

# TRADE ALLOWS US TO BUY PRODUCTS AT REASONABLE PRICES

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## OBJECTIVE:

Students will gain a better understanding of how the economy works on a global scale.

## KEY POINTS:

- Trade creates competition on a global scale and provides affordable goods
- Trade does not necessitate a “race to the bottom”

## Background:

In order to make a product, a business must consider the cost and availability of labor, materials, facilities and transportation. They must match these costs against what they might expect their product to sell for. So for example, it would not make sense to pay a highly skilled worker a lot of money to produce a commodity product that will sell for a few dollars if that worker could be producing something else that would sell for hundreds of dollars.

Consumers generally seek to buy many products for the lowest possible price, especially products with a perceived short life span. So while a so-called durable good such as a washing machine might be worth spending more to get a better and longer-lasting product, something like a t-shirt is generally thought of as disposable and to be bought as cheaply as possible.

A fundamental requirement for any business to be successful is that it must make a profit, or at the very least generate enough income to pay all of the costs of doing business. These costs include wages, costs of raw materials, the purchase or lease of equipment and facilities. In addition, there must be some compensation to owners and investors or they have little incentive to risk operating the business. If the business closes, then the workers have no jobs and consumers can no longer purchase whatever it was that the company made.

So, the business has to be able to produce products that can be profitably sold at a price that consumers will pay. This allows the business to stay in operation, employ their workers and reward owners and investors for the risk of running the business.

In Lesson 2, we studied the Asian Tigers. We discovered that over decades of growth in Asia, the manufacture of hundreds of different kinds of consumer goods shifted to this region. The result for Asia was unparalleled economic growth. The result for Europe and North America was a wider variety of affordable consumer goods.



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**ACTIVITY 1:** Research, discuss and debate the concept of “the race to the bottom.”  
(grades 9-12, adjust expectations to grade level)

## Background

There are many different groups who are concerned that the trend towards a freer flow of goods and capital around the world will result in a “race to the bottom.” This is often described as a situation in which workers in some countries lose jobs to lower paid workers in other countries. In the most dire of these predictions, jobs eventually go only to those workers desperate enough to work for starvation wages, live in miserable conditions and their countries are subjected to environmental disasters.

Those who disagree with this notion point out that in the U.S., where wages are among the highest in the world, job growth is also among of the highest in the world and the unemployment rate is among the lowest in the world.

Those who believe that there is a “race to the bottom” are often able to document their concerns by showing specific examples of worker exploitation and wide disparities between worker wages and the final retail price of the goods that they make. On the other side of the coin, it is always important to view wages and working conditions in the context of specific societal conditions and to also consider what other employment options are available before coming to conclusions about trade-related jobs.

Wider demographic and economic data often supports the concept that it is only through the introduction of new jobs and new industries that developing nations are able to climb out of continuing cycles of poverty. “Race to the bottom” concerns often claim that these new jobs do not, in fact, pay enough to achieve the goals of escaping poverty.

There are many different sides to this issue, and unfortunately as with many strongly held views, it is almost impossible to find a balanced perspective from any one group. However, through discussion and debate it may be possible to better understand the issues.

Before the exercise, have students write down their own understanding of what the phrase “the race to the bottom” means. Collect these statements for comparison after the exercise is over.



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Have students divide into groups representing the following:

- A. U.S. trade union representing garment workers
- B. U.S. consumer products manufacturer
- C. U.S. consumer products retailer
- D. U.S.-based trade activist group
- E. U.S. consumer seeking low prices
- F. Developing nation economic development authority (for example, many developing nations have government workers who seek foreign investors willing to build and operate facilities in their countries)
- G. Developing nation workers without jobs
- H. Third-party factory owner (for example, a Korean manufacturing company may open a plant in Mexico and sell the output of that plant to the U.S. and European buyers)

Have students research different positions on this issue and conduct a classroom debate, airing the views of each interest group. Students might also want to interview representatives of each of these groups and invite them to speak or debate before the class—some caution should be exercised to have various points of view represented.

It might also be interesting to involve another class as observers and at the conclusion of the discussion have this group grade the participants on the depth, believability and persuasiveness of their presentations.

An easy way to locate a great deal of information on all sides of this issue is to use the search engine [www.google.com](http://www.google.com) and simply type in “Race to the Bottom.”

An example of two polarized viewpoints would be these two sites, but there are many more to explore:

<http://www.nicnet.org>

<http://www.freetrade.org>

## **ACTIVITY 2: What would it cost to make a product in your community?**

see “Trade Is: Necessary” Unit 1, Lesson 3.