

Balls wants a 100 per cent tax on inherited brains

Irwin Stelzer admires the Schools Secretary, and so regrets that his admissions policy prevents schools from taking account of a pupil's prospects of success. Bad news all round

Seemingly alone among my acquaintances, I see virtues in Ed Balls. He certainly is not media-friendly, partly because he has the Brownian habit of trying to bury questioners under a barrage of verbiage, only some small portion of which is relevant to their questions. He does have the annoying habit of believing that facts can be the enemy of truth, and therefore need, er, adjustment before they can be made available to the less skilled at their interpretation.

Still, it is impossible not to admire his quick intelligence, his ability to translate complicated economic ideas into policy. Colleagues who claim he is too clever by half are very often too dim by more than half. He has a coherent view of a wide range of public policy issues. He understands that markets can do some things better than governments, but understands too that where producers are in a position to exploit consumers, it is essential that government correct the imbalance. True, he sometimes thinks he knows better than these consumers what is best for them, but, hey, who in Westminster doesn't share that view? After all, the leader of the opposition claims to know how to produce 'well-being' for millions of people he has never met, and in whose circles he is unlikely ever to travel.

All of this by way of establishing my credentials as a fair critic of the Secretary of State for Children, Schools and Families, one who bears no Straw-like grudge when analysing the faulty logic underlying Mr Balls's programme for making 'sure that excellence and opportunity [sic] is open to all'.

Balls argues that history supports his policy of mandating an ability-blind, family-blind, history-blind school admissions policy. The history Balls cites in support of his programme of central control of admission to every school in the land is Margaret Thatcher's 'Big Bang', the reform that broke up monopolies in the City in the 1980s. This radical and much-needed step opened the financial services industry to all willing to work hard and take the risks associated with stockbroking and other activities — even men with cockney accents, and 'gels', as they were then known. No longer could a few men in beautifully tailored pin-stripe suits dominate the City by trading insider information over liquid lunches at their clubs, and keep competition to the chummy level that allowed their less gifted nephews to make their way in

the City. Result: an explosion of jobs, prosperity and entrepreneurial activity not only in the City, but throughout the country.

Fast forward to today, and the schools minister. 'The City of London would never have flourished in the 1990s unless we had the reforms of the 1980s. I do not think as an economy and education system we will be excellent unless we use the talents of everyone... I am determined to fight the battle for excellence for all,' he told the *Times*.

The problem is that the experience in the City refutes rather than supports Balls's thesis. Success in the City was based on opportunity for all, not 'excellence for all'. Allow a thousand flowers to bloom, surely, but understand that some will surely wilt in the heat of open competition. No minister instructed firms how to conduct interviews, or which predictors of success to seek and which to ignore. Yes, general anti-discrimination laws were to be obeyed, but they do not require any firm to ignore differences in talent and ability, or to turn a blind eye to an applicant's past aberrant behaviour. Naturally, some were not selected by the firm of their choice.

This is precisely the sorting — call it selection — process that Ed Balls wants to make certain does not happen in the education system. No matching of aptitude with available places. After Big Bang, City firms were free to choose those most compatible with their ethos. Balls is denying schools such freedom, and forcing admissions authorities to accept children ill-prepared to succeed at their institutions. His programme denies admissions officers something that those staffing City firms after the Big Bang could call upon — access to indices of future success. Consideration of parents' ability and willingness to provide the home environment and resources that contribute to success in school

is verboten. The consequences are predictable: frustration, failure, social ostracism, antisocial behaviour.

In essence, Balls is levying a 100 per cent tax on cultural and intellectual capital. It is unlike a tax on material inheritance (which I have supported in these pages, and the impact of which Balls and his colleagues have recently lightened, an odd thing for believers in equality of opportunity). A tax on intergenerational transfers of material wealth affects only the potential recipient. The Balls programme affects three parties: the applicant, the students with whom he will be learning (or not), and the institution — the school.

But it gives no weight to the interests of the latter two. It ignores the need of other students not to be lumbered with incompatible or potentially disruptive classmates, and it ignores the needs of the institution — to maintain its standards. Public policy that ignores the interests and legitimate needs of all the parties affected by it is, to put it mildly, badly crafted.

Worse, Balls's 100 per cent tax on cultural and intellectual assets hard-earned by parents and passed on to their children threatens to reduce parents' incentives to work hard and contribute to the nation's intellectual capital. Studies show that high inheritance taxes are not a significant disincentive to work and thrift by those destined to shuffle off this mortal coil sooner rather than later, which is one reason such material wealth can be taxed without triggering a significant reduction in incentives. But we are not dealing here with material wealth. We are dealing with cultural and social assets: to make them non-transferable might well be to reduce parents' incentive to work, and to sacrifice, and therefore their incentive to add to the nation's stock of human and intellectual capital by investing in their offspring.

As one who received several letters from universities advising me that their Jewish quotas were filled, but do try again next year, I applaud the schools minister's desire to make opportunity more equal, especially in a country in which class distinctions have led to the underutilisation of its human capital, it is admirable. But his attempt to use the power of central government to make irrelevant every indicator of good parenthood, to make it impossible for the admissions process to give weight to a student's past behaviour and performance, or to a family's preference for the ethos of one school as compared to others, is not. Equality of opportunity requires taxing intergenerational transfers of material wealth; maximising incentives to work by keeping marginal tax rates low, especially for low earners; creating strong incentives to good behaviour by maximising penalties for antisocial behaviour; devising tax policies that create strong incentives to the formation of traditional families. All policies Balls and his party find unattractive.

Irwin Stelzer is director of economic policy studies at the Hudson Institute and a columnist for the Sunday Times.