn't worth the paper it was printed on even before yesterday's U-turn.

The first problem has been fixed but not the second. If he is to survive, he will need to change course radically. He will need to respond swiftly to events during the negotiations, reassuring and placating the financial markets and deploying a mix of carrots and sticks.

If banks threaten to leave, he should dangle massive tax and regulatory cuts; if car firms say they will up sticks because of the possibility of tariffs, he will need to promise to compensate them in other ways, while reminding them that protectionism cuts both ways. It will require toughness, skill, a permanent campaign and even a permanent Budget process: the full powers of fiscal and tax policy will have to be put behind the Brexit negotiating team.

The priority from 2008 to 2016 was to slash the budget deficit, and it is a great shame that George Osborne didn't move further and faster. But the priority in 2017 has changed: it is to minimise the downsides and maximise the upsides of our departure from the European Union. It doesn't matter if the deficit rises a little over the next few years: it is a price worth paying for a successful, open Brexit.

The question for Mrs May is what to do if Mr Hammond is unable or unwilling to change course. She would need to manage his exit carefully, retaining him in the Cabinet to prevent him from turning into a pro-Remain martyr on the back benches. The Chancellor doesn't have a support base, but he could serve as a flashpoint in any rebellion.

There are several alternative candidates for chancellor in the cabinet. One is Sajid Javid: he would embrace with relish a pro-growth role, and understand the need to provide palliative, reassuring solutions to businesses worried by Brexit.



Could Sir Michael Fallon offer an alternative to Philip Hammond? CREDIT: STEVE PARSONS/PA WIRE

Mrs May feels that Mr Javid underperformed on business rates, but that shouldn't stop her from giving him another chance. Another option would be Michael Fallon:

he has all the right instincts, and is rightly considered a firefighter extraordinaire in Downing Street.

Regardless of whether Mr Hammond stays or is replaced, Mrs May needs a Chancellor committed to turning the Treasury into another Brexit department. That will require taking on the sulky, defensive mandarins and forcing them out of their bunker. There is now, regrettably, a faint whiff of dysfunctionality around this Government: nothing that cannot be rectified quickly, of course, but a state of affairs that requires an urgent, if only partial, reboot.