

What the Economic Democracy Act (EDA) Would Mean to the Average Citizen

Explanatory Notes to Projections of Capital Accumulations and Dividends through Age 65

- 1) These projections are calculated on the assumption that a citizen will begin accumulating assets on the day of his or her birth (age 0).
- 2) The amount of the **annual capital credit allocation for each citizen** is calculated by **dividing the total estimated capital needs of the United States for the period**, by the **total qualified population of the United States**. For this example, we divide **\$3.955 Trillion** (total “U.S. Gross Fixed Capital Formation” as of November 8, 2018; Source: St. Louis Federal Reserve) by **328.95 million** (the U.S. population as of November 18, 2018; Source: CIA World Fact Book), getting a *per capita* capital credit allotment of **\$12,023** for every citizen. [Note: The estimated amount of annual capital credit per citizen has been lowered to **\$10,000** to be conservative and simplify the calculations. This also takes into account that not all owners and companies will choose to finance their new capital through EDA investments.]
- 3) The one-time “**discount**,” sometimes incorrectly called the “interest rate,” covers all loan expenses added to the cost of the shares the citizen wants to purchase. (As a safeguard such purchases should be from a licensed broker independent of the commercial banks.) These loan expenses include all current and future bank charges to service the requested EDA loan, plus a one-time risk premium to be paid to an independent capital credit insurer in the event the company issuing the shares fails to meet its projected future profits. The lending bank will only make a loan if it judges the investment to be “feasible.” In other words, if the shares to be purchased with the proposed loan will not generate enough future dividends to pay off the bank’s promissory note, the loan will not be made.
- 4) The **promissory note** indicates the total loan amount the citizen’s **Capital Ownership Account (COA)** owes to the bank. The bank issues the note to “purchase” the bill of exchange from the citizen. The note backs the demand deposit (checking account) from which the Capital Ownership Account pays for the shares and one-time bank service charge and loan insurance premium.
- 5) The **pre-tax** Return-On-Investment for the shares based on a conservative ROI for a typical company. Actual ROI differs according to industry and type of company.
- 6) The number of years the citizen has to repay each loan, based on the annual earnings of the shares. As noted in (15), in this example a small portion (1.85%) of total dividends used to repay the loan is paid to the citizen as consumption income, in order to communicate to citizens the benefits of capital ownership. While this small amount paid to the citizen prior to full loan repayment does not significantly extend the repayment period, a larger amount would extend the payback period and possibly render the proposed loan not financially feasible. Any dividends received by the COA above the scheduled repayments can also be paid out as consumption income.
- 7) Age of the citizen-owner. (While this schedule goes to age 65, **every citizen participates every year until death**, regardless of age.)
- 8) Total amount of assets the citizen will accumulate, everything else being equal.
- 9) This is the full amount of earnings attributed to the shares owned by the citizen, paid out as dividends. These are tax-deductible to the corporation paying them out but are ordinary taxable income to the citizen unless these dividends are used to make debt service payments.
- 10) This is the amount of principal payments (13) plus the amortized discount amount (14).
- 11) This column displays “BAD!” if the debt service payments exceed projected earnings, indicating the proposed loan is not financially feasible.
- 12) Total amount of loans outstanding at the end of the year after principal and debt service payments.
- 13) This amount is calculated by dividing the net loan principal (2) by the term of the loan in years (6).
- 14) This amount is calculated by subtracting the net loan principal (2) from the amount of the promissory note (4) and dividing the result by the term of the loan (6).
- 15) After subtracting debt service payments, this is the net (“residual”) amount of dividends paid out as taxable consumption income to the citizen. In this example, rather than using 100% of dividends to pay off the annual capital loans, a nominal 1.85% of total dividends for years 0-6 are paid directly to the citizen. In addition to nation-wide programs to educate citizens about their rights and benefits under the Economic Democracy Act, such “early” dividend payouts are intended to help citizens experience the financial benefits of capital ownership as soon as possible without significantly increasing the loan repayment period. (A larger percentage would add years to self-liquidate the capital credit loan.)