

## Crusade Against Luxuries

By WILHELM RÖPKE

THE OTHER day, in a Copenhagen department-store, I asked for a portfolio because my old one had become too shabby, and I also thought it a good idea to buy such a thing in a country teeming with cattle. The young man behind the counter was very sorry: the only things he could sell me were the worst kind of rubbish, while neat's leather was out of the question. "But where do all the Danish ox-hides go?" I asked, rather puzzled. "Some of them are certainly made into portfolios," I was told, "but they are a luxury which Denmark cannot afford today. So we export them all and you will find the best Danish leather goods in Geneva."

Really, as an economist, I should have known better. I should have been well acquainted with a most curious game now going on in international trade and of which I had been a very insignificant victim at Copenhagen. Every country is proud to produce things of good quality and workmanship. To obtain them is not a strict matter of life and death, yet everybody likes these so-called "luxuries" and is prepared to make an extra effort to earn the necessary money; but more and more countries are most anxious to sell all their own luxury goods abroad and to keep out the "luxuries" of other countries. The final outcome of this practice is that there are only a few countries left where the "luxuries" of the world can be bought freely and in reasonable amounts—not necessarily only rich countries, like the United States or Switzerland, but also a country like Belgium, impoverished by the war but with an economic policy determined by a good deal of common sense.

THE REASONS usually given for this international crusade against luxuries seem quite plausible. The country, we are told, is too poor to afford things which are not strictly essential. Houses or wheat are more necessary than watches—that is the simple philosophy. People are all the more eager to swallow it because in any case the good things of this earth can be bought only by a minority and against that minority envy, suspicion or puritanical self-righteousness are easily aroused. So nations can be all too easily persuaded to follow Governments in their policy of exporting all or most of the luxuries made in the country itself and keeping out those made in other countries.

All this seems quite plausible and yet it is all wrong. It is based on reasoning which can easily be shown to be faulty and it leads to policies which are pernicious and self-defeating. The crusade against luxuries is one of the most powerful agents for depriving our civilization of its best fruits, for destroying life at its springs and for dragging nations down to a level of grey drudgery and "controlled misery". But it is unfortunately one of the most efficient devices of a bureaucracy which wants to prove its indispensability and to expand its reach farther and farther. Only

a few dare to suggest that this bureaucracy itself is the luxury we cannot afford.

What is the main fallacy of the belief that luxuries must be kept out of a country because it is too poor to afford them? The most obvious objection is that it is impossible to define a "luxury" objectively, and dangerous to base commercial policies on such an arbitrary concept.

BUT THE real fallacy is even more fundamental. It is immaterial whether the Government calls a thing a luxury or not, as long as it leaves it to us to decide whether we can afford it or not. The impertinence of bureaucracy lies in depriving us of this choice, when it prohibits or restricts imports on the ground that the "country" cannot afford this or that. The whole argument against the free importation of luxuries implies that bureaucracy knows better than the consumers what is good for them and that it must make sure that wheat will be imported instead of oranges or paper (largely to be used by bureaucracy itself) instead of watches. The Government, in other words, has the astounding insolence to ask us to accept its arbitrary scale of preferences instead of our own. It counts on the people overlooking or forgetting the fact that no starving man will prefer coffee to porridge, and that, if people want new houses above everything else, they will demand houses instead of automobiles.

To ask whether a country can "afford" watches or not is only another way of asking whether the sum total of the consumers of the country, by demanding watches, expresses its preference for this commodity as against others of which it has already enough or which it deems less indispensable. When private trade obeys the commands of the consumer and oranges are imported into a country, this indicates that a large class of people who really must know whether oranges are a good thing or not have made up their minds that they can afford them. These people are the consumers. It is for them that Providence lets these delicious fruits grow.

ALL THIS sounds almost indecent to some people who specialize in what may be called social prudery. They will ask us indignantly how we can assume the interest of the rich to be identical with that of the country as a whole, which is supposed to be poor. Now it is sheer social hypocrisy to think of the rich alone as potential buyers of luxuries in the more advanced countries. We must remember that if the imports of luxuries are to amount to anything they must be mass luxuries. It must be conceded, on the other hand, that a very unequal distribution of income might make it possible for one consumer to be starving while another buys imported oranges. But it is a current fallacy to believe that, by forbidding the imports of oranges or refrigerators, we are feeding the hungry or housing the homeless. As long as the Government

does not change the distribution of income and take away the purchasing power ready to buy those luxuries, the prohibition of imports is merely curing a symptom. Instead of buying foreign luxuries people will now buy national ones. Since a British consumer cannot buy a good Swiss watch which will last a life-time, he may spend his money on whisky, tobacco, racing, or cinemas. In fact, under the present régime of "austerity" in Great Britain more money than ever is being spent on alcohol, tobacco and entertainment.

If the policy of restricting the import of luxuries is designed to force a nation to be more economical it is bound to fail entirely, because such a measure will not destroy the purchasing power available for buying things which are not strictly essential, but will only divert it into other and generally less desirable channels. If a man wants to give his wife a watch for a Christmas present but is prevented from doing so by the import restrictions, he will not give her a Savings Certificate instead! He will only hunt for something else which will make both of them less happy. The total result for a nation will be at least the same amount of luxuries, but less happiness and less economical use of the productive resources of the country.

EVERYBODY is bound to admit this. But if restrictions on the import of luxuries do not help a nation to economize its productive resources, can they not be defended as a means of economizing its reserves of foreign exchange? This argument seems to be unassailable to most people but it, too, rests on incomplete and over-simplified reasoning. Even a child can understand that if the import of refrigerators is restricted, more foreign exchange will be available for the import of wheat or less exports will be needed to restore the balance of payments. But it takes more than a child's understanding to see that merely to cut imports is a wholly inadequate means of overcoming a "crisis of the balance of payments". If economics were as simple as that we could burn all the wise books which have been written on the crisis of the balance of payments during the last two hundred years. Only, if we did so, the experience of centuries contained in those books would be forgotten.

FIRST OF ALL, this "crisis of the balance of payments" is not an Act of God but the result of a maladjustment of the national economy as a whole. It is a symptom of the country's economic overstrain, which leads to an inflationary pressure tending to drive up prices and foreign exchanges. There will be a strain on the balance of payments; in other words, there will be a shortage of hard currencies either as long as the internal inflationary pressure remains undiminished or as long as the rate of foreign exchanges is not being allowed to find its natural level. The way to cure the crisis of the balance of payments, therefore, is not to cut imports, but to cut the governmental expenses responsible for the inflationary pressure—or to let the exchange rates go. But bureaucracy does not like this cure because it means less employment for bureaucrats and less power.

Secondly, a cut in imports has repercus-



sions which the more simple-minded advocates overlook. Its most direct and most important repercussion is on exports. Trade is reciprocal and a restriction of imports is bound sooner or later to diminish exports as well. That is true of any kind of commodity, essential or not. If the British Government prevents the people from buying Swiss watches or going to the Alps it is at the same time preventing as many Swiss from buying British suits. This repercussion on exports may be felt immediately, as in the case of strictly bilateral trade agreements between soft-currency countries, or it may take some time and come about in more indirect ways, as in the case of a hard-currency country like Switzerland. But come it will. Many countries believe that they can earn Swiss francs or gold indefinitely by selling their export goods freely to Switzerland while keeping out Swiss export goods on the pretext that they are luxuries. It is obvious, however, that in the end Switzerland must, in sheer self-defence, restrict her own imports too, if the other countries persist in this practice.

THIRDLY, THERE are other important repercussions to be considered which make economy by import cuts in foreign exchanges largely illusory. Most European countries which have been devastated by the war have, as we know, based their entire policy of reconstruction on the simple idea that by a formidable machinery of over-all economic control imports have to be cut to the bone while everything beyond the barest necessities must be exported. In this way, it is thought, the capital reserves of the country can be built up again in the quickest possible way. That is the philosophy which we encounter again and again and we have shown already two reasons why it is likely to fail. Restriction of imports and expansion of exports indeed does not necessarily imply a corresponding net saving in the national economy as a whole. Unless the system of control be extended to a collectivist tyranny, which destroys the liberty to work and to consume, it will not reach its goal.

But the rehabilitation of the capital plant of a nation depends not only on how much of a given amount of national production will be absorbed by current consumption, but also on the total amount of national production. Little would be gained by a policy which prevents the people from buying what they like if at the same time it kills their zest to produce as much as possible, and their propensity to save, which presupposes an atmosphere of liberty, confidence, optimism and the knowledge that savings can be turned into real wealth later on. It is being increasingly recognized today that the austerity countries, who have believed in this all too simple arithmetic of import cuts and export drives, have been acting unwisely. What is the use of working hard if you cannot buy anything beyond the merest necessities? The country simply gains on the balance-sheet of foreign trade what it loses on that of production and we have good reason to believe that what it loses on the latter account is greater than what it gains on the former, especially as time goes on. Except in times of war, all efforts to increase production by

moral persuasion, posters, medals or theatricals will end in disappointment. Wherever we see such posters as "We work or want" we can be sure that the economic policy of the country must be fundamentally wrong. The soundest and most efficient stimulus consists in offering people the chance of buying what they like or of going abroad for a holiday! Only then will they save.

It was one of the great merits of the American Report of the Harriman Committee on Foreign Aid (November 8, 1947) that it saw all this quite clearly and warned the European nations against killing production incentives by undue restriction of consumption. They would indeed be wise to follow the Belgian example and pay more attention to the satisfaction of consumers' demands as a prerequisite to increased production. That means, on the other hand, that the Governments would have to scale down their over-ambitious expense programmes which they believed they could carry through regardless of human reactions. They have to rediscover the consumer and they have to lift the ban on luxuries.

AUSTERITY is bad economics and wrong arithmetic. It is also a dreary philosophy. But it is dear to all planners, collectivists and "commisars". It gives them employment, power and importance; it lends a tone of unworldly saintliness and patriotic concern to their public speeches and it gives them the opportunity of making the consumer the scapegoat of their destructive economic policies. They seem to have become accustomed to look

upon the consumer as a highly obnoxious and disturbing element which, unfortunately, it has not yet been possible to suppress altogether. In their eyes, it is sheer insolence on his part to wish to buy what he likes with the money he has earned. It is nasty of him to ask for luxuries. He must be firmly put in his place and be intimidated by all sorts of economic sophisms. It is hardly an exaggeration to say that this is a mentality which is distressingly widespread the world over. But it is specially characteristic of collectivist economy which some people with unintentional humour still call "want-satisfying economy".

BUT NOW the Governments are beginning to discover with dismay that there are limits to the restriction of consumption. They have to take account of the revolt of the consumer. If he cannot buy the luxuries he wants he is inclined to buy the luxury of leisure, that is, of working less; but this is precisely the kind of luxury which is really harmful.

I am reminded of an Italian friend of mine who had been invited to give lectures in Great Britain, but he declined. His main reason, as he confided to me, was that he did not like austerity even for a few weeks of this short life, least of all if it meant living according to the whims of a man whose only forceful argument was that he was in office. My friend has to work very hard to earn his living and there are few luxuries which he can afford, but he likes to be sure that he may have what he can afford and to work for this. I am inclined to agree wholeheartedly with him.

## NOTES on the WAY

By DENIS SAURAT

### Impressions at Wroclaw

FROM August 24 to 28 there was held in Wroclaw (Breslau) a world congress of intellectuals who were to discuss the way of reaching a permanent peace among the nations. I attended with two ideas in my mind: I wanted to see whether there would be a free discussion in a country which was under Communist domination, and I also wanted to see whether intellectuals had really anything to say on general politics. Apparently the first point is the most urgent, but in fact the second point seems to me much more important because those intellectuals came in a large measure from free countries and it is important to us to know whether we can trust "intellectuals".

THE FACTS were conclusive: we cannot. Most of the people who spoke at Wroclaw were scientists. Professor Prenant of the Sorbonne, Professor Haldane for England, Mme Joliot-Curie, etc. I had been taught from infancy that the scientific spirit demanded a strict re-

[In order to preserve the essentially individual character of NOTES ON THE WAY we allow those who contribute them an entirely free pen. We must not be taken as being necessarily in agreement with the opinions expressed.—EDITOR, TIME AND TIDE.]

gard for observed facts and a great reluctance to jump to conclusions without having examined carefully all the evidence. Two exceptions were evident: A. J. P. Taylor of Oxford and Julian Huxley conformed to these requirements. But as far as I could hear, no one else did. Without any evidence whatever, except hearsay and violent affirmations, practically all those scientists voted that the USA were actively preparing to attack Russia. It became evident to me that a thorough training in physics or in mathematics or in biology is no guarantee at all that the minds of the specialists can judge in any common-sense way of issues outside their speciality. If anything, the ordinary journalist reacted to general questions with more common sense than the supposedly trained scientific mind. I came away practically convinced that scientific training is useless to general culture and a sound judgment. Taylor and Huxley were obviously men of common sense before any sort of training was applied to them. I should go so far as to