

ACTIVITY 1.1

THE MARKET ECONOMY OF THE U.S. CONSTITUTION

Directions: Read Part A and Part B. Use information from Part A and B to complete the grid in Part C.

Part A. Characteristics of a Market Economy

1. Private Property

Labor resources, natural resources, capital resources (e.g., equipment and buildings), and the goods and services produced in the economy are largely owned by private individuals and private institutions, not by government. Private ownership combined with the freedom to negotiate legally binding contracts permits people, within very broad limits, to obtain and use the resources they choose.

2. Freedom of Enterprise and Choice

Private entrepreneurs are free to obtain and organize resources for the production of goods and services, and to sell goods and services in markets of their choice. Consumers are at liberty to buy the goods and services that best satisfy their economic wants. Workers are free to seek any jobs for which they are qualified.

3. Motive of Self-Interest

The “Invisible Hand” that is the driving force in a market economy is each individual pursuing his or her self-interest. Consumers aim to get the greatest satisfaction from their purchases; entrepreneurs try to achieve the highest profits for their firms; workers want the highest possible wages and salaries; and owners of property attempt to get the highest possible prices from the use, rent, or sale of their resources.

4. Competition

Economic competition means that buyers and sellers act independently in the marketplace. Buyers and sellers are free to enter or leave any market as they choose. It is competition, not government regulation, that diffuses economic power and limits the potential abuse of that power as each economic unit attempts to further its own self-interest.

5. A System of Markets and Prices

Markets are the basic coordinating mechanisms in a modern market economy, not central planning by government. A market brings buyers and sellers of a particular good or service into contact with one another. The choices of sellers and buyers are registered on the supply and demand sides of various markets, and the outcome of these choices is the creation of a system of prices to allocate goods, services, and resources. These prices provide signals to participants in markets, helping them to make choices aimed at furthering their self-interest.

ACTIVITY 1.1, CONTINUED

THE MARKET ECONOMY OF THE U.S. CONSTITUTION

6. Limited Government

A competitive market economy promotes the efficient use of its resources. In most cases, the role of government in the economy is very limited, since market competition, through a system of economic incentives, has a self-regulating component that is subject to adjustments that promote efficiency. However, certain limitations and undesirable outcomes associated with the market system create the need for an active, but limited economic role to be played by government.

Part B. Economic Provisions in the U.S. Constitution

1. The Commerce Clause

- Article 1, Section 8 states that Congress shall have the power “To regulate commerce with foreign nations, and among the several states, and with the Indian tribes; ...”
- In authorizing the federal government to regulate interstate and international commerce, this clause prevents states from doing their own regulating of such commerce. If individual states were allowed to establish their own regulations, trade between states would be reduced, and specialization, which is fostered by trade, would be discouraged.

2. The Coinage Clauses

- Article 1, Section 8 states that Congress shall have the power “To coin money, regulate the value thereof” and “To provide for the punishment of counterfeiting the securities and current coin of the United States.” Article 1, Section 10 gives Congress this power exclusively, stating that “No state shall...coin money.”
- Imagine the confusion that would befall business or interstate travel if each state had its own currency. By eliminating such confusion, the coinage clauses reduce the costs of specialization and trade within the borders of the 50 states. They help to create a “free trade zone” within the United States, a goal only recently accomplished by the European Union, with its common currency, the euro.

3. The Copyright Clause

- Article 1, Section 8 states that Congress shall have the power “To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writing and discoveries.”
- This clause encourages innovation by allowing authors and inventors to maintain control over their products and to benefit from the earnings their products generate, for a period of time. The prospect of obtaining a patent for an idea offers an incentive for people to invest the time, imagination, and resources needed to produce new goods or services. Patents and copyrights apply not only to material goods but also to creative and intellectual works including poetry, film, music, and computer programs.

ACTIVITY 1.1, CONTINUED

THE MARKET ECONOMY OF THE U.S. CONSTITUTION

4. The Contract Clauses

- Article 1, Section 10 states that “No bill of attainder or ex post facto law shall be passed” by Congress. Article 1, Section 10 states that “No state shall...pass any bill of attainder, ex post facto law, or law impairing the obligations of contracts.”
- These provisions protect freedom of contract and authorize the enforcement of contracts. We are accustomed to the idea that parties engaged in voluntary exchanges will hold to their commitments, even if they do not know each other. If a business buys a shipment of new lawnmowers, it expects the lawnmower provider to supply the mowers, at the agreed-upon time and at the agreed-upon price, even if the lawnmower provider lives in another state and is a complete stranger to the buyer. In an environment of trust, many businesses operate with no formal contracts at all—just a handshake between the parties to the exchange. However, such an environment of trust is no accident. In fact, it remains rare in many parts of the world today. The U.S. Constitution encourages such trust by stating that contracts will be enforced by the courts. Without freedom of contract and enforcement of contracts as ensured by the Constitution, there would be little stability in financial arrangements. Uncertainty and lack of trust would discourage people from participating in economic life.

5. The Export Clauses

- Article 1, Section 9 states that “No tax or duty shall be laid on articles exported from any state.” Article 1, Section 10 states that “No state shall without the consent of the Congress, lay any imposts or duties on imports or exports.”
- These clauses make it unconstitutional for states to impose taxes on imports or exports. The Founders recognized that allowing states to exercise such power would reduce specialization and trade within the nation, thus reducing the standard of living for the nation. Like the coinage clauses, the export clauses have helped to create a “free trade zone” within the United States, a goal only recently accomplished by the European Union.

6. The Searches and Seizures Clause

- The Fourth Amendment to the Constitution states that “The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated.”
- Would you be willing to run a grocery store in a country where the police could legally confiscate your business? Not likely. The Fourth Amendment protects people against unreasonable seizures of property. Only under special circumstances may the state conduct searches and remove private property.

7. Due Process of Law Clauses

- The Fifth Amendment to the Constitution states that “No person shall...be deprived of life, liberty, or property, without due process of the law.” It also states that the government may not take private property for public use without paying “just compensation.” The Fourteenth

ACTIVITY 1.1, CONTINUED

THE MARKET ECONOMY OF THE U.S. CONSTITUTION

Amendment, Section 1, applies the due process requirement to state governments: “nor shall any State deprive any person of life, liberty, or property, without due process of law.”

- For most people, due process of law is associated with the rights of citizens when they are placed under arrest by the authorities. You have probably seen television shows in which individuals who have been arrested are notified that they have the right to an attorney, to remain silent, and so forth. These rights taken together are known as “due process of law.” But, due process of law is not reserved only for criminal cases. It is also a fundamental economic freedom protected by the U.S. Constitution. It means that the government may not arbitrarily take property owned by individuals. For example, the government may not nationalize businesses or farms or take possession of homes without following specified legal procedures and paying compensation for any loss. Knowing this, property owners may use their property confidently, as they see fit, without fear that a disapproving government might confiscate it. This form of protection encourages people to invest in their property and allows them to retain any benefits they derive from the use of their property.

8. Reserved Rights and Powers

- The Ninth Amendment to the Constitution states that “The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people.” The Tenth Amendment states that “The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the states respectively, or to the people.”
- The Founders assumed that fundamental rights and freedoms are inalienable rights held by individuals, not governments. Thus, any powers not specified as belonging to the state or national government are to remain with the people. Amendments Nine and Ten are meant to underscore the limited role of government in the U.S. economy.

Part C: Matching the Provisions of the U.S Constitution with the Basic Characteristics of a Market Economy

Directions: Use information from Parts A and B to assist you in matching the characteristics of a market economy to the economic provisions of the U.S. Constitution. Place an “X” in the space where you think the article or amendment of the U.S. Constitution serves to establish or support the economic characteristic.

ACTIVITY 1.1, CONTINUED

THE MARKET ECONOMY OF THE U.S. CONSTITUTION

Place an “X” in the space where you think the article or amendment of the U.S. Constitution serves to establish or support the economic characteristic.

	Art. 1, Sec. 8	Art. 1, Sec. 9	Art. 1, Sec. 10	Amend. 4	Amend. 5	Amend. 9	Amend. 10	Amend. 14
Private Property								
Freedom of Enterprise and Choice								
Motive of Self-Interest								
Competition								
A System of Markets and Prices								
Limited Government								

ACTIVITY 1.2

COMPARING THE CONSTITUTIONS OF NORTH KOREA AND SOUTH KOREA

Directions: Activity 1.2 compares the economic provisions of the constitutions of North Korea (officially known as the Democratic People’s Republic of Korea, or DPRK) to South Korea (officially known as the Republic of Korea). Read Parts A and B. Use the information from Parts A and B to answer the Questions for Discussion in the grid in Part C.

Part A. The Constitution of North Korea

1. Overview

The current constitution of North Korea was patterned after those of other communist states. It calls for highly centralized decision making—within the government and the economy. Chapter 2 of the Constitution specifies how economic affairs are to be handled.

2. Excerpts from the Constitution of North Korea: Chapter 2, Economy

- **Article 19**

North Korea relies on socialist production relations and on the foundation of an independent national economy.

- **Article 20**

In North Korea, the means of production are owned only by the State and social cooperative organizations.

- **Article 21**

The property of the State belongs to the entire people.

There is no limit to the property which the State can own.

Only the State possesses all the natural resources, railways, airports, transportation, communication organs and major factories, enterprises, ports, and banks.

- **Article 22**

The property of social cooperatives belongs collectively to the working people within the organizations concerned.

Social cooperative organizations can possess land, agricultural machinery, ships, . . . factories, and enterprises.

The State shall protect the property of social cooperative organizations.

ACTIVITY 1.2, CONTINUED

COMPARING THE CONSTITUTIONS OF NORTH KOREA AND SOUTH KOREA

- **Article 24**

Private property is confined to property meeting the simple and individual aims of the citizens.

Private property consists of socialist distributions of the result of labor and additional benefits of the State and society.

The products of individual sideline activities including those from the kitchen gardens of cooperative farmers and income from other legal economic activities shall also belong to private property.

The State shall protect private property and guarantee its legal inheritance.

- **Article 25**

The State shall provide all working people with every condition for obtaining food, clothing, and housing.

- **Article 36**

The State shall pursue a tariff policy with the aim of protecting the independent national economy.

Part B: Excerpts from the Constitution of South Korea

1. Overview

The current constitution of South Korea was patterned in part after those of western democracies; it also was strongly influenced by traditional Korean ideas. The constitution calls for a large regulatory role for the government, but it also protects basic economic and political freedoms.

2. Excerpts from the Constitution of South Korea: Chapter IX, The Economy

- **Article 119: Regulation and Coordination**

(1) The economic order of South Korea is based on a respect for the freedom and creative initiative of enterprises and individuals in economic affairs.

(2) The State may regulate and coordinate economic affairs in order to maintain the balanced growth and stability of the national economy, to ensure proper distribution of income, to prevent the domination of the market and the abuse of economic power, and to democratize the economy through harmony among the economic agents.

- **Article 120: Natural Resources**

Licenses to exploit, develop, or utilize minerals and all other important underground resources, marine resources, water power, and natural powers available for economic use may be granted for a period of time under the conditions as prescribed by law.

ACTIVITY 1.2, CONTINUED

COMPARING THE CONSTITUTIONS OF NORTH KOREA AND SOUTH KOREA

The land and natural resources are protected by the State, and the State establishes a plan necessary for their balanced development and utilization.

- **Article 122: Land Laws**

The State may impose, . . . under the conditions prescribed by law, restrictions or obligations necessary for the efficient and balanced utilization, development, and preservation of the land of the nation that is the basis for the productive activities and daily lives of all citizens.

- **Article 125: Foreign Trade**

The State fosters foreign trade, and may regulate and coordinate it.

- **Article 126: No Socialization**

Private enterprises may not be nationalized nor transferred to ownership by a local government, nor shall their management be controlled or administered by the State, except in cases as prescribed by law to meet urgent necessities of national defense or the national economy.

ACTIVITY 1.2, CONTINUED

COMPARING ECONOMIC PROVISIONS IN THE CONSTITUTIONS OF NORTH KOREA AND SOUTH KOREA

	NORTH KOREAN CONSTITUTION	SOUTH KOREAN CONSTITUTION
1. Is private property protected?		
2. Is freedom of enterprise encouraged?		
3. Is the role of government limited?		
4. Is free trade encouraged?		