

Collapse of Italian government

The decision of the Italian Prime Minister to resign rather than face a Confidence vote brings to an end a curious government experiment. 2 populist parties with very different programmes and outlooks tried to govern together. Both found the restrictions of the EU budget rules and Euro scheme difficult to live with. Lega were keen to cut taxes and 5 Star wanted to introduce a more generous basic income payment by the state. The PM, not elected for either governing party, sought to keep the government more in line with EU requirements and tried to keep co-operation between the two leaders of the two main parties in the coalition against a background of disagreements. Meanwhile the Italian economy stagnated, and fell into a shallow recession for the second half of last year.

There will be efforts for the pro EU New Democracy party to ally in government with 5 Star to avoid an election both of them might do badly in. They might be able to establish a temporary government. It would have to pass a budget that appears compliant with EU rules. If they do this Lega will look for any way to bring on an early election which they think would give them more seats and more clout in the Parliament. They will be looking to the new EU Commission to see if there is any scope to relax the current tight settlements, given the wish of many in Italy to spend more and be taxed less. They will also be hoping the new President of the European Central Bank follows an even more accommodating policy, and will expect Italy to continue as the number one borrower from that Bank under the Target 2 balances arrangements.

Italy is an interesting test of whether populist parties can govern in any way in the Euro area that keeps faith with what their electors want and what they promised. The Lega/5 Star coalition compromised with the EU to avoid a worse conflict in ways which prevented the implementation of much of their respective economic and financial programmes. Mr Salvini of Lega is hoping to bring about an election which he thinks he can win, when he would doubtless be less willing to compromise. This in turn raises bigger questions of Italian electors. Would they trust a committed populist government to challenge these EU orthodoxies? How far would they let such a government take their demands? When Syriza in Greece tried it they ended up backing down. Greece is a much smaller country that does not have the same weight as Italy financially and economically, so we would be in uncharted territory. Italy owes large sums to the ECB, which is Germany's problem as well as they have lent most of it.

All eyes on the Fed

This Friday at Jackson Hole Jerome Powell, Chairman of the Fed, will make a most important speech. The financial markets are expecting confirmation that there will be further interest rate cuts from the USA to promote faster growth and a weaker dollar. The self same market commentators that claim not to like Mr Trump very much nonetheless back the President's often repeated mantra that the Fed is holding up growth and more jobs and needs to cut rates by at least 1%, almost halving them.

Others point out that the US economy is growing much faster than the European or Japanese economies already, that money growth is strong, job numbers are increasing and real pay rising. They worry that further rate cuts could fuel an inflation after a decade of no serious inflationary pressures.

The Fed did it get badly wrong at the end of last year, when it was threatening major rate rises at a time when the world economy was slowing and markets were worried that slowdown could become recession. Jerome Powell backed off then, and reversed policy, promising not to raise rates. He went on to cut them. Now he needs to set out a new theory of how the Fed will set rates in future, to avoid the problems the current system created in 2018. The data on the economy suggests there is less need for rate cuts than many commentators suggest.

The Bank of England needs to study the work being done by the Fed as they seek a new consensus on how to run their monetary policy. UK money policy has not this year assisted the economy, being very tight at a time when the world and UK economies are slowing. The Bank has not followed either the Fed or the ECB in trying to offset some of the slowdown with monetary easing. China has now announced some more easing, alongside rate cuts from Australia, New Zealand, Russia, Brazil, the USA, Indonesia, Turkey, Thailand and others in recent weeks.

The Withdrawal Agreement without the backstop is still a bad Treaty

The PM is trying to get the EU to revisit the Withdrawal Agreement by asking them to first strike out the 165 pages of the backstop. It is by no means clear Parliament would vote through the WA minus the backstop, as it still leaves us staying in the EU for another 21 to 45 months, paying them large sums, keeping us under the ECJ and various other undesirable features often discussed here. To a leaver the WA is not Brexit, and to a Remainer it is clearly worse than staying in. The PM would need to require other changes as well. The EU has repeated the mantra it put into the delay agreement, that it

will not reopen the Withdrawal Agreement, so it looks as if there will be nothing to put to Parliament anyway. .

Speech to Wokingham Lunch Club on Friday

It was a pleasure to talk to almost 100 guests at the latest Lunch Club event organised by Wokingham Conservatives .

I set out a view of the opportunities available to the new government formed under Mr Johnson's leadership recently. I looked forward to an early budget to increase spending on public service priorities and to reduce taxes to give the economy a welcome boost. I talked about the way we can increase UK domestic food production to cut down food miles and reduce the import bill, and how we could start to rebuild our fishing industry.

There were numerous questions about what might happen in the next few weeks in the run up to our promised exit on 31 October which I tried to answer.

I am particularly keen to see more police in the Wokingham and West Berkshire area from the government pledge to add 20,000 officers nationwide. I also welcome the proposal to increase school money where schools are well below the national average, as most schools in our area are. I am glad the government has found more cash for the NHS as we need more money to cater for the demands of a growing population in our locality. I have advised the Councils that there may well be more money for congestion busting local roads projects which they should be ready to bid for.

Taxing the rich

Recent Treasury figures demonstrate that Mr Osborne's assault on Non Doms in the UK has meant some have left the UK. Rather than have to pay UK tax on their worldwide assets and income a good number of very rich people have decided they will not stay at all in the UK and will no longer pay UK taxes on UK investments and no longer earn money and profits here in the UK and pay tax on them. It means we lose the ability to tax their purchases of homes, cars and the other items they enjoyed when here. The number of Non Doms fell from 90,500 in 2016-17 to 78,300 in 2017-18. Their payments of CGT, Income Tax and NI fell from £9.5bn to £7.5bn. We also lost other consumption and transaction taxes they would have paid including Stamp Duty, VED, VAT and

others. It is true some of the Non Doms converted to being domiciled here and now pay tax as a resident as an offset, but others simply left and pay nothing. The Treasury does not give us an overall figure of total tax paid by rich foreigners in both categories.

I am defining rich here as someone who has substantial investment wealth above and beyond their home or homes, people who do not have to work to earn a living and who can sustain an expensive lifestyle without getting a job. I am not talking about the well off who sustain a high quality of life by well paid employment income and who work for UK based companies or institutions.

In a world where people are rightly condemned for saying unpleasant things about groups or categories of people, an exception is made for the rich. Politicians of the left delight in tribal incantations against the super rich, often condemning them for the crimes of a few. I have met various rich people in my time in politics and government. I have met or read about saints and sinners. Some are modest, caring and keen to help others. Others are self seeking and self promoting. Some are scrupulously careful to do the right thing, others keen to push the boundaries of the rules. A few I see in the media are criminals who have broken laws to make their fortune or to try to sustain it. Most are law abiding, and take advice to try to comply with very complex tax and property laws that countries now apply. There is no evidence to suggest that there are more rich cheats as a percentage than cheats from any other income level in society. We should exercise the same care when seeking to describe the rich as a group, as we do when trying to describe a national or religious grouping.

Some argue that there is no trickle down, that there is no advantage to a country in attracting globally rich people to spend time and money in our community. I find this difficult to understand. There is clearly a first round effect when a person arrives in the UK and invests money in homes and businesses. They may bring a new business we need, or they may fund businesses here that require cash. There is a continuing benefit from the employment they generate from the things they buy and the services they need. There may be a final benefit if they come to love our country, as they may go on to endow charities or leave some other legacy.

To those who say they have driven the prices of homes up needlessly against the rest of us, I would say they competed to buy homes most of us could never afford. They have brought forward a new export business especially for London of building high specification very expensive flats we would not otherwise have developed. These in turn spawn substantial employment to furnish them, service them, supervise and manage them. The German business model has been to sell rich people expensive cars they do not need but want. The UK model has been to sell them expensive homes they like but do not need.

The UK over many centuries has welcomed entrepreneurs and other wealthy investors to our shores. From the Huguenot cloth makers to the middle European bankers, from the oil sheiks to the Russian emigres, the UK has provided a home for people who can make a difference and who soon contribute from their UK incomes substantial UK tax revenue. Maybe it is time to revisit this question of how we tax them. We need to tax them to make a good contribution

to our needs, whilst remaining competitive internationally.