

## Citizen Investors



Two problems facing lenders, asymmetric information and moral hazard, make it almost impossible for small businesses and collectives to get financing without significant collateral. Asymmetric information means that the bank's loan officer knows far less about whether you will be willing and able to repay the loan than you do. A moral hazard is whether you will spend the money as specified in the business plan or go to Vegas instead.

Both moral hazard and asymmetric information are irrelevant in loans to small businesses in a [land-based capitalist](#) economy, not because of any change in human nature but because of easy acceptance of a technology that would be difficult to implement in today's polarized society.

[Ground rent](#) is paid a year in advance. The [advance rent fund](#), which reaches an equilibrium of 2% of property value in the first few years of [Phase I](#), rises to over 5% of land value with the [hyperdeflation](#) of [Phase II](#). Economic growth after [federation](#) will optimally drive it back toward 5%.

The [fluid theory of land value](#) tells us that the total land value is equal to the total structure value in an isolated system. Structure value is 67% of property value on average, or just over \$20 trillion in the United States in 2019. Ground rent on land value in the United States in 2019 would be just over \$1 trillion. With an expected initial [Worldwide Federation](#) land value of [\\$217 trillion](#), rents will exceed \$10 trillion.

This \$10 trillion is available to be invested at any given time. Investing these funds is not a government function. Cronyism, corruption, and low returns would inevitably follow. Such a large purse in the hands of a few is a danger to freedom.

Anyone can become an investor of the Treasury's funds. Citizen investors are independent agents willing to shoulder much of the investing risk in return for 50% of the return from loaning the advance rent fund to small businesses, family businesses, and voluntary collectives.

Citizen investors rely on [VIP Enforced Budgets](#) to stop moral hazard. The loan is [earmarked](#). The business plan specifies precisely what the loan will be used for,

and the credit account can only be used to make those purchases. No other purchases are possible.

What about a loan to pay salaries? Not possible. Citizen investor loans are limited to capital machinery and inputs. Wages for any partner or employee are forbidden during the loan's life. This feature limits these loans to startups, family businesses, and voluntary collectives.

But how do the partners survive for the months or even years they are financed with the people's money? Easy. Everyone receives \$240/month (2022 dollars) earmarked for food, \$404/month earmarked for housing, basic medical care, and unlimited free education. A small amount of savings is enough to get started or have one of the partners employed outside while the others work full-time to grow the business.

With moral hazard nipped in the bud, how does the Elsie Toolkit handle businesses that are unable or unwilling to repay the loan? Loan payback is handled with programmed transactions. The business plan specifies what portion of a product sale is routed back to the credit account. Assuming the business is successful, there is no way for the loan not to be paid back.

Suppose the business is not meeting the minimum sales specified in the plan. In that case, the citizen investor can call the loan and repossess the machinery and inputs or allow the business to proceed with a revised business plan. The citizen investor assumes all risk.

Some risk capital is needed to get started in the business of being a citizen investor. Insurance against fire, flood, and anything else that could unexpectedly render inputs and machinery useless would be a loan requirement.

Being a citizen investor is a potentially profitable but stressful career choice. Heavy educational requirements include an internship (all [education](#) is free and unlimited). The citizen investor works primarily with new collective enterprises to create a promising business plan. The annual loan capital available to the citizen investor is a function of successful loans.

Before creating a successful business plan, the citizen investor:

1. Review educational requirements for collective members to assume roles in the business adequately.
2. Helps draft a proper partnership agreement.

3. Checks the financial plan for the collective as both a home and business.
4. Coach collectives, often over several years, on the preliminary plan and creation of the business plan itself.

They are expected to stay with businesses and help plan for growth and expansions so that the citizen investor will grow along with their portfolio of companies.

The citizen investor must make a profit on the first loan or replace lost funds with their own money if they wish to remain in the program. They earn 50% of the interest paid on the loan. An additional 25% of the interest paid offsets future loan losses.

Available loan capital increases as a function of the size of this balance and relative size versus other citizen investors. Available loan capital can never exceed 200 times this balance except in the first year. Should the balance go negative, the citizen investor must make up the loss with their own money if they wish to remain in the program.

The final 25% is transferred to the Treasury reserves and is a source of deflation.

Interest rates on citizen investor loans will be around 4% and no greater than 5%. Intentional losses and other schemes to defraud will be prosecuted.

After many years of portfolio growth, the maximum available loan capital per citizen investor is 1/20,000 advance rents. There are \$10 trillion in advance rent funds worldwide, so a citizen investor's maximum available loan capital is \$500 million. Given 50% of a 4% interest rate, the highest annual salary possible is \$10 million.

Properties of Citizen Investor Loans
They are earmarked for specific capital goods mentioned in the business plan.
They cannot be used for perishable inventory.
They cannot be used for wages or most services.
They can be used as a line of credit for ground rent.
They are often designed to be automatically repaid as a per-sale percentage.
They can be canceled with all capital goods repossessed or renegotiated if repayment fails to meet the timeline set in the business plan.
The citizen investor assumes the risk of renegotiating or not.

Throughout citizen investors' careers, they have free access to professors, research tools, ongoing daily apprentice discussions, and investor discussion groups. These are funded by the education distribution and their trade societies.

Corporations pay salaries and must provide profits to shareholders as well. Because they pay salaries, they are not eligible for citizen investor loans and must use commercial banks.

[Voluntary Collectives](#) enjoy economies of scale from the [Earth Dividend](#). Some members work outside the collective and bring in income. Voluntary collectives can access citizen investor loans at the same rate that large corporations can get in the bond market. It is inevitable that after many decades of land-based capitalism, legacy corporations will go extinct or nearly so, and voluntary collectives will be the predominant form of industry.