

Capturing Foreign Markets

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It is very generally held that a World Market of indefinite extent lies ready for every nation to "capture" and that to capture it a nation has but to be sufficiently efficient and enterprising. All will then be well, for in this way, it is conceived, boundless vistas of new and growing industries with well-paid employment will open to the successful nation. So far is this conception carried that it is even claimed as the sovereign cure for unemployment and for social ills in general. Let a people, by adequate equipment, organisation, enterprise, and salesmanship, raise itself to the necessary level and the volume of its exports will be limited only by the population of the globe itself. It is imagined that efficiency will capture foreign markets without end and captured foreign markets are held to be the fountain head of prosperity. This, for the time being, is the fashionable cure for bad trade. The stress, in all such argument, is deliberately laid on the need for exports, and the possibilities of the home market are overlooked though in all countries it is of vastly greater importance than the foreign and much more susceptible to control.

How it happens that in a country such as ours whose industrial history is one steady and unexampled record of growing foreign markets there should be any such thing as bad trade and unemployment the believers in this theory do not pause to ask.

For those who think along these lines, and who attribute the very existence of large sections of our people to foreign commerce, it seems clear that a people confined within the limits of its home trade must suffer from want of employment and from cramped conditions in general. To them it appears equally evident that with the world thrown open and foreign markets expanding, new opportunities for industry must so develop as to put an end to all straitened conditions, and bring work in plenty for a population largely increasing in numbers. Despite the fact that expectations based on that view have been falsified by industrial history, it remains so fashionable that examination will repay the pains.

Efforts are constantly made to give practical shape to this theory by such devices as Export Credits, Consular Activities, and Marketing Boards and Trade Facilities Acts, all designed to stimulate exports without regard to any other consideration and careless of expense. Surely it is a melancholy example of the futility of so much legislative effort that such measures are accompanied

by others which directly negative their intended effect. They are accompanied by so-called "safeguarding" legislation, intended to check imports, though to check imports is to check exports and to stimulate exports is to stimulate imports. The two classes of legislation cancel each other out.

According to this popular view foreign trade is something additional to and independent of home trade. It is regarded as providing additional trade and employment, so that any development, or as is said "capture" of foreign markets, is a clear gain to the wealth and employment of the home industrial population.

I shall try to show that this is not only an illusion, but a dangerous illusion, for it leads to a wild scramble for new foreign markets—a scramble too often pushed to the point of war itself.

If it be true that the prosperity and employment of our people is inseparable from the acquisition of foreign markets then it must also be true for other nations, and so the world is faced with the queer paradox that all will be busier and more prosperous if others do their work for them than if they do it for themselves, just as some imagine it is good for industry to employ barbers rather than do our own shaving.

But a little analysis will show it to be an illusion to think that when a new foreign market is gained new employment is promoted over and above what was needed to carry on the home trade before the foreign market was acquired. First we must remember that all wealth comes from application of labour and capital to the raw materials of the earth. There is no other way in which wealth can be produced. Before the "capture" of a foreign market (when home industry and trade alone were carried on) what labour and capital existed in a country were employed in converting the raw materials of the earth (the land) within that country into goods for home consumption. What happens after the capture? The labour and capital of the country are still engaged in converting its home raw materials into goods, but some of these goods are exchanged or traded for foreign goods. Does that give countenance to the idea that *more* labour and capital are employed after the gain of the foreign market than before? What possible difference can it make to the amount of industry? All that has happened is a change in the *destination* of some of the wealth produced by the labour of the country exerted on the land of the country. Nothing has happened to increase its *amount*. The natural resources of the country remain the same whether the goods produced are consumed within the country or exported abroad in exchange for foreign goods. Had the advent of the new foreign market meant the breaking down of obstacles which close to would-be producers the land of their own country there would be another story to tell because then would come into being new opportunities for employment. But the gain of foreign markets means nothing of that kind.

To view the matter in another way, suppose British producers confined to home industry and producing cloth and hardware which they trade among themselves. Then suppose that some of the clothmakers change their tastes and prefer to buy tea from Chinamen instead of hardware from Britishers. The Chinamen, of course, want payment, and since we may suppose them to desire hardware, they demand hardware in exchange for tea. That great prize—a foreign market—to gain which the threat of war has so frequently been held over the Chinese head, has now been "captured by Britain," and in due course the figures appear in the British Board of Trade returns, swelling

the total, conjuring up visions of more employment for British mechanics and providing the subject of general congratulation.

But has one single extra man or woman been set to work in Britain because of this new foreign market? Not one. The only change is that those British clothmakers who previously bought British hardware but now buy Chinese tea, arrange (through the ordinary machinery of foreign exchanges) to export British hardware to China in payment for the Chinese tea. They purchase less British hardware than before and the Chinese purchase more. That is the sum of the matter and it involves no more industry in Britain than before opening of the Chinese market.

The obsession of those who imagine that the opening of a new market in China for British hardware has made an addition to employment in Britain, and that just so much of home employment is dependent for its existence on the new market, arises from the mistaken view that the employment of the British hardware exporters is called into being and is maintained by the demand of their Chinese customers. They cannot get out of their heads the illusion that the British hardware makers are dependent for employment on the Chinese buyers. They think, that but for them, the hardware makers would have nothing to do. It is not so. In point of fact their employment is called into being and maintained by the *British makers of cloth, but for whose purchases of Chinese tea, there would be no demand from the Chinamen for British hardware.* In reality, British demand for foreign produce, has called forth foreign demand for British produce. Demand calls forth supply; imports call forth exports. Exchange cannot mean accession to industry. Home demand starts everything and keeps everything going in foreign trade just as surely as it does home trade.

In confirmation of this, we all know that were the British demand for Chinese tea to cease, at the same time would cease the Chinese demand for British hardware. There would simply be a reversion to home trade though doubtless in other articles. But this reversion to home trade does not mean lessening of opportunities for employment to a single Britisher, for it does not affect the home natural resources to which capital and labour have access.

We thus perceive what the effect would be were the "captured" Chinese market to be lost. People here would lose their tea, and the hardware exporter would lose their Chinese trade. But though the tea would be lost, the *ability to purchase* would not be lost. That still remains with those who had it (the clothmakers), for since the same home natural resources are still open to them they can, if they choose, buy hardware from the hardware makers instead of tea from the tea merchants. Instead of home producers buying tea and the Chinese buying hardware, the Chinese retire from the picture and the hardware or something else equivalent is sold at home, for the home purchasing power remains intact. Britishers employ each other direct instead of round-about through China. There is substitution of one employment for another.

We say "something else equivalent" because a home demand for hardware may not exist, and the hardware makers may therefore have to turn to something else for a living. This change, it need not be denied, will be a trial to the hardware makers and a loss of gratification to the former tea drinkers. These are substantial disadvantages resulting from the loss of the foreign market, and the Free Traders would be the last to make light of them. But the question under discussion is the *volume* of industry (not its *kind*) and that is not affected by the change.

For confirmation of this, appeal may be made to the ordinary transactions of the market. The British hardware merchant becomes the creditor of the Chinese importer, and the Chinese tea merchant becomes the creditor of some merchant in Britain. And in each country there is also a debtor; the Chinese debtor being the importer of hardware, and the British debtor being the importer of tea. In practice, neither of these debtors make payment direct to his foreign creditor. The matter is adjusted through Bills of Exchange and Bill Brokers in such a way that the British importer of tea pays his debt to the British exporter of hardware, and the Chinese importer of hardware pays his debt to the Chinese exporter of tea. Thus in the end, we find once more that though the Britisher may think he owes his trade and employment to his Chinese customer, and the Chinaman may think he owes his trade and employment to his British customer, in point of fact they are both working for, and both maintained by customers at home.

We see then that the *fons et origo* of foreign trade is home demand. The rewards of all engaged in it—wages, profit, interest—emanate, not from the foreign demand for home products, but from the ability of home consumers to pay for the goods they import.

We can also now see how false it is to imagine that unlimited employment at home can be secured through "capture" of foreign markets. For the amount we can export is limited by the amount we can import, and that, in turn, is limited by the purchasing power of our importers, or, which is the same thing, by the amount of wealth produced through the application of home labour and capital to home land. The purchasing power of home importers, and therefore the amounts of our exports is strictly limited by our own natural resources and *the terms on which productive industry is granted access to them*. Exports can only be extended in measure as barriers against access to home natural resources are levelled. Failing this, the "capture" of foreign markets avails nothing as a stimulus to industry. It is futile to attempt to push exports beyond the capacity of home buyers to import and merchants very soon find in the course of their business that this is strictly true in practice. When exports rise beyond a given point, the exchanges begin to go against exporters and export business becomes unprofitable, while import business becomes proportionately more profitable. It is through adverse exchanges that the merchant is made to curtail attempts to export beyond a definite point. If he attempts to pass this point, his profits disappear. In other words, merchants find in the ordinary course of their business that power to export is severely limited by power to import.

It is therefore foolish to talk of an indefinite demand from other nations for our produce. Such a demand will avail us nothing unless our own people have purchasing power and that depends on the use we are allowed to make of our own land.

No matter what the skill and efficiency of our manufacturers or the pushfulness and enterprise of our merchants, this limit to our foreign trade cannot be passed. We may lavish public funds on Export Credits, Trade Facilities Acts, Marketing Boards, Advertisements of our wares and our Ambassadors may exercise their utmost skill; the desired effect will not accrue.

It may be objected that at least when an unemployed element is present the acquisition of a new foreign market will provide employment for that element. But no! The reasons already given prevent it even here. If

some are unemployed before acquisition of the new foreign market it must be because of insufficient home demand for their services. But if there is insufficient home demand for their services, there must be insufficient home demand for foreign services. That is, there can be no increased imports and if there are no increased imports there can be no increased exports; or no increased foreign demand for the services of the unemployed at home. Picture a community of two (or two millions) and one unemployed. A foreigner asks for the services of this unemployed man, say in growing potatoes. Does that take him off the unemployed list? No more than if he were to grow potatoes for himself or for home consumption. If, though willing, he does neither, it must in the last resort be because he is forbidden access to the fields. From this predicament, the new foreign demand will not extricate him.

As for "safeguarding" or protection, their object and effect being to check the imports, they correspondingly check exports and leave matters worse than before from the exporters' point of view; a truth which must come as a shock to the advocates of such measures engaged as they are in the impossible task of trying to stimulate exports while restricting imports.

"The Capture of Markets without end" illusion is closely allied to another, the World Competition Illusion.

According to this it is imagined that nations (and not individuals) trade, and in their corporate capacity are engaged in a ceaseless struggle for markets in which the most efficient nation carries off the prizes, leaving less and less for those not so efficient as they. It is even imagined that the very existence of nations depends on success in this world competition and hence the waste of money and effort involved in the measures already referred to which make the vain effort to extend foreign trade beyond its possible limits.

Henry George and other economists, have already demonstrated how the less efficient or favoured people have really nothing to fear on this score, for they will carry on a foreign trade even though in *every branch* they be less efficient than others and produce at higher cost. Even under these conditions trade will be carried on between the more and the less efficient because trade between them depends on *comparative* and not on absolute costs of production. It is imagined that the country less efficient in every branch could do no exporting. But is it not preposterous to think that the country with greater advantages in everything would do all the exporting and the country with less advantages all the importing? How would the former be paid in that case? In reality the people of the former would import from the people of the latter those products as to which the *difference of advantage* between the two countries was least and would export in return those products as to which the *difference* was greatest. Both countries gain by this arrangement, since by avoiding the necessity of producing the things as to which their advantage is least they can concentrate their energies on the production of things as to which their advantage is greatest. Even were all "neutral markets" to fall to the more efficient nation there is nothing to prevent the weaker existing on its own resources with as much industry (though fewer satisfactions) than if it shared in the neutral trade. So the people of less efficient nations need not fear extinction from this cause at least; they may possess their souls in peace despite the world competition alarmists. Their natural resources are always available to them for home industry if they choose to limit themselves to it, and if they choose to carry on a foreign trade as well, lack of advantages—even in all branches—will not prevent them

doing so. Apart from all economic theory, the history of nations abounds in proof that absence of foreign trade in no way means calamity or extinction for a people. China and Japan offer examples of peoples which for many centuries contrived to exist in comfort without foreign markets.

We do not for a moment question the advantages of efficiency. But its advantages are not of the kind imagined by those who look to it for success in world competition and capture of markets. What then can efficiency do? It enables labour and capital to produce more wealth from home natural resources, which wealth may either be consumed at home (home trade) or else exchanged for foreign goods (foreign trade). It is in increased production of home goods that the advantage manifests itself; not in any capture of foreign markets. Nor in the so-called "World Competition" does it enable us to support a greater industrial population than if we had simply stood aside and consumed at home the goods we produce at home.

It is not true that absence of foreign trade means extinction of industry. Before the war, the Austro-Hungarian Empire constituted a single fiscal unit with unobstructed trade between all parts. This territory is now split into many divisions under separate governments. The very same individual merchants continue to trade with each other in so far as tariff barriers allow, but this trade is now called foreign trade. Are the populations concerned more productive or more prosperous because the trade they do is now dubbed "foreign"?

A very large part of Scottish trade is done with England. But this does not figure as foreign trade. Should the two countries separate, this same trade would forthwith acquire the name of foreign trade. In the eyes of those who attach such vital importance to foreign markets this should be a great gain for Scotland. Should they reunite the "foreign trade" would vanish and according to our alarmists loss would be suffered by Scotland.

In the same way Ireland during all the years of the Union had no "foreign trade" with England, but since she gained her new status the item of foreign trade with England has appeared in her official returns. Is she either better or worse off for this purely arbitrary change? To those who look for salvation to foreign markets the answer should not be in doubt for has she not "captured" this greatest of foreign markets—the English? The truth is that so-called foreign markets are an elusive and largely imaginary thing, coming and going with arbitrary changes of frontiers, so that when at last the World State dawns upon us and frontiers become things of the past there will not remain one single foreign market to be captured! What shall we all do then? And what will become of the notion now so popular that a people lives by its foreign trade and would perish without it?

It is well to report that in all this the great advantages of foreign trade are not called in question. Through its agency men have at their disposal the whole world on which to draw for satisfaction of their needs so that they get the greatest variety of goods at a minimum of cost.

These advantages are in themselves substantial enough. Let us not attempt to add the unfounded claim that without foreign markets our industrial population would stand idle at the gates of empty workshops. But it is just this latter belief that drives governments to seek foreign markets for their traders at any cost—even of war itself where deemed necessary. The great majority of modern wars have had mercantile reasons as one of their sources and but for the above illusion would never have taken place.

Nations are easily persuaded to fight or embark on risky adventures for the gain of foreign markets if convinced that the livelihood of large numbers depends on winning them. Had they seen the matter in its true light and realised that foreign markets only mean the gain of *greater convenience at lower costs* and not the very existence of their industries, many a struggle would never have been carried on. They have yet to learn that only a *change* in the kind of employment and not its *amount* is the issue at stake, and that such an issue is not worth the risk of bloodshed. To dispel this illusion is to promote the cause of peace.

False views of foreign trade show themselves in current legislation which bristles with stupid provisions based on the "capture of markets" fallacy. Export Credits, Trade Facilities Acts, and Safeguarding are examples in point. The De-rating Act just passed, which aims at reducing costs so as to stimulate exports, is based on the delusion that exports are possible without equivalent imports. It is not realised that there is no way in which exports can be stimulated except by stimulating imports and that this means increasing the power of our people to buy foreign goods. All such legislation begins at the wrong end and therefore stultifies itself. It is not possible for any people to "capture" the trade of another. All they can do is to exchange goods or services with other peoples. That process is to the mutual advantage of both and can in no sense be described as "capture" of markets.

Let men of all nations but see that the gain or loss of foreign markets leaves intact their own natural resources and that from these natural resources spring the maintenance and employment of every home worker. They will then cease to cast covetous eyes on foreign markets or look with fear on their threatened loss.

By all means let us have all the foreign markets we can get, but if our object be to gain more industry and fuller livelihood for our people we must make a start by securing for labour and capital easier access to our own natural resources without which there can exist neither industry at home nor trade abroad, for both have their origin and are dependent on access to the land of our own country.

Increased production, trade and well-being will then follow of their own accord. To-day our natural opportunities are fenced round by legalised barriers, and the communal land value is allowed to flow into private pockets instead of being taxed into the public treasury. In these two main ways is our productive industry (and therefore our purchasing power) lessened and general depression (easily though falsely attributed to lack of foreign outlets) is the result. If we are to bring prosperity and purchasing power to our people it will not be done by turning our eyes to the ends of the earth, treating trade as invasion, and seeking to impose our goods on distant peoples, but by breaking down the barriers which obstruct access to the source of all industry and wealth.

If each nation does justice to its own citizens by removing monopoly barriers to the use of their own land, trade both external and internal will, without any forcing by government develop of itself a perfectly natural way to the lasting benefit of all. Commerce will then show itself for what it really is—co-operation; not warfare—and the world fellowship so ardently desired by every trade reformer will come within our reach.

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