

The Constitution and the Economy

Constitutions are economic documents as well as political documents. This is certainly true of the Constitution of the United States. Our nation's founders believed that economic freedom as well as political freedom are essential for national prosperity and growth. Accordingly, they included numerous provisions in the Constitution that support and encourage the operation of a market economy. Thus, as the basic "law of the land," the U.S. Constitution defines the essential features of our economy.



PART 1: CHARACTERISTICS OF A MARKET ECONOMY

Remember that there are six characteristics of a market economy. Review these and keep them in mind for our group activity:

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 rather than by government. This private ownership combined with the freedom to negotiate legally binding contracts permits people, within very broad limits, to obtain and use resources as they choose.

2. **Freedom of Enterprise and Choice**

Private entrepreneurs are free to obtain and organize resources in the production of goods and services and to sell them in markets of their choices. Consumers are at liberty to buy that collection of goods and services that best satisfies 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 promoting his or her self-interest. Consumers aim to get the greatest satisfaction from their budgets; entrepreneurs try to achieve the highest profits for their firms; workers want the highest possible wages and salaries; and owners of property resources attempt to get the highest possible prices from the rent and sale of their resources.

4. **Competition**

Economic rivalry means that buyers and sellers are free to enter or leave any market and that there are buyers and sellers acting independently in the marketplace. It is competition, not government regulation, that diffuses economic power and limits the potential abuse of that power by one economic unit against another as each attempts to further its own self-interest.

5. **System of Markets and Prices**

Markets are the basic coordinating mechanisms in our type of economy, not central planning by government. A market brings buyers and sellers of a particular good or service into contact with one another. The preferences of sellers and buyers are registered on the supply and demand sides of various markets, and the outcome of these choices is a system of product and resource prices. These prices are guideposts on which participants in markets make and revise their free choices in furthering their self-interests.

6. **Limited Government**

A competitive market economy promotes the efficient use of its resources. As a self-regulating and self-adjusting economy, no significant economic role for government is necessary. However, a number of limitations and undesirable outcomes associated with the market system result in an active, but limited economic role for government.

PART 2: EXCERPTS FROM THE U.S. CONSTITUTION

Now, let's take a look at some excerpts from the U.S. Constitution. As we read through these, start thinking about how each excerpt illustrates one or more of the characteristics of a market economy:

Commerce Clause

Article I, 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;..."

Coinage Clauses

Article I, 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 I, Section 10 gives Congress this power exclusively by stating that "No State shall...coin Money;..."

Copyright Clauses

Article I, 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;..."

Contract Clauses

Article I, Section 9 states that "No Bill of Attainder or ex post facto Law shall be passed..." by Congress. Article I, Section 10 states that "No state shall...pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligations of Contracts,..."

Export Clauses

Article I, Section 9 states that "No Tax or Duty shall be laid on Articles exported from any State...", and Article I, Section 10 states that "No State shall without the Consent of the Congress, lay any Imposts or Duties on Imports or Exports,..."

Searches And Seizures

Amendment IV 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,..."

Due Process

Amendment V states that "No person shall...be deprived of life, liberty, or property, without due process of the law;..." and Amendment XIV, Section 1 states "nor shall any State deprive any person of life, liberty, or property, without due process of law;..."

Reserved Rights and Powers

Amendment IX states that "The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people." And Amendment X states "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."

PART 3: PAIR ACTIVITY

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

Working in groups, discuss the potential matches with each market characteristic and record the matches in the grid below and be prepared to share with the class. Complete the grid for all six characteristics.

	Commerce Clause	Coinage Clauses	Copyright Clauses	Contract Clauses	Export Clauses	Searches And Seizures	Due Process	Reserved Rights and Powers
Private Property								
Freedom of Enterprise and Choice								
Motive of Self-interest								
Competition								
Markets and Prices								
Limited Government								

PART 4: CHINA'S CONSTITUTION

Economic Provisions in the Constitution of the People's Republic of China

Read the economic provisions in the Constitution of The People's Republic of China below. As you read through these, think about how each economic provision in this document defines the economic role the government in China will play. Note the differing provisions in the two nation's constitutions can and have resulted in different types of economic freedoms and systems.

PREAMBLE

"... the fundamental task of the state is, step by step, to bring about the socialist industrialization of the country and step by step, to accomplish the socialist transformation of agriculture, handicrafts and capitalist industry and commerce. ..." and "... the necessary conditions have been created for planned economic construction and gradual transition to socialism."

CHAPTER ONE: General Principles

Art. 5 "...basic forms of ownership of means of production exists in the People's Republic of China: state ownership...; co-operative ownership, that is a collective ownership..."

Art. 6 "The state sector of the economy is a socialist sector,... It is the leading force in the national economy and the material basis on which the state carries out socialist transformation. The state ensures priority for the development of the state sector of the economy."

Art. 8 "... the policy of the state towards rich-peasant economy is to restrict and gradually eliminate it."

Art.10 "...the policy of the state towards capitalist industry and commerce is to use, restrict and transform them...gradually replacing capitalist ownership by the whole people;..."

Art.13 " The state may... buy, requisition or nationalize land and other means of production..."

Art.14 "The state forbids any person to use his private property to the detriment of the public interest."

Art. 15 "By economic planning, the state directs the growth and transformation of the national economy..."

Art. 16 "Work is a matter of honor for every citizen of the People's Republic of China who is able to work."

CHAPTER TWO: The State Structure

Section I. The National People's Congress

Art. 27 "The national People's Congress exercises the following functions and powers:
...(9) to decide on the national economic plans;..."

Section III. The State Council

Art. 49 "The State Council exercises the following functions and powers:
...(7) to put into effect the national economic plans...
...(8) to control foreign and domestic trade;..."

CHAPTER THREE

Fundamental Rights and Duties of Citizens Art. 91 "Citizens of the People's Republic of China have the right to work. To guarantee enjoyment of this right, the state, by planned development of the national economy, gradually creates more employment, and better working conditions and wages."