

conceived and populated by cynical or terrified administrators along with *bien pensant* and opportunist teaching staff. Similar circumstances obtain in the hiring of faculty in American universities, especially in victim-studies departments (Chicano Studies, Afro-American Studies, and so on). This possibly anodyne recitation of the results of PPs masks the more tragic suffering that often surrounds them. The stories from Nigeria and Sri Lanka, where so much blood has flowed, are especially poignant.

Having exposed the results of PPs, Sowell turns to their 'illusions'. Among these is the idea that, once loosed, PPs can be controlled: that they can be temporary, that incentives to retain them will not take on a life of their own. Instead, beneficiaries tend to echo the Nigerian who spoke of a 'tyranny of skills'; or the Indian who asked 'Are we not entitled to jobs just because we are not as qualified?' (p.123). Sowell shows how fallacious the statistical manoeuvres are that claim to measure PPs' success; and he dismantles a variety of half-baked moral arguments, attacking, for example, the 'principle of compensation' that takes 'from individuals who inflicted no harm' and gives 'to individuals who suffered none' (p.160). It is a virtuoso performance.

It may be added to Sowell's account that defenders of PPs often use the Orwellian argument that they are ensuring that favoured groups enjoy the equal protection of the laws, when the policies they espouse deny precisely this protection to those not favoured. Further, PPs flatly contradict the central imperative of Kantian ethics to 'treat everyone as an end and not only as a means': the claims to equal rights of those unfavoured are simply discarded, sacrificed as the necessary price for 'progress' and 'social justice'. Nor is it accidental that those who justify and enact such sacrifices (college professors, civil servants, judges, and legislators) invariably sacrifice **others'** rights, not their own. Not least among the horrendous consequences of PPs is the sheer

injustice meted out to non-preferred groups, including what amounts to the punishment of the innocent. Those unfavoured may carry life-long scars, while those who have been given education and employment opportunities at others' expense are often the targets of resentment. Those favoured may suffer inner pangs of self-doubt, suspecting their position in life was not earned. They may also find it difficult to derive satisfaction from their work, having been denied a basic liberty: the freedom to fail.

Today in Western countries, there are widespread reports of rising anger among those discriminated against by PPs. American college campuses are overt and covert battle grounds, with epidemics of racial incidents, minority self-segregation, and other evidence of the baleful effects of legally sanctioned and mandated discrimination. Once planted and watered from the copious springs of liberal guilt, they will be difficult or impossible to uproot. If Sowell's analysis of their long-term effects is accurate, we are all in for a very rough ride.

Soaking the Rich

Robin Oliver, a Tax Principal in the Auckland Office of Arthur Andersen, reviews A Capital Gains Tax for New Zealand by Rick Krever and Neil Brooks (Institute of Policy Studies, Wellington, 1990).

This book argues the case for expanding the New Zealand income-tax base to include capital gains. It also proposes methods for taxing such gains. The key theme is that a capital gain is income and should be taxed as such. This echoes the 1967 Canadian Carter Commission on Taxation which argued for the taxation of capital gains under the simple slogan: 'A buck is a buck'.

The issue remains topical in New Zealand. Since 1984 New Zealand has radically reformed its tax system. It has introduced a comprehensive tax on expenditure, thus reducing its revenue reliance on the income base. The income tax has changed from being a tax on a narrow base, on which were applied high and variable rates, to being a tax on a relatively wide base, on which are applied low and relatively uniform rates. That is in line with world tax-reform trends arising from the recognition of the economic costs of high tax rates on a distorted base. New Zealand has been at the forefront of this tax-reform movement to such an extent that its tax system has been described by the OECD as the least distortionary in the world. In many respects it has moved further down the path to instituting a comprehensive income tax than other countries.

Nevertheless, as the authors of this book note, New Zealand remains (along with Italy and the Netherlands) one of the few Western countries not to tax capital gains. A proposal to bring capital gains into the tax net was put forward by the Labour government in December 1989. The National government elected in 1990 is firmly opposed to any such move. However, a comprehensive income-tax base that excludes capital gains remains an apparent anomaly. Thus, the issue of whether capital gains should be taxed will not disappear. Moreover, the capital-gains tax issue continues to be debated in Australia, the US and other countries.

A summary of where the capital-gains tax debate now stands would therefore be useful for those who have an interest in taxation reform or microeconomic policy in general. This book is, however, more ambitious than that. In the Preface, the authors state that their central purpose is to propose an accruals-based tax system for capital gains. All countries that tax capital gains generally defer the tax impost until the asset is sold or otherwise disposed of. This has the effect of locking resources into their existing

ownership structure by, in effect, imposing tax on any transaction altering ownership. Moreover, taxing on a realisations basis still results in a tax system that favours capital gains over other forms of income. Clearly, a practical method for taxing capital gains on an accruals basis would alter the nature of, and be a significant contribution to, this debate.

However, although this is stated to be the central purpose of the book, it fails to present a convincing blueprint for an accruals-based tax on capital gains. Of the book's 150 pages, 86 are devoted to why capital gains should be included in the income base, 44 are devoted to the mechanics of a realisations-based tax, and only 20 to the central issue of how a tax could be levied on an accruals basis. Most of the issues that have so far led all countries to eschew this option are quickly dismissed. The necessity for annual asset valuations, it is suggested, can be handled by providing an option for taxation on realisation with an interest charge to offset the deferral. This is not a new proposal. It was, for instance, raised by Britain's Institute of Fiscal Studies' tax reform (Meade) report in 1978. It suffers from the defect that if an asset holder can reduce the value of an asset prior to realisation by turning it into current income (dividends, interest, fees etc), the deferral advantage (and thus lock-in effect) of taxing on realisation would be substantially retained.

The real focus of this book is not the practical issue of how to tax capital gains but the more theoretical issue of whether capital gains should be taxed in the first place. The authors are both university law teachers. This shows. Economic efficiency arguments for and against taxing capital gains are canvassed; but not always in a confident manner. For example, the real economic debate in this area tends to be between the merits of an expenditure as opposed to an income base. The capital-gains issue is seen by expenditure-tax advocates as an extreme example of the unworkability of, and distortions caused by, an

income tax. The book does not develop this connection.

The authors clearly see a capital-gains tax as necessary mainly for reasons of fairness and equity. Their views on this border on the polemic. For example, in dismissing the lock-in effect a realisations capital-gains tax would have on the share market, they note that 'the stock market is essentially a gambling casino for the rich and although the lock-in effect might have some influence on the price at which "chips" are traded, it has few repercussions for the economy' (p.73).

Such a diatribe belongs, if anywhere, in political debate, not in a serious discussion of an economic-policy issue. Nevertheless, if one can ignore this heavy soak-the-rich theme, the book is still valuable as a reasonably comprehensive survey of the economic literature on this issue. Especially useful are extensive footnotes referring to articles and reports from numerous countries, including, in many cases, brief but reasonably accurate descriptions of the conclusions of each. For this reason alone the book is a worthwhile resource for those who wish to understand this debate. The polemics, if not taken seriously, are enjoyable to read.

Community or Area?

*Alan Burnett, Visiting Fellow at the Research School of Pacific Studies, The Australian National University, reviews **Rethinking the Pacific** by Gerald Segal (Oxford University Press, Oxford, 1990).*

Gerald Segal has in recent years held joint appointments with the Institute of International Relations in London and with the University of Bristol. He is the editor of *Pacific Review*. He has attempted in this volume to assess the significance of 'the Pacific' in

global terms and, in particular, to focus on whether a Pacific Community is likely to emerge to challenge the European Community and the Canada-United States Free Trade Area.

The structure of the book is interesting. The opening section is an historical summary of the evolution of politics in the Pacific. Later sections deal with culture and ideology, the military dimension and the economic dimension. This is a bold and welcome approach. Too many writers in international relations are afraid to deal with economic relationships and, although they admit the importance of ideology, usually regard cultural factors as either irrelevant or too difficult. Yet despite the promise of the structure, this book is disappointing. Usually a volume from such a prestigious publisher as OUP would be anticipated as a major contribution to scholarship. *Rethinking the Pacific* should be welcomed in Australia as an important book that should be widely read and prescribed by our universities. Regrettably this is unlikely to be the case.

The five pages devoted to 'The Confucian Pacific' are a brave attempt to describe an element of the motivation that is so important in modern Japan, South Korea, Taiwan and Singapore. Segal's writing, however, is not up to adequately describing the extent to which ancient Chinese values may have been adapted to fit the culture of Asian high-technology industrial societies. For example, it is hard to know precisely what to make of such generalisations as this: 'The picture of Confucianism as an ideology is unsatisfactory. Many states do qualify as practitioners but they retain distinctive characteristics even while sharing others. To some extent, "Confucianism" is merely a convenient term to apply to a varied clutch of successful developing economies which happen to lie in the traditional Confucian zone but which are neither socialist nor democratic pluralist' (p.121). *Rethinking the Pacific* is replete with passages like this that leave the reader wondering how much thought the author has given