
Soundbite

Cities Slicker

It is commonplace to think, as Adam Smith did, of the wealth of nations. Now we should also focus on "cities and the wealth of nations". More than ever, cities are the lifeblood of the global economy. The competitiveness of cities – what makes them more productive and successful – increasingly determines the wealth of nations, regions and the whole world.

The map of the global economy most of us have in mind is one of nation-states connected to each other via flows of trade, capital, people and technology. That is still highly relevant. But throughout history the most intensive cross-border economic transactions have been between cities – mostly cities located on coastlines.

So think of a different map of the global economy: one of cities connected across land borders, seas and oceans through the exchange of goods and services, foreign investment, migrants and short-term workers, and border-hopping technology.

Unprecedented levels of urbanisation make this city-based map especially relevant. Three years ago, for the first time in history, over half the world's population lived in cities; they account for over 80 per cent of global GDP.

According to McKinsey Global Institute, as of 2007, 1.5 billion people (22 per cent of the world's population) lived in the world's 600 most populous cities and accounted for a GDP of $30 trillion – well over half of global GDP.

The top 100 cities, with a GDP of $21 trillion, accounted for 38 per cent of global GDP. In 2025, McKinsey reckons that the top 600 cities will have 25 per cent of the world's population and nearly 60 per cent of global GDP.

Most productive policy innovation is happening in cities and sub-national regions, not at the level of national governments, let alone in international forums such as the UN, EU and G20.

Policy-making is more flexible and practical the closer it is to the citizen. And this is more conducive to all-round learning and adaptation: cities emulate each other and adopt best international practice often better than nations do.

HONG KONG AND SINGAPORE ARE THE ROLE MODELS… THE BENCHMARKS FOR OTHERS TO EMULATE

This is true of cities and state governments in the USA while Washington DC remains gridlocked. In the EU, national governments and the EU institutions are stuck in sclerotic political cartels with failed policies. Can Europe's cities break out of this straightjacket and unleash long-delayed reforms?

However, this century's story of cities and the wealth of nations will be scripted mainly in the emerging world – outside the West.

Over the next two decades, about 170 million people will move to cities in developed countries – but 2.6 billion people will do so in developing countries.

Asian cities, stretching from India to China and north-east Asia via south-east Asia, will be the main players. McKinsey Global Institute's list of the top 600 cities contains 220 from developing countries. But it estimates that, by 2025, 136 new cities will join this list – all from developing countries. Of the new entrants, 100 will come from China alone.

What are the ingredients that make cities more productive? Some vital municipal policies are parochial: urban planning and zoning, housing, water, sanitation, policing and so on.

But the most successful cities, like the most successful nations, also have the following: stable and solid public finances; low, simple and competitive taxation; simple and transparent business regulation; strong and impartial rule of law; openness to international trade and foreign investment; a welcoming environment for "foreign talent"; good "hard connectivity" – roads, transit systems, ports, airports; and good "soft connectivity" – education, skills and technology diffusion.

Like nations, cities with limited – but effective – government and competitive markets do better than cities with big, inefficient government and distorted markets. The city-states of Hong Kong and Singapore are the role models. They are the benchmarks for others to emulate.

Cities were at the heart of the medieval and early modern European Miracle. *Stadtluft macht frei* – city air makes you free – was the refrain of the day.

Cities are now at the heart of the Asian Miracle. Richard Cobden and Jane Jacobs had a vision of cities as the best available political-economic units to promote prosperity, freedom and peace. Will this vision come closer to realisation in the twenty-first century?

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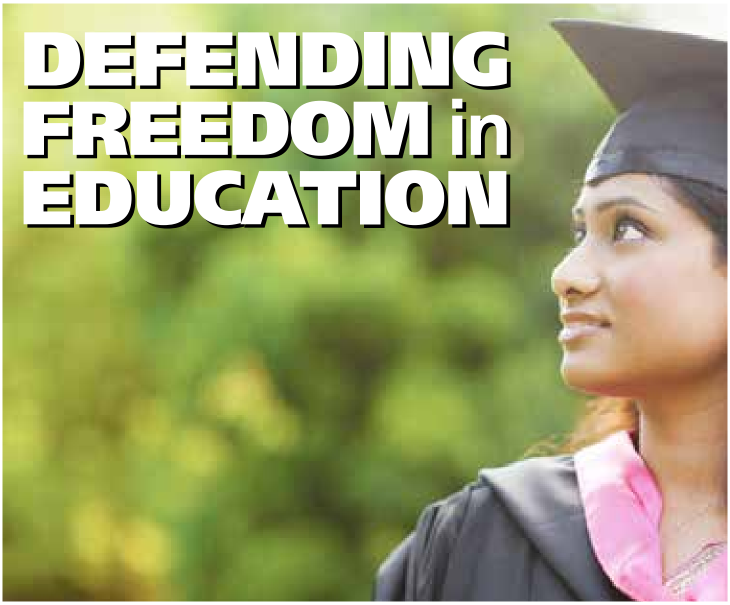
DEFENDING FREEDOM in EDUCATION



In October 2013, Sir Michael Wilshaw, the Head of OFSTED, accused some of our leading independent schools of living in "isolation" and preferring to educate "those whose parents have deep pockets" rather than local disadvantaged pupils.

As many independent schools were established with the express purpose of providing an education for the poor, Sir Michael demanded that these schools should now renew and deepen that commitment.

The head of OFSTED has lost his way on this issue and needs to be reminded of some home truths.

The government initially intervened in education in the late 19th century to help support disadvantaged pupils living in deprived areas. The sole purpose of this intervention was to focus on helping those most in need and not to disrupt or interfere with the already flourishing private, voluntary and religious sectors which were already educating the vast majority of children.

What followed was a comedy of errors and broken promises. Local officials directed all local taxes to their new government schools despite the fact that this was challenged in Parliament as it was seen as penalising the poor by restricting their choice of school. When these schools failed to attract children, more taxes were handed out to enable them to reduce fees until they became free of charge.

This subsequently forced the closure of thousands of fee paying private and voluntary schools across the country, leaving only a small number of established private schools, many of which were founded long before the introduction of parliamentary democracy and the civil service. As previously noted by Frédéric Bastiat, the shoe industry would fail very quickly if the government decided to give everyone shoes free of charge.

The government and its army of school inspectors became the new self-declared champions of the poor. As a result, the surviving private schools were left with no choice but to change and adapt their schools to cater for the minority of parents who could now afford to pay for their children's education twice – once through taxation and again through school fees.

Because of the way in which successive governments have funded education, they have created a system that penalises disadvantaged children – the very same disadvantaged children that the government initially intervened to help.

Any system of education that restricts the freedom of parents to choose will hit those on low incomes the hardest. While better off families can either move house in search of a better school or purchase private tuition, those on low incomes who live in poor areas are forced to accept their local government school, irrespective of how it performs.

Government intervention has therefore had the opposite effect from the one that was originally intended. In fact if I had to design a system of education which cost over £50 billion a year, but which still managed to penalise and restrict the poor, then our system is exactly the system that I would choose.

It is a sorry sight to see a Chief Inspector of Schools attempting to shift the blame from his own organisation's failure onto a handful of private and independent schools who have simply been minding their own business.

However, let's be clear – social divisions and barriers in education are primarily a result of the way in which all previous governments have subsidised the sector, which has denied parents their fundamental right to choose, crowded out the vast majority of private alternatives and penalised those families living in poor areas. This is government failure on a massive scale and it has nothing to do with any private or independent institutions.

BECAUSE OF THE WAY IN WHICH SUCCESSIVE GOVERNMENTS HAVE FUNDED EDUCATION, THEY HAVE CREATED A SYSTEM THAT PENALISES DISADVANTAGED CHILDREN

Politicians and civil servants should remember that their primary purpose is to serve the public and to protect their fundamental freedoms.

They should also take note of the well-known dictum 'an Englishman's home is his castle', which refers to an English legal tradition dating back to the seventeenth century that recognises a person's home as their own private domain where they are free from external interference. This applies to all private institutions and not just the home.

There is not much freedom left in our education sector. We must defend what remains.

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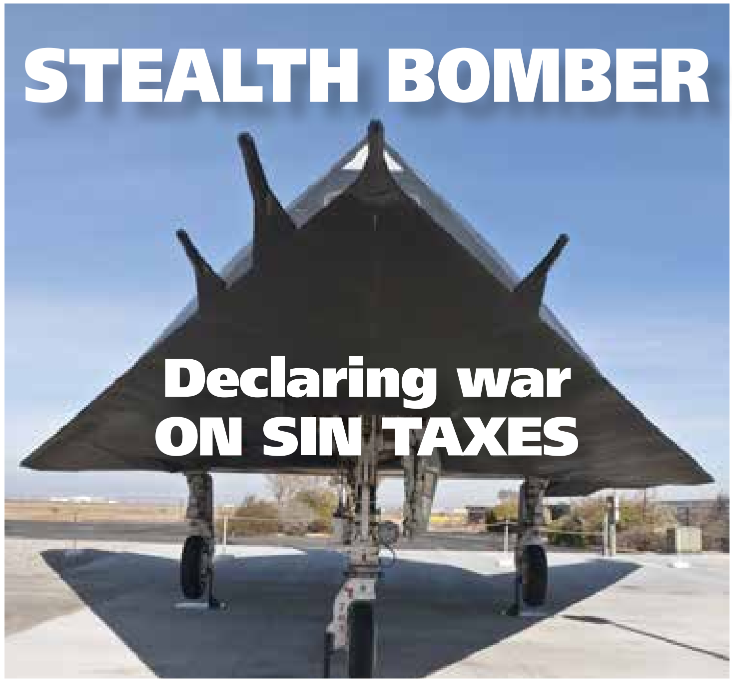
STEALTH BOMBER

Declaring war ON SIN TAXES



Imagine a tax that took 30 per cent of the income of the poor but took only 15 per cent from the rich. Imagine further that this tax was popular with anti-poverty campaigners and that many of those who oppose the market economy wanted it to be levied at an even more punitive rate.

There is no such single tax, but the figures above represent the combined impact of 'sin taxes' and VAT on the top and bottom fifth of households as measured by disposable income. Over many decades, the burden of indirect taxation has crept steadily upwards. Tax now makes up 79 per cent of the price of an average bottle of whisky, more than 80 per cent of a budget brand pack of cigarettes, half the price of a bottle of wine and around 60 per cent of a litre of petrol. VAT, which was originally set at 8 per cent, has climbed to 15 per cent, then 17.5 per cent, and now stands at 20 per cent.

As the state has grown fatter, politicians have increasingly relied on stealth taxes to fund their spending. These taxes fall disproportionately on the poor. If someone in the bottom income quintile drinks moderately, smokes and drives a car, they will spend a staggering 37 per cent of their disposable household income on VAT, motor fuel duty, tobacco duty and alcohol duty. Forget the cost of the products themselves: that is just the tax.

If we really wish to lift people out of poverty, we should not be taking so much of their money. If we halved taxes on fuel, alcohol and tobacco, scrapped green energy subsidies financed through higher bills and reduced VAT back to 15 per cent, it would represent a major step forward in reducing the cost of living and would put money back in the pockets of those who are in greatest need. With the economy recovering, David Cameron has said that he wants to see "taxes cut for all". This is the place to start.

Some argue that the negative externalities of 'sinful' products necessitate Pigouvian taxation (taxes which represent the "external" or "non-private" costs of consuming such products and/or which raise money to pay for the external social costs incurred by a product's use).

But a close inspection of the figures reveals that sin taxes in Britain far exceed any burden that consumption of the relevant products place on the state.

Taxes on motoring not only exceed the costs of maintaining the road network by £30 billion, but also exceed the environmental costs associated with driving. The £2.7 billion a year that smoking is said to cost the NHS is paid for four times over by tobacco taxes and the £12 billion paid in alcohol duty comfortably exceeds the £6 billion spent on healthcare and policing that is attributed to alcohol.

SIN TAXES IN BRITAIN FAR EXCEED ANY BURDEN THAT CONSUMPTION OF THE RELEVANT PRODUCTS PLACE ON THE STATE

Cutting these taxes would bring many benefits. High motor fuel prices hamper the economy in numerous ways, raising barriers to work and increasing the price of everything that is transported by road. Halving taxes on alcohol and tobacco would kill their respective black markets and would bring an end to cross-channel 'booze cruises'.

Cutting VAT to 15 per cent would put more than £20 billion back into the pockets of the British people and improve work incentives considerably. Of course, this is another way of saying that the state would have £20 billion less to spend. But, with the government spending close to 50p in every pound, the state should cut spending and consider carefully which taxes to cut at the same time.

Of course, a large proportion of state spending involves the provision of welfare payments to the very people paying disproportionately high sin taxes. Cutting both spending and cutting the taxes identified above would be complementary measures.

Those who support paternalistic sin taxes argue that people on low incomes can avoid the taxes by avoiding the products. Whilst this is trivially true, large numbers of people on low incomes exercise a preference to buy 'sinful' products and will continue to do so for the foreseeable future, despite some of the most punitive taxes in the world. There is a welfare cost when people change their consumption habits simply to avoid taxes.

The hard reality is that these taxes are discriminatory and highly regressive. Those who support them whilst claiming to be fighting a war on poverty are fooling themselves•

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Are LIFESAVING DRUGS all they seem?

Far more patients are likely to be eligible for cholesterol-lowering drugs called statins, if doctors follow new heart guidelines issued by the American College of Cardiology and the American Heart Association (AHA).

Statins are widely prescribed to reduce the risk of heart attacks but the new guidelines recommend that they also be considered for people at high risk of stroke.

But whether they follow these recommendations there is a deeper and more pervasive controversy that no one is discussing: the quality of the statins we are already ingesting.

It is far from common knowledge, but many cardiologists will tell you in confidence that they routinely switch patients from a generic statin back to the brand original or to another generic because of clinical problems.

As one cardiologist put it to me in view of the new guidelines "the new heart recommendation may put tens of millions of more US patients on statins, and this may be the correct advice, but only if the statins work properly". But doctors are skittish about saying these things on the record for at least three reasons.

First, they don't want to appear to be in the pocket of the brand-name drug companies. Second, they are confused – after all, generics prescribed in rich nations all have regulatory approval. Third, it can be difficult to spot when many medicines fail, since clinical symptoms may not be noticed for weeks or months.

Dr. Preston Mason of Brigham and Women's Hospital, Harvard Medical School, is bucking the trend. He recently presented a paper on 36 different generic versions of the most widely prescribed statin, atorvastatin.

The generics were procured from pharmacies in North America, Europe and Asia to "evaluate the chemical purity of generic atorvastatin". These generics were compared with the original atorvastatin (patented by Pfizer as Lipitor) – and the findings were alarming. The "widely-available" generics were found to contain an impurity that could prevent them from working properly.

THERE IS GROWING CAUSE FOR ALARM AS EVIDENCE OF CORNER-CUTTING MOUNTS

A lot of these generics are made in India, where quality is an ongoing concern. In May 2013, one of India's largest companies, Ranbaxy – the manufacturer of generic atorvastatin – pleaded guilty to seven felony counts related to lies about drug quality data and was fined $500 million by the US government. Yet India's drug regulator, the CDSCO, still has not sanctioned Ranbaxy.

My research team has sampled thousands of medicines from India and other emerging markets and found major errors in formulations in at least ten per cent of the samples. Gross failings of drug quality are manifest in most emerging markets. But because of western oversight and the threat of litigation against corporate mistakes, most medicines prescribed in the US and Europe do not have obvious errors.

The discerning eye will note, however, that the scientific literature is being populated with examples of oncology, transplant and other critical medicines with impurity problems like those found by Dr. Mason – some of which make their way to European patients. Yet, impurity profiles of medicines on the market are not routinely assessed by western regulators.

If regulators are doing their job properly, they should conduct random sampling of statins (and probably all medicines) sold on the market, and submit these products to myriad tests to find problems with impurities.

Currently, products that receive approval may work fine at the time of assessment, including having low impurity levels. But there is growing cause for alarm as evidence of corner-cutting mounts – particularly among Indian generics manufacturers, with the products sold after approval not matching up to those that achieved approval. Only time will tell how lethal the consequences of this corner cutting will be.

This is an interesting and problematic issue. The existence of regulation can crowd out methods of quality control that can arise within the market itself. However, in many areas of economic life we expect regulators to rectify problems that economists describe as "market failure". Unfortunately, rather like in the financial markets in 2008, we can see that regulators can fail too.

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