Lesson 1

How Do Constitutions Shape Economic Systems?
INTRODUCTION
Constitutions are economic documents as well as political documents. This is certainly true of the U.S. Constitution. Our nation’s founders believed that economic freedom and political freedom are essential for national prosperity and growth. Accordingly, they included provisions in the Constitution that establish and reinforce the conditions needed for a market economy.

The constitutions of other nations are also economic documents as well as political documents. In this respect, North Korea and South Korea provide an informative contrast. The two countries have much in common, including their location, access to natural resources, culture, and language. But the constitutions of the two countries provide for markedly different economic systems. The difference has proved to be important. One country has experienced near economic collapse while the other has enjoyed widespread growth and prosperity.

LESSON DESCRIPTION
In the first part of the lesson, the students examine the characteristics of a market economy and the economic provisions of the U.S. Constitution. Then they complete a grid which shows how the U.S Constitution establishes and supports those characteristics. In the second part of the lesson, the students consider a question: Why would North Korea and South Korea—two nations with much in common—experience very different economic outcomes? To answer this question, the students read excerpts from the constitutions of North Korea and South Korea and examine the differences between them.

CONCEPTS
- Constitution
- Incentives
- Innovation
- Private property
- Taxation
- Trade

OBJECTIVES
Students will be able to:
1. Identify the characteristics of a market economy.
2. Explain the economic provisions of the U.S. Constitution.
3. Compare and contrast the economic provisions of the constitutions of North Korea and South Korea.

CONTENT STANDARDS
Economics (CEE Standards)
- There is an economic role for government to play in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income. (Standard 16)

Civics and Government (NSCG Standards, Grades 9-12)
- The relationship of limited government to political and economic freedom. (Standard I.B.4)
- Concepts of “constitution.” (Standard I.C.1)
- Purposes and uses of constitutions. (Standard I.C.2)

TIME REQUIRED
90 minutes

MATERIALS
- A transparency of Visuals 1.1, 1.2, 1.3, 1.4, 1.5, and 1.6
- A copy for each student of Activities 1.1 and 1.2
PROCEDURE

1. Tell the class that the purpose of this lesson is to explore ways in which national constitutions shape economic systems and outcomes. Toward this end, the students will study the economic provisions of the U.S. Constitution and the effect of those provisions on the U.S. economy. Then they will compare the economic provisions of the constitutions of North and South Korea and learn about the economic performance of these two nations.

2. Display Visual 1.1 and distribute Activity 1.1. Direct the students’ attention to Part A of Activity 1.1. Discuss the overview provided in Part A of the characteristics of a market economy. Explain how market economies stress the role of choices made by individual consumers and producers, with a limited, but important, role played by government.

3. Display Visual 1.2. Direct the students’ attention to Part B of Activity 1.1. Part B elaborates on the provisions listed in Visual 1.2. Discuss the provisions. Explain how these provisions, taken together, establish the basic conditions needed for a market economy.

4. Ask the students to read Part C of Activity 1.1 and complete the grid. When the students have completed their work on the grid, display Visual 1.3 and discuss the students’ responses.

5. Display Visual 1.4. Discuss the Visual, emphasizing the main point of contrast: the two countries are alike in many ways, yet they differ greatly in the performance of their economic systems. Ask the students to speculate: Why might the people of North Korea continue to suffer from severe economic problems while the people of South Korea prosper?

6. Distribute Activity 1.2. Ask the students to read Part A and B. Discuss the reading as necessary. Ask the students to answer the Questions for Discussion listed in Part C.

7. Display Visual 1.5. Using it as a point of reference, discuss the students’ responses to the Questions for Discussion.

8. Display Visual 1.6. Ask: How well has the economy of North Korea performed? How well has the economy of South Korea performed? How might the different levels of performance be explained?

(The economy of South Korea is 13 times larger than the economy of North Korea. The socialist model specified in the constitution of North Korea has apparently contributed little to the economic welfare of its people. In contrast, the more open, market-oriented economy of South Korea, established by its constitution, has led to substantial economic improvement.)

CLOSURE

Review the lesson by posing the following questions:

- What are the main characteristics of a market economy?

(Private property; freedom of enterprise and choice, motivated by self-interest; competition; a system of markets and prices; and limited government.)

- What are some key economic provisions of the U.S. Constitution?

(The commerce clause, coinage clauses, copyright clause, contract clauses, export clauses, searches and seizures clause, due process of law clauses, and reserved rights and powers.)

- In what ways are the constitutions of North Korea and South Korea different?

(North Korea’s constitution calls for the government to play a dominant role in the economy. It severely restricts private ownership of property and discourages individual enterprise. South Korea’s constitution specifies that government plays an important regulatory role, but it allows a much larger role for individual enterprise, and it bans the outright nationalization of private property.)
ASSESSMENT

Multiple-Choice Questions

1. The export clause which states that “No tax or duty shall be laid on articles exported from any state” is a key economic feature of the

   A. U.S Constitution.
   B. South Korean Constitution.
   C. Fifth Republic of France.
   D. North Korean Constitution.

2. Which of the following characteristics is found in the North Korean constitution?

   A. “The economic order … is based on a respect for the freedom and creative initiative of enterprises and individuals in economic affairs.”
   B. “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.”
   C. “There is no limit to the property which the State can own.”
   D. “The land and natural resources are protected by the State, and the State establishes a plan necessary for their balanced development and utilization.”

Constructed-Response Questions

1. Michael Jablonski is interested in science. He will graduate from high school soon, and he plans to study biomedical science and business in college. He hopes to start his own business and to make it successful and profitable. His dream is to make his business a leader in finding new cures for serious diseases. Identify and explain two characteristics of a market economy that might help Michael to achieve his goals.

   (Michael hopes to exercise his freedom to choose and engage in enterprise. He is free to decide which occupation to pursue, and to obtain and organize the resources he will need to open his business. Michael is motivated in part by self-interest. He hopes to run a profitable business by doing good things for consumers. Michael will face competition in the biomedical field. Competition will give Michael an incentive to work hard at his business. There is no guarantee that he can do better than his competitors.)

2. North Korea and South Korea have experienced very different economic outcomes. Explain how the constitution of South Korea fostered economic success, compared to the dismal performance of the North Korean economy.

   (North Korea’s constitution calls for the government to play a dominant role in the economy. It severely restricts private ownership of property and discourages individual enterprise. South Korea’s constitution specifies that government plays an important regulatory role, but it allows a much larger role for individual enterprise, and it bans the outright nationalization of private property.)
VISUAL 1.1

CHARACTERISTICS OF A MARKET ECONOMY

1. Private Property
2. Freedom of Enterprise and Choice
3. Motive of Self-Interest
4. Competition
5. A System of Markets and Prices
6. Limited Government
VISUAL 1.2

ECONOMIC PROVISIONS OF THE U.S. CONSTITUTION

- Commerce Clause
- Coinage Clauses
- Copyright Clause
- Contract Clauses
- Export Clauses
- Searches and Seizures Clause
- Due Process of Law Clauses
- Reserved Rights and Powers
### Visual 1.3

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

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<th>Art. 1, Sec. 8</th>
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The countries of North and South Korea are similar in many ways:

- They share the same peninsula.
- They have easy access to the sea for trade.
- They have many of the same natural resources.
- They have a similar culture.
- They have a similar language.

But the two countries differ greatly in economic performance. North Korea is a very poor country. Its economy is stagnant and its people suffer from chronic malnutrition and poor living conditions. South Korea, by comparison, is a prosperous country. Its economy has flourished and its people live well, compared with their neighbors to the north.

What might explain this contrast?
VISUAL 1.5

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

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<th>NORTH KOREAN CONSTITUTION</th>
<th>SOUTH KOREAN CONSTITUTION</th>
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<tr>
<td>1. Is private property protected?</td>
<td>No. Articles 21, 22, and 24 state that nearly all property is owned by the state or by state-endorsed cooperatives. Private property is restricted mainly to personal possessions and wages.</td>
<td>Yes. Article 126 states clearly that private enterprises may not be nationalized. In other words, they are to be privately owned.</td>
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<td>2. Is freedom of enterprise encouraged?</td>
<td>No. Articles 21 and 25 call for a large role for the state in the production of goods and services, and almost no role for individuals.</td>
<td>Yes. Article 119 specifically calls for respect for the freedom and creative initiative of enterprises and individuals in economic affairs.</td>
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<td>3. Is the role of government limited?</td>
<td>No. The government controls nearly all aspects of economic life. Articles 19, 21, and 24 help to make this clear.</td>
<td>Yes. There is a strong role for economic activity not controlled by the state, as suggested in Article 119 and 126. However, Articles 119, 120, and 122 call for a large regulatory role for government.</td>
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<td>4. Is free trade encouraged?</td>
<td>No. Article 36 suggests that protectionism is the dominant goal of trade policy.</td>
<td>Yes. Article 125 suggests that international trade is encouraged.</td>
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Visual 1.6

Comparing the Economic Performance of North Korea and South Korea

1. North Korea

How has the economy of North Korea fared under its system? Here is an excerpted report from the CIA World Fact Book (https://www.cia.gov/library/publications/the-world-factbook/index.html).

- One of the world’s most centrally planned and isolated economies, North Korea faces desperate economic conditions.
- Industrial capital stock (e.g., factories, equipment) is nearly beyond repair as a result of years of underinvestment and shortages of spare parts.
- Industrial output and power output have declined in parallel.
- Per Capita GDP in North Korea: $1,900 (2007 estimate).

2. South Korea

How has the economy of South Korea fared under its system? Here is an excerpted report from the CIA World Fact Book (https://www.cia.gov/library/publications/the-world-factbook/index.html).

- Since the 1960s, South Korea has achieved an incredible record of growth and integration into the high-tech, modern world economy.
- Four decades ago, South Korean GDP per capita was comparable with levels in the poorer countries of Africa and Asia. In 2004, South Korea joined the trillion dollar club of world economies. Today its GDP per capita is equal to the lesser economies of the European Union.
- Per Capita GDP in South Korea: $24,800 (2007 estimate).
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
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.

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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.

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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**

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<th>North Korean Constitution</th>
<th>South Korean Constitution</th>
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<tr>
<td>1. Is private property protected?</td>
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