

Overview of the Economic Democracy Act

“We are called to be architects of the future, not its victims. . . . [Our challenge is] to make the world work for 100% of humanity in the shortest possible time through spontaneous cooperation without ecological offense or the disadvantage of anyone.”

— Buckminster Fuller

The *Economic Democracy Act* (formerly, the *Capital Homestead Act*), or “EDA,” is a comprehensive set of monetary, tax and estate policy reforms for economically empowering every American citizen, including the poorest of the poor. The EDA would provide lifetime equality of access to the market-based means for acquiring ownership of productive capital, while safeguarding the private property rights of all owners.

This long-range, national agenda would lift unjust barriers to a more equitable distribution among all citizens of future corporate capital formation needed to produce and sell marketable goods and services within a national or global free market economy. While promoting faster rates of sustainable and environmentally sound private-sector growth, the EDA would shift primary national income maintenance policies from inflationary wage increases and unproductive income redistribution expedients to non-inflationary ownership sharing and dividend incomes.

The Economic Democracy Act’s central focus is on establishing a sound, stable, and democratic money and credit system. By universalizing citizen access to insured, interest-free productive credit repayable with future pre-tax corporate profits, and to newly created money backed by productive assets (rather than government debt), it would close the power and opportunity gap between today’s haves and have-nots, without taking away the wealth of today’s owners.

Goals of the Economic Democracy Act

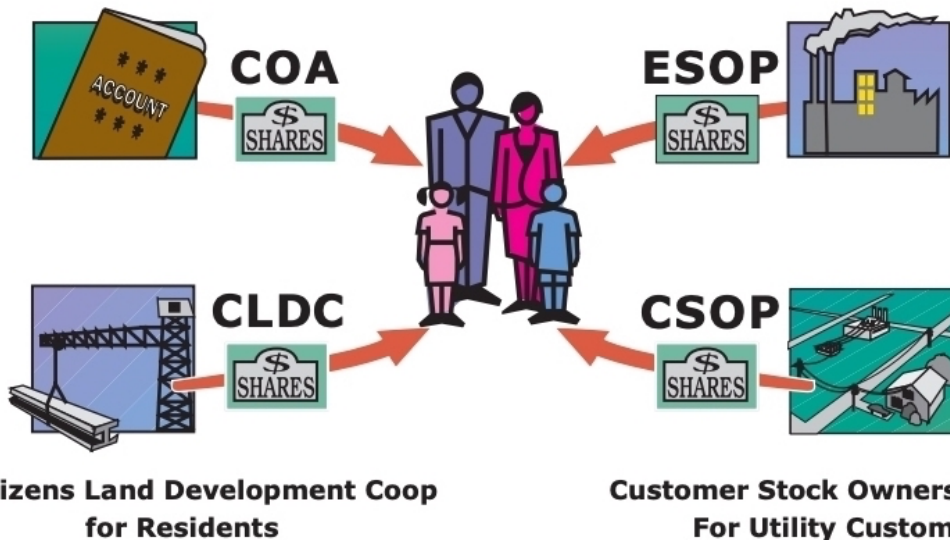
As summarized below, the Economic Democracy Act (EDA) is designed to:

- 1) Lift ownership-concentrating Federal Reserve credit barriers and to accelerate private-sector growth linked to expanded ownership opportunities, at a zero rate of inflation.
- 2) Radically overhaul and simplify the Federal tax system to eliminate budget deficits and ownership-concentrating tax barriers through a single-rate tax on all individual incomes from all sources above basic subsistence levels. The EDA’s tax reforms would:
 - a) eliminate payroll taxes on working Americans and their employers;
 - b) integrate corporate and personal income taxes; and
 - c) exempt from taxation the basic incomes of all citizens up to a level that allows them to meet their own subsistence needs and living expenses, while continuing to provide a “safety net” through vouchers and services for the poor.
- 3) Restructure inheritance and gift taxes (“death taxes”) to discourage transfers of monopolistic concentrations of wealth from one generation to the next. To promote individual initiative, capital self-sufficiency and limited economic power of the state, inheritance policy should encourage the broadest possible distribution of private property ownership in income-producing assets.

Vehicles for Democratizing Capital Ownership

Capital Ownership Account For Every Citizen

Employee Stock Ownership Plan For Corporate Employees



The “**Capital Ownership Account**” or “**COA**” is the primary tax-sheltered vehicle for the democratization of capital credit through local banks. It would enable every man, woman, and child to accumulate wealth and receive dividend incomes from newly issued shares in new and growing companies, without being taxed on the accumulations (including property and shares gained through inheritance, savings, and arrangements like ESOPs, CSOPs and CLDCs). In addition to serving as a source of capital credit for corporate workers, COAs would also provide an ownership-building account for individuals who do not work for profit-making enterprises, such as school teachers, civil servants, military personnel and veterans, police, and health workers, and for individuals who have no remunerative employment, such as the disabled, the unemployed, homemakers and children.

The “**Citizens Land Development Cooperative**” or “**CLDC**” [also known as the for-profit Citizens Land Cooperative (CLC), Citizens Land Bank (CLB), or Community Investment Corporation (CIC)] allows residents of a community to share in the control and profits associated with land planning and development, and infrastructure improvements. The CLDC would encourage governments at all levels (from the community to the highest governmental level) as well as non-profit entities, to distribute the ownership of land, natural resources, and infrastructure free to all citizens. This would encourage citizens to participate in development so they can share in planning, governance, and lease incomes from the use of land, natural resources, and infrastructure.

The “**Employee Stock Ownership Plan**” or “**ESOP**,” which exists under current law, channels low-cost credit for financing the needs of business corporations (such as expansion, capitalization, and ownership transfers), and links private-sector workers to ownership shares and dividend incomes in the companies for which they work. Shares acquired on credit by worker-owners are paid for out of the future corporate profits they help to generate.

The “**Consumer or Customer Stock Ownership Plan**” or “**CSOP**” lets customers of utilities share in the ownership, governance, and profitability of “natural monopolies,” like telecommunications, water and power companies, mass-transit, regional highways, and cable television.

Policy Objectives of the Economic Democracy Act

Sustainable Economic Growth

- **Promote Sustainable Private-sector Growth Linked to Equal Capital Ownership Opportunity.** Recreate in the 21st Century the conditions that resulted from the first Homestead Act of 1862, including full employment, declining prices, and widespread individual ownership of income-generating assets. Set a realistic long-term target based on the nation's economic growth potential, to achieve a minimum Capital Ownership stake for every American citizen and family. As an initial measure, this could be geared conservatively toward a citizen's equity accumulation of, for example, \$150,000 over the next 20 years.
- **Stimulate Maximum Growth, with a Balanced Budget and Zero Inflation Rate.** Remove barriers to maximum rates of sustainable and environmentally sound, private-sector growth to achieve a balanced Federal budget and a zero-inflation rate under the Economic Democracy Act.
- **Discourage Monopolies and Monopolistic Ownership.** Link all economic reforms to methods that discourage privileged access to monopolistic accumulations of private property ownership of the means of production. Enforce anti-trust laws by providing access to interest-free capital credit to encourage broadly owned new competitors to enhance and sustain market-oriented growth.
- **Introduce a Market-Driven Wage and Price System.** Gradually eliminate rigid, artificially protected wage and price levels and other restrictions on free trade that afford special privileges to some industries, businesses, and workers at the expense of American and foreign customers of US products. Replace subsidies with interest-free credit incentives to farmers who wish to associate voluntarily in cooperatives and in enterprises jointly owned by farmers and workers, including integrated agribusinesses. The income generated by farmer-owned enterprises would supplement farm incomes and reduce the need for subsidies.
- **Reduce Public Sector Costs.** Provide America's military, police officers and fire fighters, teachers, and other public-sector workers with a growing and more direct equity stake in the free enterprise system, both as a supplement to their costly pension plans and so that they will better understand and defend the institutions of private property and free markets. Whenever feasible, transform government-owned enterprises and services into competitive private-sector companies, by offering their workers (and customers and other stakeholders in capital-intensive operations like TVA) opportunities to participate in ownership, governance, and profits.

A Sound Monetary System to Empower Every Citizen

- **Stop Federal Reserve Monetization of Government Debt.** Terminate use of the Federal Reserve's powers to create government debt-backed money, support foreign currencies, or buy and sell primary or secondary Treasury securities. This would reduce excessive Government spending and improve accountability. It would force Government, when its tax revenues are insufficient to cover all its legitimate costs, to borrow for deficits directly from savers in the open markets.
- **Stabilize the Value of the Currency.** Require the Federal Reserve to create a stable, asset-backed currency measured in terms of a fixed monetary standard reflecting the needs of a technologically advanced, global economy. (Such a monetary standard could be, as some have proposed, the price of a kilowatt-hour.) This policy would avoid both inflation and deflation. It would balance supply and demand, matching future production with broad-based citizen purchasing power (increased by widespread capital incomes) needed to consume future goods and services.

- **Reduce Dependency on Past Savings for Financing Growth.** Require the Federal Reserve to distinguish between “productive” and “non-productive” uses of money and credit. Non-productive uses of money and credit, such as with the debt-backed money and speculative credit that fueled subprime home mortgages and the global financial meltdown, would be financed from the accumulations of savers, wealthy Americans, and foreigners who could afford the risks.

America could shift away from the limited understanding and use of “money” as a commodity to be manipulated and speculated upon, as well as from the false limitations of requiring “past savings” for financing future growth and capital ownership opportunities. The nation’s central and commercial banking system could more effectively support the growth needs of businesses and systematically broaden the base of citizen-owners whose purchasing power would increase with their new capital-derived incomes. As binary economist, corporate finance lawyer, and ESOP inventor Louis Kelso explained:

Money is not a part of the visible sector of the economy; people do not consume money. Money is not a physical factor of production, but rather a yardstick for measuring economic input, economic outtake and the relative values of the real goods and services of the economic world. Money provides a method of measuring obligations, rights, powers and privileges. It provides a means whereby certain individuals can accumulate claims against others, or against the economy as a whole, or against many economies. It is a system of symbols....

By creating new, asset-backed money and providing an equal allotment of interest-free, insured capital credit every year to every American to become an owner of a viable accumulation of new income-producing assets, America would reduce its dependency on past savings, corporate retained earnings, or foreign government wealth funds advantaged by America’s growing trade imbalances. The Federal Reserve System would supply sufficient asset-backed money and productive credit through local banks to meet the liquidity and broadened ownership needs of an expanding market-disciplined economy. These “Fed-monetized” loans would be subject to appropriate feasibility standards administered by the banks and limited only by the goal of maintaining a stable value for the dollar.

- **Democratize Ownership of the Federal Reserve.** Provide every citizen a single, lifetime, non-transferable voting share in the nation’s central bank and in one of the 12 regional Federal Reserve banks. This will ensure that the Fed’s board of governors is broadly representative of all groups affected by Fed policy, and that power over future money creation is spread widely among all citizens.

A More Simple and Fair Tax System

- **Establish a Tax System That Stimulates Economic Growth and Jobs and is More Accountable to Taxpayers.** Re-write and radically simplify the existing Federal tax system to automatically balance the budget. Keep more money in the pockets of taxpayers from their initial earnings to cover their own health, education, housing, and other basic household living expenses. Make Congress more directly accountable and responsive to all taxpayers. Eliminate all tax provisions, personal deductions, tax credits, and exemptions (except for the front-end income exemptions for adults and dependents) that unjustly discriminate against or discourage property accumulations and investment incomes for poor and non-rich families.

For example, a single-rate tax on all sources of income (from labor, capital, gifts, gambling, etc.) over a “basic living income” exemption would be automatically set to meet all Federal entitlement and other programs, and to pay down past federal debt. To meet personal living costs, the basic incomes of all taxpayers up to \$30,000 per adult and \$20,000 per dependent (or \$100,000 for a family of

four) would be free from any income or payroll taxes. Corporations could escape from the double- or triple-tax on corporate incomes by deducting full dividend payouts, which would increase the taxable incomes of their shareholders.

- **Inheritance and Gift Tax Reforms to Discourage Multi-Generational Concentrations of Wealth.** When capital accumulations start generating a level of income that far outstrips the owner's capacity to consume the goods and services of others, the unconsumed income is subsequently reinvested in more capital acquisitions. This eventually results in the anti-democratic monopolization of future capital ownership opportunities by the already wealthy.

To create a more just and balanced free market economy and discourage the transfer of enormous accumulations from one generation to another, wealthy individuals should be encouraged to spread out their estates to many recipients — including family, friends, teachers, members of the military, public sector workers, and propertyless individuals in general. Gift and estate taxes would not be imposed on the donor or the estate. Rather, *recipients* of an inheritance above a tax-exempt amount (for example, over \$1 million) would be subject to a one-time, single-rate income tax on every dollar received above the exempted amount.

Addressing Major Domestic Challenges

- **Keep Social Security and Medicare Promises.** To meet Social Security and Medicare entitlements, and provide for their eventual phasing out as the mainstay of retirement income for most Americans, begin to shift the Federal Government's role from today's income redistribution policies to the more limited and healthy role of encouraging economic justice through more universally participatory free enterprise growth. Keep existing promises and reduce the unsustainable burden on the Social Security and Medicare Systems, by enabling every American to accumulate sufficient wealth-producing assets to provide each person with an adequate and secure taxable income from property, independent of Social Security and Medicare benefits and incomes from other sources. Based on conservative projections of U.S. growth potential, by age 65 a child born today could accumulate a capital estate of nearly \$660,000, generating over \$2.6 million in after-tax dividends over that period.
- **Encourage Universal Health Care through the Private Sector.** Capital Ownership monetary and tax reforms, supplemented by health care vouchers for the poor, would provide a sustainable way to finance the health care system. These reforms would empower each citizen and family with the means to enjoy and pay for affordable, quality health coverage of their choice. Through market-disciplined, comprehensive health care enterprises that are owned and controlled by health care providers and health care subscribers (patients), the doctor-patient relationship could be restored, while providing greater insurance portability, accountability, and lower administrative overhead costs throughout the system.
- **Universalize and Finance Equal Access to Quality Education at All Levels.** With rising lifetime incomes from capital ownership, more students will have the means to cover the cost of higher education and trade schools; with a larger tax base from a growing economy with widespread capital ownership, more financial assistance through tax dollars can be provided to those with financial needs.

More importantly, as the Economic Democracy Act begins to build a nation of citizen-owners, the future of education will need to change. Rather than pursuing education just to "get a good job," people will need to learn how to participate more fully as empowered citizen-owners, not simply as wage earners or welfare recipients. As more people can afford to do the work they love, even

without pay, more people will seek to enter teaching (or politics, medicine, and law) as their “leisure work,” and not primarily as a means of earning a living.

- **Solve the Home Foreclosure Crisis and Make Home Ownership Accessible to all Citizens.** Starting in communities with homes whose market values are deflated due to the subprime mortgage crisis, resident-owned **Homeowners’ Equity Corporations (HECs)** could receive interest-free credit to buy up the foreclosed properties. As occupants of the homes in default pay the HEC their monthly rents (which could be supplemented with housing vouchers for the poor), these would be applied toward debt service, using pre-tax dollars to pay off the loans that the HEC used to purchase the foreclosed properties. As they make their regular monthly lease payments, these renters would gradually become full owners of HEC shares representing the full value of their homes (or, if they so choose, they could take title to their dwellings).

Promoting Justice in the Corporation and Workplace

- **Offer a More Just Social Contract for Workers.** A top priority during the next decade would be developing a more just “social contract” for persons employed in the private sector. This would be geared toward establishing maximum ownership incentives. Instead of inflationary “wage system” increases, employees would begin to earn future increases in income through production bonuses, equity accumulations, and profit earnings. These “bottom-line” rewards would be linked to workers’ individual contributions, and to the productivity and success of their work team and the enterprise for which they work.
- **Restore Property Rights in Corporate Equity.** Restore the original rights of “private property” to all owners of corporate equity, particularly with respect to the right to profits and in the sharing of voting control over corporate policies. Preserve traditional powers of professional managers held accountable by Justice-Based Management corporate governance structures.
- **Encourage More Harmonious Worker-Management Relations.** Promote the right of non-management workers to form democratic unions and other voluntary associations. Instead of promoting the traditional “conflict model” of industrial relations, however, “labor” unions would be encouraged to transform themselves into democratic “ownership unions.” These ownership unions could become society’s primary institutions for promoting a free market version of economic justice, while continuing to negotiate and advance the economic interests of all citizens, including worker ownership rights and Justice-Based Management policies.

Under the Economic Democracy Act, unions could expand their role in a free market system by educating and expanding their membership to include all citizen-shareholders. Ownership unions would enhance the property rights of all shareholders by enhancing management accountability, promoting transparency, and protecting against unjust executive compensation schemes.

Confronting Global Challenges

- **Uproot the Economic Causes of Systemic Poverty, Racism, and War around the World.** Re-evaluate U.S. international economic development policies, which have largely resulted in corruption, waste, and dictatorships in countries the U.S. has sought to assist. Align U.S. international policies with the policy principles and objectives of the Economic Democracy Act. Promote and expand upon policies such as those proposed by President Ronald Reagan’s 1985 bipartisan Presidential Task Force on Project Economic Justice. Encourage other countries, such as those south of the U.S. border to adopt Economic Democracy Acts of their own. By addressing the economic roots of poverty, conflict and war, the world could begin reversing the mass immigrations of people desperate to escape war, violence, and starvation.

- **Study the feasibility of a national and global citizen-owned “Land and Natural Resources Bank”** to plan development of Nature’s resources, receive leasing fees for use of land and natural resources, and distribute citizen dividends among the population. With the leadership of the United States, urge the United Nations and other international agencies to encourage the use of such economic development vehicles in order to bring about “peace through justice” in such conflict-torn countries as Iraq, Afghanistan, Syria, Ethiopia, Kashmir, Ukraine, Venezuela, El Salvador, Myanmar, etc. Such an approach could provide a model “Abraham Federation” solution for resolving the conflict between the Palestinians and Israelis.
- **Promote Free Market Solutions for Reversing Climate Change and Environmental Damage.** Encourage special ownership incentives for those engaged in research and development, especially in the search for new and sustainable sources of energy, environmental restoration, and labor-saving technologies. Provide sufficient low-cost credit and royalty-free licensing for enterprises capable of commercializing life-enhancing technologies developed for the military and space programs. Subsidize the development of new methods of conserving and recycling non-replenishable and limited natural resources that are vital to civilization’s long-term survival, at least until suitable substitutes can be discovered and developed.
- **Establish Workable Demonstrations of Economic Democracy at the Community, State, Regional and Global Levels.** Launch several demonstrations of democratizing capital ownership opportunities for every citizen. For-profit Citizens Land Development Cooperatives could be introduced for financing land and infrastructure development in poverty-impacted cities in each of the twelve Federal Reserve regions. A pilot model could start in St. Louis, Missouri with the “Heart of America” Project proposed by Descendants of American Slaves for Economic and Social Justice (www.das4esj.org). Similar projects could be developed on Native American reservations. A major objective would be to evaluate ownership-broadening Federal Reserve reforms, innovative broadened ownership mechanisms, advanced concepts of worker participation in decision-making, and servant leadership developments like Justice-Based Management. Encourage State and local governments and other countries to promote equal citizen access to capital ownership as a basic pillar for building a sound market economy.
- **Encourage Multinational Corporations to Provide Equal Capital Ownership Opportunities.** Provide special encouragement to US-based multinational corporations and global financial institutions to become instruments of peace and a more just world economic order, by broadening access to their ownership base to all citizens of the world community. Encourage businesses to create future ownership opportunities as they begin harnessing the resources of the sea, the airways, and other planets.
- **Promote a New Global Monetary System.** Encourage the convening of a second “Bretton Woods Conference” to consider the implications of the Kelsonian binary economic model on global currency standards, the feasibility of a single global currency, and more just foreign exchange rates. The new policy should seek to reform global financial markets to address the challenge of global poverty and sustainable development, as well as leveling the playing field among nations for global free and open trade.

For more information on the *Economic Democracy Act*, contact CESJ at info@cesj.org or 703-243-5155. Also see *Capital Homesteading for Every Citizen: A Just Free Market Solution for Saving Social Security*, by Norman G. Kurland, Dawn K. Brohawn and Michael D. Greaney, published by Economic Justice Media, 2004.