

Every year we do a poster for the year, and our poster for 2012 was a picture of a young child holding a sign, "the beginning is near." And it's a takeoff on the old saying "the end is near" with a prophet with a long beard. So instead of saying "the end is near," we're saying "the beginning is near."



Our wrap-ups are when I step back and look at what has happened which is important in the last quarter, and then take a look at the trends that we talked about in the annual wrap-up, and if you haven't seen the transcript we did for our January annual wrap-up, it's quite good so I would encourage you to take a look at it.

I spent the second quarter in North America, and I spent the third quarter both in the Midwest and in Montana and then down into Texas and out in California, looking at the new world that's growing in North America. You've heard me say many times – it's our mantra at Sea Lane – there's an old world that's dying and there's a new world that's being

born. And so I very much wanted to look at the new world being born and the strength of the North America economy, which surprised me this year – we had the North America equity markets very strong and the emerging markets consolidating. So this was not the year to spend the time that I want to in the emerging markets, given the current trends of the markets. I expect next year to be much more in Asia and Latin America. But the third quarter was very much a North America experience for me. Let me talk about the important events.

I think the most important events – there were **three events** that really stand out in the third quarter. **The first and most important was the drought.** If you look at the economy, it's essential to understand that every year, the earth brings forth in the harvest and with resources taken from the earth, literally trillions of dollars of GNP in economic value. Think of the harvests every year as a gift that the earth gives us. And so when there's drought - whether it's natural or manmade interference with the weather that interrupts that harvest - it can have quite significant impacts financially.

Two of the best documentaries to come out in the third quarter were Jeffrey Smith's *Genetic Roulette* and Mike Murphy's second DVD on chemtrails, *Why in the World Are They Spraying?* I strongly recommend you watch them as you hear the reports from all over the country about the drought and what they're doing to the harvest and the price of food. There are serious questions as to whether or not this drought is a natural event or is influenced by manmade technology. I think those questions need to be asked, and Murphy does a very, very good job in *Why Are They Spraying?* and I would encourage you to watch it.

The second important event was QE3. The markets have been sitting and watching. The stock market has traded very much, and the value of tangibles, in accordance with the quantitative easings and then Operation Twist. Coming into the fall the question was, what would Bernanke do? What he did was to propose to buy \$40 billion a month of mortgage-backed securities from the large financial institutions. The estimate is that he will probably continue to do that through 2015 and bring in \$2 trillion of mortgage-backed securities, with profound implications for the derivatives markets piled on top of that. I wrote an article, which you can link to on the blog, about that. QE3 was unusual in terms of Fed policy in that Bernanke didn't propose a limit on how much he was going to buy. He did not propose an end in terms of timing, so this is very open-ended.

What he did, in my opinion, was write a forward purchase of the remaining amounts of mortgage fraud outstanding from what I call financial coup d'état. He thus clears the market and commits to shred an enormous amount of criminal liabilities. It's very clearing for the real estate and housing market and, combined with low interest rates, positions lots of money to come back in, including from offshore, to take big positions in real estate.

If you want to take a picture of what that looks like, *Popular Mechanics* did a very interesting article on what Detroit will look like in 2025. And what you're talking about is now putting big money in a position to completely reengineer land use and real estate and society within cities and within places. So the big opportunity here is probably farmland, but get ready for a significant reengineering of how housing and community works, including integrating digital technology into it.

The third event was the reengineering of government debt and budgets.

“Reengineering government” rolled through Europe and approaches the U.S., leading to a very significant cooling of growth in China and Asia, and a drop in the Chinese and Asian equity markets. If you look at the Asian equity markets – and particularly China dropping, dropping; North America rising, rising – the spread between the two gaps significantly, with the slowdown in Europe being a very important part of that.

In terms of politics, there were numerous important events. Let me just run through some of them. **The fact that Europe held the euro together was a remarkable political feat.** It was a great, so far, success by the forces of centralization. It's absolutely dreadful for the fundamental economy given the differences in culture and economic productivity within the eurozone. Holding this together as one centralized currency out of alignment with the sovereign governments is quite a difficult thing to do. In part it reflects the desire to keep Germany within the fold. It's very unlikely that Greece will stay within the European Union through next year, but all signs, even with Greece leaving, is that the European Union is here to stay.

A second very important political event was the political failure of the *Dark Knight* shooting in Aurora, Colorado. It's inconceivable to me that one of the goals of – and I consider that to be a covert operation, has to be – I think one of the goals was to get gun control. The American people didn't fall for it. If anything, it had the opposite impact. And we saw on top of the shooting of Congressman Gabby Giffords in Arizona, we've seen a real turning point with the American people turning hard against the idea of gun control and understanding the importance of gun control – the importance of being able to own the right to carry your own firearm under the current conditions.

If you listen to my interview with Jon Rappoport and his product *The Matrix Revealed*, we talk about the interview with Ellis Medavoy, who was a very senior PR person whose job was to manipulate popular opinion. And Medavoy describes the fact that no matter how hard they tried to get control of popular opinion that somehow there was always this greater intelligence that would elude them. And if anything, if you see the response to the *Dark Knight* shooting, I think the fundamental intelligence of the American people has once again eluded the manipulation, and that has been a very heartwarming thing to see.

Next, Prop 37 in California is beginning to help shift the food movement into a really serious force. As part of Prop 37, we've seen both some of the independent

members of the organic food industry, some of the websites, like Mercola, donate money and make a real effort. Jeffrey Smith produced *Genetic Roulette*; Mike Murphy come out with *Why in the World Are They Spraying?* and they are coming together in a force as people start to understand the significant criticality of protecting the food supply and that this is a deeply important issue and one that we all share. It's absolutely critical to our future, our health, and what we're facing is something that is very, very dangerous to the health and well-being of every person on this phone call. So I think we're watching the emergence of a food movement that could be a very serious political force, and that has been a wonderful thing to watch.

The next thing I would say is a very important political force is unemployment. We see the unemployment rate earlier this year go above 50 percent for young people in Spain and Greece, significant numbers of young people unemployed all over the Western world, all over the globe. And unemployment is something that has traditionally made a very – has caused very significant political shifts. With the changes in technology, I expect to see that unemployment, if anything, rise. And so it's going to be a very important political force.

Let me just quickly give some other events. **The Chicago teachers strike is worth taking note of.** We have some posts up on the blog about it. We're watching teachers who understand the extent to which public education is being systematically destroyed by regulation. And they're literally striking not over their own bread-and-butter issues, but literally the lead issues are really a war over the of public education, and it's worth taking note because the war on teachers right now is quite extraordinary throughout the country.

The U.S. ambassador in Libya is assassinated. It's a very extraordinary thing when a U.S. ambassador is assassinated. Because of the history of dirty tricks in Middle East politics during the election years, the so-called October Surprise, I think there are many of us scratching our head and saying, "I wonder who was really behind that." I'm suspicious for no other reason that the October Surprise was so very successful for the Reagan-Bush team when it happened, and so who knows what the real story there is, but there's an unpleasant one, that's for sure.

Worth taking note of – **Kissinger was quoted in the *New York Post* as saying Israel would not exist in ten years.** That was a September quote; it's up on the blog. And it underscores the tensions that have occurred globally because of events in the Middle East and how difficult Israel has been to manage as a part of not only Middle Eastern politics but what is going on in America. I used to deal a lot with Kissinger when I was involved in the Republican Party in New York, and I would say one thing from having more than one lunch with Kissinger. He's one of the most egotistical men in the world, but he is also – if Kissinger says Israel will not exist in ten years, there's a certain egotism to think he can say that and not get shot, but it means that the tensions are very, very, very strong.

I also wanted to mention the Bohemian Grove. Anybody who knows me knows that I think the Grove is very important time when leadership in North America gets together and makes lots of decisions or comes to lots of consensus about how to handle many things, particularly the reengineering of the U.S. budget. There was a real effort coming into the Grove by a certain faction to push for Condoleezza Rice as the vice president on the ticket. How serious it was, we don't know. Romney turned it down.

But I do think it's very important to understand why it is critical for the leadership to put a brown or black face on U.S. leadership. If you look at what is going on in the Middle East, if you look at ethnic cleansing in Africa, if you look at the harm done to the world in the financial crisis, if you look at prison policies, the war on drugs in the United States, there is a great argument to be made that if you're trying to market genocide, it's better to have a brown or black face on it than somebody who looks like Mitt Romney, which is one of the reasons why I think that ultimately Mr. Global will support Obama for a second term.

Okay, let's touch base on the trends I spoke about in the January wrap-up and just see how we're doing on them. **The demographic imperative – to me the most important driver in the global economy is demographics, and we've seen, of course, the population continue to grow.** A very big story this quarter was a decrease in the United States of life expectancies of men and women who have not graduated from high school, a drop from 1990 to date of five years in women, three years in men. Please remember, if life expectancies drop and the retirement age increases on Social Security, it's a whole 'nother way to balance the budget.

A very good interview on Max Keiser that I posted on the blog about the cost of life of the financial crisis, and then finally, in Jeffrey Smith's *Genetic Roulette* you see a lot of information about the impact on health of GMO food. I would expect GMO food to bring life expectancies down from what they would be otherwise. So we're seeing lots of stories I think that are directly or indirectly a result of the impact of growing population and the demographic imperative as it translates into the pressure on natural resources.

Transformation and awakenings. People are waking up. It's been quite remarkable. We really saw it at the Transformation conference. It was quite wonderful to see just glimmers of the new world that's coming. Obviously, the people centralizing the economy have their plans, but we have ours. And for one weekend I saw a group of remarkable people come together and govern themselves and collaborate in ways that were really quite remarkable.

And you had a feeling of what a very new and different kind of culture could be like, and it was one that was deeply respectful of life, of people, of our natural environment and resources, of animals, of the harvest, of living things. It was really quite capable of dealing with complexity. It's a very, very intelligent culture and one that was based very

much in commitment to a spiritual love and intelligence, so it was very easy for me to see.

At the same time, what I am watching is a divergence, and I come back to this question of how do we turn a cultural aircraft carrier, because you have some people who are really awakening and shifting into building a new world and saying, "Well, it is what it is. I'm sorry I've lost what I've lost, but I'm moving forward," and other people are really stuck, and I think it's that divergence that is of concern to me. How do we jump the curve on that divergence?

The third thing I talked about in January was the weird weather. Planet Earth is clearly experiencing weird weather. There are all sorts of information and theories on why that is happening. Again, please, if you haven't watched Michael Murphy's *Why I the World Are They Spraying?* it's available for free up on the Internet. I posted the story of Joseph and his brothers from the Bible on the blog. It's an interesting reminder of the history of what can happen when you combine control of the food and seed supply with a drought, and I wanted to revisit that story. It's worth revisiting when you think about your own planning of where your food is going to come from and how to make sure, whatever the changes are under way, that you're safe from them.

Climate change. I keep telling subscribers, please do not talk to me about climate change unless you're prepared to address them in the context of what HAARP and chemtrails are all about and what they have to do about it, because I'm not convinced that climate change is necessarily coming from – well, there are issues of what is the real climate change and how much of it is impacted by these various variables. Clearly, they need to be part of any explanation of what's going on and what the solutions need to be.

Science and technology. I said in my article about QE3 that one of the ways that the Fed Reserve and the central banks and the treasuries have managed keeping monetary inflation from spilling over into significant rises in prices and really a spiral down in the value of the dollar is with labor deflation, so we print more money but we deflate the value of the labor, and the devaluation of the labor offsets the monetary inflation.

I think that going forward that new technology is going to be critical to keeping the slow burn going. That's going to continue to devalue some labor and create significant unemployment problems; at the same time, it's going to dramatically bring down the cost of many goods and services and can decentralize manufacturing in some very profound ways. So I think going forward, watch the slow burn continue but very much depend on the introduction of new technology, and that's part of where the change is coming from. If you didn't listen to the interview I did with Chuck Gibson, "The View from Silicon Valley," on some of that new technology, I recommend it. The transcript's up on the blog, and we recommend some videos with that as well. It's a very good background on that point.

The half-pregnant empire. We have during the Bush administration a real effort to move out globally with military bases and special operations forces in over 100 countries around the world. If anything, what we see in the third quarter of this year with Obama and in part in response to the fiscal cliff, bringing the armies home, it's how very tired the army is. It reminds me of right after Vietnam. We see extraordinary pain in the regular army personnel as they go through multiple rotations. We're having reports of suicide, trauma, disabilities.

The integration of those forces back into our population and doing it at a time when unemployment is high is a very difficult process. There are a lot of very fine families and people who are struggling and have been hurt. One of the things we can all do as we look around our lives is ask who can we help, how can we contribute, because we have a very tired military on our hands. And that's not good because if you look at the extent to which the country's finances at this point depend on a strong military, the cost of the Iraq and Afghanistan invasions in human costs is not to be underestimated.

The next trend I talked about was the financial coup d'état and the slow burn. The slow burn continued, and if anything, the coup d'état reached its final wrap-up with QE3, with Ben going to the financial institutions, and presumably Freddie and Fannie, and saying the Fed will buy in all the remaining dirty paper and essentially shred it. I said in my article that the Fed is now where mortgages go to die and where the files get to be shredded, and I think that is going to be the final chapter in the coup d'état.

If you look at where things were in September, I had said in one of the earlier reports that Wall Street was singing, if anything, coming into September, "I'm Dreaming of a Thin Christmas." With QE3 on September 13th, I'm sure the tune was "Happy Days Are Here Again." If the Republicans wanted to win the election, they would persuade Wall Street to announce their bonuses on November 1st before the election. I think Wall Street bonuses will be very significant this year as a result of QE3, and it will be the final reminder that no one was indicted and everybody was paid very, very well, because in fact they did engineer what they were asked to engineer. And that was not just a housing bubble or the strong dollar policy; it was a financial coup d'état.

The fiscal cliff or no fiscal cliff, I predict that we can continue to slow burn, although it's never free from doubt because of the political problems. You have a lot of people who believe there are insiders who are no longer necessary. They're going to get cut out, yes, with bonuses, but they're not going to like being cut out. And so the politics of managing the slow burn are not to be underestimated.

If you look at this year the big market roundup, the big surprise was how well the American stock market did, and it's because corporate earnings did very, very well. And one of the most important questions is, was that because if you look at sort of the way

money was created in the quantitative easing and went through the government, it was the government purchases and contracts that really engineered those rising earnings that then translated into rising stock profits. Certainly the North American markets outperformed precious metals, much more than I expected. And precious metals really continued a long consolidation into the summer and then turned around.

We had continued drops in interest rates. It's fair to say that the long-term bull market has to be over, because in the great limbo dance of interest rates, it's hard to fathom you could go lower, although I said that last year and, sure enough, we've gone lower. What that does is that makes bonds much less attractive than they ever were, and it could mean real trouble for municipal bonds. We had Bloomberg's municipal bond analyst on earlier this year, because particularly where you have lower quality to the extent we see federal monies flowing to municipalities cut off or municipalities just struggling with the continued debasement, municipal bonds could be in for trouble, and sure enough, what we saw in the third quarter and the second quarter, too, was the Fed and the Treasury take a series of different minor steps to position themselves to look good in a world with municipal bankruptcies and troubled issues.

The highlights for the *Solari Report* in the third quarter were interesting. We surveyed a couple of our key subscribers or the ones who've been with us longest and the Solari team. What we found was, those interested in understanding what's really going on loved **my interview with Dr. Joseph Farrell on the breakaway civilization**. It was absolutely fascinating. This is a man I could talk to and talk to forever. It's just like Jon Rappoport.

For a lot of people it was **Jeffrey Smith talking about GMOs**. Because if you watch – and this is why I love this documentary, which is now, again, this week available for free on the Internet, thanks to various sponsors who are making this possible. It really galvanized them as to why they had to act – I often tell my clients, one of the first things I say to them when we start to review their investment strategy, "How are you going to get fresh food in five years?" And I talk a lot about different people who've gotten together and bought farmland and hired a farmer or gone into very long-lived relationships with farmers. I think several clients listened to Jeffrey Smith, listened to the interview, watched his *Genetic Roulette*, and realized "I really have to do something. I really, really have to do something." So that interview seems to have had a great effect.

Another very popular one was the interview with Dale Dougherty on the maker movement, because what is happening now with the fabrication and manufacturing tool is so extraordinary. It's really hard to fathom until you dive in and start to see all the many possibilities, and it's both the tools and the composite materials that make extraordinary things possible.

I had a venture capitalist telling me the other day he's working with a company that makes steel which is transparent, so imagine making your windows from transparent steel. But there are just endless examples, but the exciting thing about the maker movement is it takes those tools and really brings it down into the schools, into the grassroots, and makes it possible for us to really contemplate doing things that we could never do before. So why do we need to buy manufactured goods? Let's just make them ourselves.

Finally, **the Nick Bryant interview on the Franklin scandal** was very useful for many people to help understand the control file issue and why and how many of our leaders are literally blackmailed from behind the scenes.

The unanswered questions is something I talk about in the January wrap-up. I said at the beginning of 2012, the most important unanswered question is: **Who's really in control, and why are they doing what they're doing?** And then a second question that I would add is: **How will the fiscal cliff play out, and what will it do to the markets?** And finally: **How do we all navigate a culture that's in shock over the one-two punch that lands with the fiscal cliff at some point in the next few years, and how do we serve people in moving out of shock and into helping to build the new world?** One person said at the Transformation gathering, "Hey, I don't feel bad about the old world dying. I didn't like it very much, did you?" It was very funny.

Some of the things we talked about at the Transformation and Renewals – I want to switch to New Year's resolutions, so I'll say third-quarter resolutions, what can each of us do? I look at unemployment as an opportunity. If you look at the companies that were successful in the Great Depression, what they did was they hired and trained and built up fantastic people. I always tell the story of *Encyclopaedia Britannica*, which suddenly could get very highly educated people working for them, and when the Depression was over, they stayed and it really made *Encyclopaedia Britannica*.

So I see unemployment as an opportunity because you have fantastically talented, motivated young people who are very interested in building their future. And what we need to do is align the generations, because at Transformations we had three generations. We had the people like me who have some experience or have some capital or both; you have a middle generation who's very hands-on, knows how to do things; and then you have young people who are very interested in looking at things in a new way. And if you can find a way to combine those young people with the doers and add new technology, I think there are incredible opportunities.

So as you go through the fourth quarter, take a look and see where are the young people in your family and networks and neighborhoods, and where is the opportunity to combine them and new technology with creating opportunity on Main Street? Because I think there are, from what I'm seeing, a lot of opportunities there.

One of the things that came up a couple – I don't know, in the early 2000s I had a webmaster who said, "Look, you're making things too complicated. We need to put something really simple up on the Web that says 'take action.' You need to come up with three things, no more than a sentence each." So we wrote: "Eat fresh food. Turn off your television. Bank local." And what came out at Transformations, everyone said, "The two things we've really got to do is we've got to eat fresh food and turn off our TVs." And I thought, well, you know, it really is very simple.

What's remarkable is, if everyone did that, you have no idea how it would shift the economy. It would shift the economy enormously 'cause it would shift money certainly out of the corporate media in a way that they would have to shift, and eating fresh food could dramatically impact the GNP of the country and where it cycles, because to a certain extent if you look historically, our GNP has always been a multiple of small-farm income. And certainly fresh food is not something that's so easy to outsource to China.

It's never too late to reposition your money. I'm often asked by people – I look at people who repositioned for the way things were going ten years ago or five years ago, and yes, they're in a much better position than they would've been if they hadn't. But it's never too late, and I think one of the things we've seen with Bernanke committing to QE3 is a real commitment to do the things – to manage inflation, to work out the debt, and Franklin and I talked about that in the last precious metals market report. The transcript will be up on the blog next week. But there's a real commitment to debase the dollar, and that's very important in terms of what it means to your money. It means you're going to have to get out of dollar-centric assets and focus on real assets. And that means you're going to have to live with volatility.

One of the things that came out a lot at the Transformations gathering is the importance of building up our own economy and building equity and paying off debts, and the extent to which that requires organization and cooperation between the different generations and within a family or between neighbors. And I'm thinking a lot about how do we find each other, how do we find the people who can help us save money and take action. We have a *Solari Report* on how to do a Solari Circle, and it's an idea that I've floated numerous times before. I do believe there's a lot we can do by organizing with each other, particularly if we can do it locally.

I know for many years I was part of a dinner group in Hardeman County, and once a month we'd get together, have a potluck dinner, and sometimes we'd watch a documentary, but we'd often talk about what we could do to help each other grow more food, do more alternative healthcare, start our garden, start an orchard. We certainly went a long way to helping each other learn all sorts of different things. They talked me into getting my ham radio license, which I still have to do. But I must say it had a profound impact on helping me get unstuck and taking an awful lot of actions.

So think about how you could do maybe a potluck dinner with people that you really enjoy being with and how you could start to organize about how cooperating and different things would save you time, save you money, or – I'm always telling everybody, "Don't complain that you can't get fresh food. Why don't you get together as a group and everybody takes turns going down to the terminal market and buying it wholesale. You'll save a fortune."

Predictions. Everyone in America, by January, is going to know the term fiscal cliff.

And two weeks ago in the equity overview, Chuck Gibson did a very good job of going through the automatic changes that will happen if there are no renegotiations of the tax laws that are set to sunset and federal budget provisions that are set to sunset by January 1st. I think the chances of an automatic happening are unlikely. We're going to see a number of renegotiations to the federal budget. It's going to happen – we'll see fixes after the election. We'll see renegotiations as we go through the appropriation process next year. That will start in the spring. The committees will vote out in the early summer. They'll come back next fall. That's going to be quite an interesting and that's going to be quite a wild budget season. So that'll be September with a new budget October 1, same thing the following year.

There's 100 years of things that haven't been faced – or 50 years, certainly since World War II, that haven't been faced. Let me just go through the list of some of the things on the table that are going to impact all of us.

You should plan on an increase in income taxes one way or another. And that could include an increase in taxes on investment income, dividends, and capital gains. Expect the possibility of an increase in estate taxes, certainly a lowering of the minimums at which estate taxes apply.

Expect the mortgage interest deduction to be something on the table and to be discussed, and here's why. If you want to keep interest rates down, then you need to do more to engineer the flow of capital into government. Government's in the process of a slow takeover of the economy. And start to shift capital out of the housing stock. If you look at the policies since World War II when the mortgage interest deduction and federal credit have been instrumental in flowing massive amounts of capital, including federal benefits into housing, all it's managed to do is dramatically increase the size of the house. And if you count up the impact of inflation and the increased size, that pretty much explains rising prices.

There's no reason that process can't be reverse engineered as more and more capital is pushed to government, as government continues to struggle with how they're going to manage the government deficit. So don't be surprised if the mortgage interest deduction is on the table, although I think it will be managed in a way so that there won't be a shock

to the housing market. One of our subscribers asked, "Are we looking at a new housing bubble?" I think that's unlikely because of the competition for capital. **I do think we're looking at significant reengineering of land use in neighborhoods for integration of technology, and that's where the opportunity's going to lie.**

Look for Social Security COLAs to be under pressure. And it's not that we won't have cost-of-living increases, but the cost-of-living increases will be significantly below the increase in monetary supply and the rise of the cost of food and other essential services, so there's going to be a squeeze on the COLAs. Expect the retirement age to move out. If you look at a combination of lower life expectancy and a shift in the retirement age to older and older and older, those are the provisions that can balance the Social Security budget.

Karl Denninger had a great interview on the Medicare/Medicaid budget. I would encourage you to watch it. Needless to say, if Medicare continues to keep growing at the current rate, it's going to be more than the entire GNP within a very short time. **My favorite movie for the quarter is *Fat, Sick & Nearly Dead*. That's my vote for best movie of the quarter. And if you watch *Fat, Sick & Nearly Dead*, what you realize is there is a remarkably simple jump-the-curve solution to the healthcare problem, and that's to return our food supply to something healthy and allow markets to work, as Denninger proposes very, very beautifully in a great interview.** So there are real solutions, but they're not solutions that appear to be politically acceptable to the pro-centralization team.

The last thing, expect – or not the last thing, but the next thing, **expect income reductions resulting in government cutbacks that will translate throughout the economy.** It's going to put pressure on government purchases. It's going to put pressure on contracts with corporations, and cuts to state and local government, that could then result in not only cuts to employment but also benefits. Social Security is on the table. The IRA provisions may be on the table, and that's one I'm going to watch very, very closely. And finally, expect pressure from enforcement budgets, parking tickets, speeding tickets, you name it. Anyplace that agencies can make civil money penalties for enforcing more and more complex rules and regulations, they're going to do it.

So across your budget, we're going to see impact from the fiscal cliff. That's going to be combined with a pushing up of expenses that's coming from the QE3 and continued central bank debasement. So if you look at your balance sheet and your income statement, particularly your income statement, we're looking at about 20 different forces that are hitting in this one-two punch that can lower incomes and increase expenses all the time that there's greater pressure on asset values. So that's why I say the shock from what is possible over the next few years could be significant if you're not thinking about it and if you're not preparing for it.

Finally, I wanted to take some time – I did last week – and talk about the deeper issues that are going to start to be discussed and considered when we deal with reengineering the federal budget, and that is the fact that the federal budget is a phenomenally arbitrary and political animal, and let me describe why. **The current financials of the U.S. government actively ignore the law on an ongoing basis.** So we don't have reliable or trustworthy financial statements. There are trillions of dollars that have gone missing, with no effort to get the money back or to deal with the fundamental issues of who's doing it and why are they allowed to continue to work for the government if they're banks or corporate contractors.

Part of this is the fact that at this **point our federal government is not run by government officials or civil service bureaucracy. It's run by a series of private corporations who control the information systems and payment mechanisms within the government.** And so there's a real question of information sovereignty and financial sovereignty, and that machinery is operating outside of a Constitutional framework and has siphoned off enormous amounts of money.

And I think the question – I always use the allusion of a milk bucket. If we're putting money in the milk bucket and there's a hole in the bottom and money's disappearing through the hole, outside of the Constitutional legal framework, without any transparency to us, it's very insulting for someone to turn and say, "Well, the problem is there's no milk in the bucket. You need to put more milk in." And my attitude is, well, why should I put more milk in? You're not obeying the law. You're stealing money. You're operating as a criminal enterprise. I want a report; I want real accountability before I'm going to put any more milk in the bucket.

And under the law, in fact, there is an argument whether under the Constitutional law or common law that I have a common-law and Constitutional obligation to hold you accountable and not to put more money if money is being spent illegally. So the state of the federal finances and their noncompliance with law on an ongoing basis is a very significant issue. And as we go through the fiscal cliff, expect to see it come to the fore.

The second thing is that there is complete arbitrariness as to what assets, revenues, and expenses are on and off budget, which makes balancing the budget on the backs of those things that are in but not on the backs of those things that are out a very troublesome political issue. So as I said before, the cost of going to war is on the budget, but the assets acquired are off budget. Many of the subsidies provided to the banking sector are off budget, while significant liabilities assumed for the banking sector are financed on budget. We have this funding of the space program or many other major trillion-dollar investments on budget. Well, now the plans for space mining are suddenly being privatized, so again, we're watching the assets come in on a privatized basis.

The budget reflects popular support for fiscal irresponsibility, and this is one where we are all responsible. For literally decades we've resolved our differences by just providing more money instead of sitting down and talking about what we have to do to change as the economy changes or to deal with a whole variety of problems locally. And instead of doing that, we simply paid ourselves and everyone off, and we voted for the politicians who would solve the problem by borrowing more money and throwing it at us.

And now that process has to change, and we have to start facing decades and decades of behavior that I think many of us are uncomfortable facing. And that's a process of looking in the mirror that a lot of us don't want to do. I once said that the federal government budget was like an orchestra playing in the dark that hadn't been able to share a score or look at each other for 50 years, and now they're going to turn on the lights. And what they're going to see is they're very far from a professional-looking orchestra.

Finally, the budget reflects an older industrial economy that is just gone. And we've seen private industry reengineer, reengineer, reengineer into great new technology. We have not begun to see that happen in the federal, state, and local government. And so the question is, are we going to do that? How are we going to do that? That has a profound impact not just to the budgets but to the workforces that carry those bureaucracies, and it has a profound impact for us and how we live and how we behave.

So those are very big deeper problems that are not part of the discussion right now in the fiscal cliff. But the reality is, all the solutions that can make a huge difference to rebuilding the economy and providing reasonably for the retirement of the boomers and the careers and opportunities of young people today come by going to that deeper level and saying, okay, how do we reengineer the federal budget so that instead of having a negative return to taxpayers, we have a positive return to taxpayers? How do we realign government money with living things and people and with corporate wealth? Where's the win-win in this?

And in fact, there is an extraordinary win-win, but it requires going to a much deeper level. And that's not just an economic matter. That is a profound cultural change because we're in a culture where people think win-lose as opposed to win-win/lose-lose. So we're talking about a culture where people help each other succeed and deal at a much higher level of transparency and intimacy.

Now, I certainly don't think that people running the country expect to go there. If anything, they're planning for very tight top-down control because I don't think they think the kind of world that I believe is possible is possible. So it falls to us to build it, and in fact it can emerge. I think the more it can emerge by the efforts of anybody who wants to do it, the greater chance we can reduce the risks that the people in the leadership face, and the more opportunity there will be to come into alignment. So that's why I say a new

world is beginning. And the place it has to begin – I used to have a wonderful guy who worked for meat HUD who said, "In the destruction of the old, let there be the creation of the new." And that beginning has to happen within the reengineering of the federal government budget and the resulting reengineering of the state, and local budgets. Those are the pots of time and money that can turn the aircraft carrier, and that's where the reinvention or the jamdown is going to come, one way or the other.

So let me talk about our **heroes from the third quarter**. I'm just going to put the slide back of Hero of the Week, which I love. We had some wonderful people that we talked about: **Pat Caddell**, brave pollster who spoke the truth about the failure of the media; **John Taylor Gatto**, great educational leader; **Jeffrey Smith**, activist fighting for Proposition 37 in California; **Neil Armstrong** died, and a wonderful astronaut; **Dr. Joseph Farrell**, who was on to discuss the breakaway civilization; **Tony Scott**, one of my favorite directors, died in the third quarter; Steve Ritz, the teacher in the South Bronx; **Pam Warhurst**, wonderful founder of Incredible Edible in England, is dedicated to growing food locally; **Dr. Peter Harvey**, brave doctor and researcher illuminating the role of vaccines; **Joe Cross**, the maker of *Fat, Sick, Nearly Dead*; and **Nick Bryant**, who joined us, author of the second book on the Franklin scandal.

And sort of two picks for the third quarter. One I just have to tell you is Joe Cross, who made *Fat, Sick & Nearly Dead*, has had a profound effect on me and on I would say thousands, if not more, Americans all across the country and people around the world, showing a way of – there's Obamacare, but then there's Joe Cross's plan. And I think Joe Cross's plan has a much better chance of getting us to a healthy, happy life in America. So if you haven't seen *Fat, Sick, Nearly Dead*, I recommend it.

My other choice is the American people for fighting gun control, which just goes to show you the American people are – they won't tell you straight up, but they're smart people and eventually they get what's going on. And their turn on the gun control issue has been remarkable to see and reaffirms my faith that anything is possible in America.

My pick for the top movie in the third quarter – we had great movies. I've talked a lot about *Genetic Roulette*. We did *The Intouchables*, wonderful French movie; *May I Be Frank*, another juicing movie; I did, again, *Other People's Money*, a wonderful Danny DeVito movie that brings up this question of reengineering the economy. But of course, again my choice for the third quarter is going to be *Fat, Sick & Nearly Dead*. If you haven't seen it, I can't recommend it enough.

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