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Retirement Community Navigates the Falling Dollar

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Opinion: Catherine Austin Fitts

Catherine Austin Fitts' *Mapping the Real Deal* series

A Continuing Care Retirement Community Navigates the Falling Dollar

By Catherine Austin Fitts

> **Author's Note:** *I recently wrote a letter to the CEO of a continuing care retirement community. I realized subsequently that the letter described a situation that many retirees—as well as business and municipal leaders—are managing, and that there was merit in publishing a copy of it. As will be obvious, the names have been changed to protect the innocent, competent, and busy.*

January 1, 2007

John A. Smith
Chief Executive Officer
Continuing Care Retirement Corporation
Our Town, America 12007

Dear John:

Thank you again for lunch on Thanksgiving at your lovely continuing care retirement community. I enjoyed meeting you.

I am writing to follow up regarding our discussion of the potential impact of a falling U.S. dollar /deterioration in federal finances on your operation.

As promised at our lunch, below is my recommendation of two books that provide a useful overview of the financial challenges facing the U.S. government and economy:

- James Turk & John Rubino, *The Coming Collapse of the Dollar and How to Profit From It*; and
- Kevin Phillips, *American Theocracy: The Peril and Politics of Radical Religion, Oil, and Borrowed*

Money in the 21st Century.

The State of U.S. Government Finances

For many decades, political and economic activities in the United States have become increasingly centralized. The primary financial mechanism behind this process has been the growth of the federal budget and federal credit programs as a percentage of economic activities—whether military, farming, health care, housing, and so forth. For example, while most people assume the mortgage and mortgage securities markets to be private markets, in fact a significant amount of the debt outstanding is directly or indirectly guaranteed by the credit of government and government-sponsored corporations and agencies. In addition, the power and influence of federal regulation and enforcement is profound. [1,2]

The State of Local Finances

Because American citizens do not enjoy timely and easy access to integrated financial statements and reports of federal government resources and operations by the jurisdictions from which we vote (that is, by Congressional districts and states), most of us do not understand the extent to which our local and state economies and financial systems are highly interdependent and codependent with federal finances. We also do not understand the extent to which this dependency affects the transfer of local market share and assets out of small banks, business, and farms—as well as municipalities—and into large corporations, banks, and governments, and how that is fueling the centralization of political power. [3]

The website Eagle Eye (http://www.eagleeyeinc.com/) provides information (arranged by state) about federal grants and contracts. A quick review of the map will show the extent to which your state economy is highly dependent on federal funding, particularly from the military and intelligence community as well as Social Security and Medicare/Medicaid subsidies.

Eagle Eye does not include many of the most significant federal credit programs, such as FDIC insurance, Pension Guarantee insurance, and mortgage-backed securities guarantees. It also does not reflect the costs of Federal Reserve and Treasury monetary and credit policy, including the costs of a nontransparent fiat currency and increasing intervention in the capital, currency, precious metals and other commodities markets. If we had that degree of transparency and understanding, the dependency of the local financial sector and the hidden costs of inflation would also be evident.

Relationship to Growth in the Military

Whether at the local, national, or global level, this process of centralization has been marked by several characteristics: falling system-wide productivity, [4] environmental deterioration, and increased subsidization of standards of living. This has resulted in rising deficits and debt, which help finance the military and intelligence overt and covert expenditures required to reinforce presence and profits for increasingly inefficient banking and corporate markets.

In any state or local government or private organization, such ongoing deficits would not be sustainable because investors would not be willing to fund such uneconomic losses. However, the federal government, in partnership with our central bank, has the ability to print currency and float securities not supported by fundamental economic value and can continue to do so as long as investors can be persuaded or coerced to buy and hold them.

Increasingly, the creditworthiness and pricing of our currency and securities depend on force, not economic strength, and our significant military capacity (about 50% of global military expenditures, approximating $1 trillion) is systematically used to force economies around the world into our financial practices and systems. [5] Using the threat of force to promote economic policies is not new. It has been the predominant investment model for the past 500 years of Western history. What is new is what has been added to the mix: skyrocketing debt, system-wide deterioration in productivity and true wealth-building, startling advances in technology applied to weaponry and control, and environmental and social stress. As the model matures, our population grows and natural resources become less plentiful and harder to access. The question is, how much longer can this last? The answer is—no one knows.

Dependency on the U.S. credit, therefore, depends on our military being successful in order to ensure our financial sustainability at current economically nonsustainable levels. [6]Whether wars in the Middle East and limited engagements globally are viewed from the perspective of financial performance or of moral performance, this dependency is becoming progressively less attractive.

What does this mean to you and the residents of your communities?

Impact on Performance of Financial Assets

One of the results of centralization is that the securities markets are highly dependent on the federal government. Most corporate and bank profits are highly dependent on the federal finances, as is the creditworthiness of most local and state municipal bonds. As the housing markets deteriorate, the same dependency is becoming evident in the mortgage and mortgage-backed markets and the banking community.

What this means is that the price performance and creditworthiness of the securities in the mutual funds, financial portfolios, and pension funds of the residents of your community care retirement community are highly sensitive to a deterioration in the dollar, the ongoing inflation that may be the result, the risks of an unraveling of a worldwide debt bubble, and the challenges in financing U.S. operations and supporting the federal credit under these conditions. The portfolios of the corporation, including up-front fees and deposits from residents— as well as the portfolios of surrounding entities (local university endowment, the local pension funds, etc.) and retirees in your target market who would be attracted to your current or planned facilities—will all be affected. [7]

Impact on Cost of Capital

The growing fragility of the primary economic engine in an economy always has the potential to impact the real cost of capital of all the players within it. Ongoing management of the federal borrowings has the potential to raise the borrowing costs for your operations. This underscores the importance of running a hedged operation, minimizing exposure to variable interest rate risk, [8]and the value of operating with conservative levels of debt and reserves.

Impact on Expenses

One of the obvious ways to deal with U.S. debt loads is to simply inflate out of them. I call this the “slow burn” scenario. In a “slow burn,” financial assets retain their nominal value, while the average person experiences a slow, steady fall in income, a slow, steady increase in cash expenses, an increase in demands on their time, and a decrease in the value of most financial instruments they hold relative to other currencies and tangible assets. [9]

While the wealthy generally do well or hold their own in this process, those of middle and modest means are steadily drained, physically and financially. If you have to pass through increases in operating expenses due to pressures from a "slow burn," you may have to grapple with residents who cannot afford the increases. That is why one of the most effective approaches during this period is to make investments that both significantly lower operating and debt expenses and assert strategic control over time of dedicated quality resources (such as water, land, and food supply). [10]

Impact on Your Local Community

If I were a local leader, I would very much want your facilities and resident population to expand. According to your website, you are the second largest employer in your local area. The market of wealthy retirees is growing. The desire to create new construction and bank and bond financing opportunities is ever with us. The desire to create local jobs that will offset falling incomes in the middle- and lower-income group and falling tax revenues should continue also. An expansion, therefore, brings multiple constituencies together in a potentially attractive way.

However, for planning purposes, it is worth thinking through how the "slow burn" scenario will impact the local community. This requires understanding its effect on the tax and federal flows and related employment in the local area and what that might mean in terms of both opportunities and risks for your community care retirement housing complex—for residents and for the corporation.

Ethical Issues

When we step back and look at the role of the United States in the world, it becomes obvious that there is a relationship between, on one hand, increasing military activities and environmental degradation and, on the other hand, the need to continue to subsidize a First World that is living vastly beyond our current material means. Our power begins to make a difference when we realize that we have the ultimate leverage: the ability to change our own actions. In our role as citizens, many of us are deeply disturbed by what is happening politically, economically, and environmentally. Changing federal administrations, or waiting for the federal deficit rollovers or for our military to fail, will not result in positive solutions. Far better, it seems to me, would be to simply start to adjust our behavior and to respond to the opportunity to create sustainable buildings, enterprises, and communities and evolve our financial system accordingly. Indeed, there is every indication that the hearts and pocketbooks of thinking men and women everywhere are deeply interested in identifying new sustainable market opportunities and transforming traditional markets to do so.

I hope these comments have been useful. You are a highly capable executive overseeing beautiful and beautifully managed complexes full of many delightful, intelligent residents. You live in a fine community noted for its educational richness and democratic traditions. It seems to me that if anyone can figure out the creative and financially sound pathway to real change, it is your community.

This comes with my prayer for your every success in building a successful future. If I can answer any questions, please let me know.

Very truly yours,

Catherine Austin Fitts
President
Solari, Inc.

Endnotes:
[1] For more on this topic, see my article "Dillon, Read & Co. Inc. and the Aristocracy of Prison Profits" at http://www.dunwalke.com.

[2] For more on the history of the centralization of the housing and mortgage markets, see:

Navigate the Housing Bubble
Solari Audio Seminars
http://www.solari.com/store

[3] There are numerous ways in which this subsidy process occurs. For examples of preferences in contracting, see recent coverage of contracts awarded to Halliburton and to DynCorp, other sole-source contracts issued in connection with the war in Iraq, and various other federal government contracting scandals. Examples of preferred subsidies, financing, contracts, and/or regulatory and enforcement treatment can be found in my articles and interviews, including:

"The Myth of the Rule of Law"
http://www.dunwalke.com/gideon/q301.pdf

"Dillon, Read & Co. Inc. and the Aristocracy of Prison Profits" http://www.dunwalke.com

"CSC DynCorp and the Economics of Lawlessness"
http://www.scoop.co.nz/stories/HL0304/S00158.htm

"The Real Deal about Enron"
http://www.scoop.co.nz/stories/HL0304/S00031.htm

[4] I should note that this has been a period in which technology has created remarkable increases of productivity in pockets. Unfortunately, that potential has not been integrated with the same result system wide. Rather, technology has supported centralizing power and wealth, leaving a rising population to struggle with the increased loads of financial, social, and environmental degradation.

[5] For articles describing the use of force to support currency and securities and market manipulation and economic warfare, see Fitts's articles above, as well as:

"The American Tapeworm"
http://www.solari.com/articles/the_american_tapeworm.html

"Piracy on the Delaware"
http://www.scoop.co.nz/stories/HL0405/S00206.htm

"The Negative Return Economy"
http://www.scoop.co.nz/stories/HL0408/S00277.htm

"911 Profiteering"
http://www.scoop.co.nz/stories/HL0403/S00244.htm

The Real Deal Collection
Solari Audio Seminars
http://www.solari.com/store

For other excellent pieces, see:

Gold Anti-Trust Action Committee for coverage of the manipulation of the precious metals markets http://www.gata.org

Interview with Greg Palast, regarding economic warfare and privatization in Latin America
http://www.dunwalke.com/gideon/privatization030402.html

"The Rape of Russia" by Ann Williamson, regarding economic warfare and privatization in Russia
http://www.russians.org/williamson_testimony.htm

"Anatomy of a Swat from a Lawyer's Perspective" by Lucille Compton, regarding legal dirty tricks and regulatory terrorism used in domestic economic warfare
http://www.scoop.co.nz/stories/HL0504/S00241.htm

"Where is the Collateral?"
http://www.whereisthemoney.org/S00223_collateral.htm

Also see the description of 1970s-style economic warfare in *Confessions of an Economic Hit Man* by John Perkins
http://www.johnperkins.org/

[6] I would argue that integration of new technology and changes in our culture and financial system would do the trick economically. We do not need rising military activities and environmental damage. Clearly that anticipates the possibility of radical change.

[7] For a more detailed description of these issues, see:

Beyond SRI, Part II -- Solari Portfolio Strategy
Solari Audio Seminars
http://www.solari.com/store

[8] This includes making sure that a failure in the liquidity mechanism bank is the insurer's or investors' problem, not that of the state agency or the corporation.

[9] For more on the "slow burn" scenario, see:

Video: *Navigate the Falling Dollar*
http://video.google.com/videoplay?docid=2984480718427930625

Financial Sense NewsHour: Interview with Jim Puplava
http://www.financialsense.com/Experts/2004/AustinFitts.html

[10] For an example of current innovative facilities design work that can improve long-term economics, see *The Next Industrial Revolution,* a 55-minute film that describes the work of architect William McDonough and chemist Dr. Michael Braungart.
http://www.thenextindustrialrevolution.org

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Mapping The Real Deal is a column on Scoop supervised by Catherine Austin Fitts. Ms Fitts is the President of Solari, Inc. http://www.solari.com/. Ms. Fitts is the former Assistant Secretary of Housing-Federal Housing Commissioner during the first Bush Administration, a former managing director and member of the board of directors of Dillon Read & Co. Inc. and President of The Hamilton Securities Group, Inc.

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