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ALEXANDER COCKBURN AND JEFFREY ST. CLAIR

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The Impending Destruction of the U.S. Economy

By Paul Craig Roberts

Hubris and arrogance are too ensconced in Washington for policymakers to be aware of the economic policy trap in which they have placed the U.S. economy. If the subprime mortgage meltdown is half as bad as predicted, low U.S. interest rates will be required in order to contain the crisis. But if the dollar's plight is half as bad as predicted, high U.S. interest rates will be required if foreigners are to continue to hold dollars and to finance U.S. budget and trade deficits.

Which will Washington sacrifice, the domestic financial system and overextended homeowners or its ability to finance deficits?

The answer seems obvious. Everything will be sacrificed in order to protect Washington's ability to borrow abroad. Without this, Washington cannot conduct its wars of aggression, and Americans cannot continue to consume \$800 billion dollars more each year than the economy produces.

A few years ago the euro was worth 85 cents. Today, it is worth \$1.48. This is an enormous decline in the exchange value of the U.S. dollar. Foreigners who finance the U.S. budget and trade deficits have experienced a huge drop in the value of their dollar holdings. The interest rate on U.S. Treasury bonds does not come close to compensating foreigners for the decline in the value of the dollar against other traded currencies. Investment returns from real estate and equities do not offset the losses from the decline in the dollar's value.

China holds over one trillion dollars, and Japan almost one trillion, in dollar-denominated assets. Other countries have lesser but still substantial amounts.

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Before, During and After Annapolis

The Horror that is Gaza "Humanitarian catastrophe" only begins to describe it

By Jennifer Loewenstein

The single, most reliable correlation between U.S.-sponsored Israeli-Palestinian peace talks and the reality on the ground is that the more those in power talk about peace, the worse the situation on the ground becomes. But instead of asking the most basic and obvious questions, U.S. newspapers have been brim-full of analyses and editorials about whether Olmert, Abbas and Bush have a "shared vision" for the future, about whether a peace treaty can be reached by the end of 2008, or whether a new process for negotiations has indeed really begun; of whether George Bush has the political will to push Israelis and Palestinians toward resolving the "core issues" that have "bedeviled peace negotiators" for decades or whether the current participants can "afford to fail." What the most superficial inquiry beyond this deceptive line of questioning reveals, however, is a chasm between what the powerful in Annapolis and Jerusalem are saying, on the one hand, and what they are doing, on the other.

Even talk in more serious circles about the coming "humanitarian catastrophe" in Gaza belittles the present reality. In the refugee camps of the Gaza Strip disastrous conditions already exist, foretelling a bleak future for the West Bank in the face of continued indifference. Instead of acknowledging these epicenters of regional instability and working overtime to prevent a spillover of effects, Israel's army chief of staff, Gabi Ashkenazi, announced December 5 that preparations for a broad offensive in the Gaza Strip are underway. For those paying attention, this will come

as no surprise. In an article in the Israeli newspaper *Haaretz* on October 26, Amos Harel and Avi Issacharoff analyzed the "real intention" behind the sanctions on the Gaza Strip: to escalate the current situation in order to justify a major military offensive in Gaza that would then allow Israel to renounce any further obligations to the Palestinians living there. The timing is perfect: Abbas came away from Annapolis empty-handed. An obvious next step for him would be to prepare for negotiations with Hamas. This time, however, the way will be blocked not by his own egoism and stupidity but by Israel's final severance of Gaza from the West Bank. The success of Annapolis will have been its failure to bring even a modicum of stability or justice to the region – all in the name of peace.

Any person wishing to do a realistic assessment on the prospects for peace after Annapolis has got to include information that never makes it to Annapolis-type summits – and, therefore, to the newspapers, TVs, radios and commentators that shape our knowledge of world events – in the first place. It is useful to know, for example, that on Sunday, October 28, Israel's military ordered the private fuel company, Dor Alon, to transfer 15-20 per cent less fuel into the Gaza Strip at the Nahal Oz crossing on the Gaza/Israel border. (Fuel supplies, like most other material goods, are not permitted entry via sea, air or the international border with Egypt.) Fuel supplies went from 700,000 liters of diesel and benzene daily in May 2006 to 450,000 in June of the same year. By November 29, 2007

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As the U.S. dollar is the reserve currency, the entire world's investment portfolio is overweighted in dollars.

No country wants to hold a depreciating asset, and no country wants to acquire more depreciating assets. In order to reassure itself, Wall Street claims that foreign countries are locked into accumulating dollars in order to protect the value of their existing dollar holdings. But this is utter nonsense. The U.S. dollar has lost 60 per cent of its value during the current administration. Obviously, countries are not locked into accumulating dollars.

The reason the dollar has not completely collapsed is that there is no clear alternative as reserve currency. The euro is a currency without a country. It is the monetary unit of the European Union, but the countries of Europe have not surrendered their sovereignty to the EU. Moreover, the UK, a member of the EU, retains the British pound. The fact that a currency as politically exposed as the euro can rise in value so rapidly against the U.S. dollar is powerful evidence of the weakness of the U.S. dollar.

Japan and China have willingly accumulated dollars as the counterpart of their penetration and capture of U.S. domestic markets. Japan and China have viewed the productive capacity and

wealth created in their domestic economies by the success of their exports as compensation for the decline in the value of their dollar holdings. However, both countries have seen the writing on the wall, ignored by Washington and American economists: by offshoring production for U.S. markets, the U.S.A. has no prospect of closing its trade deficit. The offshored production of U.S. firms counts as imports when it returns to the U.S. to be marketed. The more U.S. production moves abroad, the less there is to export and the higher imports rise.

Japan and China – indeed, the entire world – realize that they cannot continue forever to give Americans real goods

If foreigners were to stop accumulating new dollars, the dollar's value would plummet. If foreigners were to reduce their existing holdings of dollars, super-power America would instantly disappear.

and services in exchange for depreciating paper dollars. China is endeavoring to turn its development inward and to rely on its potentially huge domestic market. Japan is pinning hopes on participating in Asia's economic development.

The dollar's decline has resulted from foreigners accumulating new dollars at a lower rate. They still accumulate dollars, but fewer. As new dollars are still being produced at high rates, their value has dropped.

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Foreigners have continued to accumulate dollars in the expectation that sooner or later Washington would address its trade and budget deficits. However, now these deficits seem to have passed the

point of no return.

The sharp decline in the dollar has not closed the trade deficit by increasing exports and decreasing imports. Offshoring prevents the possibility of exports reducing the trade deficit, and Americans are now dependent on imports (including offshored production) for which there are no longer any domestically produced alternatives. The U.S. trade deficit will close when foreigners cease to finance it.

The budget deficit cannot be closed by taxation without driving up unemployment and poverty. American median family incomes have experienced no real increase during the 21st century. Moreover, if the huge bonuses paid to CEOs for offshoring their corporations' production and to Wall Street for marketing subprime derivatives are removed from the income figures, Americans experience a decline in real income. Some studies, such as the Economic Mobility Project, find long-term declines in the real median incomes of some U.S. population groups and a decline in upward mobility.

The situation may be even more dire. Recent work by Susan Houseman concludes that U.S. statistical data systems, which were set in place prior to the development of offshoring, are counting some foreign production as part of U.S. productivity and GDP growth, thus overstating the actual performance of the U.S. economy.

The falling dollar has pushed oil to \$100 a barrel, which in turn will drive up other prices. The falling dollar means that the imports and offshored production on which Americans are dependent will rise in price. This is not a formula to produce a rise in U.S. real incomes.

In the 21st century, the U.S. economy has been driven by consumers going deeper in debt. Consumption fueled by increases in indebtedness received its greatest boost from Fed chairman Alan Greenspan's low interest rate policy. Greenspan covered up the adverse effects of offshoring on the U.S. economy by engineering a housing boom. The boom created employment in construction and financial firms and pushed up home prices, thus creating equity for consumers to spend to keep consumer demand growing.

This source of U.S. economic growth is exhausted and imploding. The full

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– two days after the Annapolis Summit
– that amount had been further reduced to 90,000. In October 2007, Defense Minister Ehud Barak authorized a plan to disrupt electricity supplies to the Gaza Strip. This plan will go into effect before the people of Gaza have recovered from the electricity shortages produced by the summer 2006 IDF bombing of the main electricity transformer in Gaza City – an act the Israeli human rights organization B'tselem declared a “war crime”. Cutting fuel and electricity supplies will affect all 1.5 million of Gaza’s inhabitants, and in ways most people fail to consider. Fuel and electricity shortages punish the poor above all (now 80 per cent of Gaza’s population) because of the concomitant price rises. Additionally, many families cannot afford to buy bottled water. The unpredictability of available supplies disrupts the regular and sustained functioning of businesses, institutions, social services, transportation, NGO activities, and the daily routines of school and family life. The resultant frustration and hardships serve as effective recruitment techniques for political extremists and win greater support for continued acts of armed resistance, as the IDF general staff surely know.

It is unclear what definition the Israeli High Court gives to the word “humane” or where it draws the line between humanity and inhumanity. All we can know for certain is that it has determined that cutting fuel and electricity supplies to 1.5 million people at the beginning of the winter season is acceptable; so also is interrupting the pumping of water to apartment complexes, hospitals, factories and businesses, or purifying water so that it is not full of bacteria. It is acceptable to make the treatment of raw sewage nearly impossible or to limit fuel and electricity to the generators that keep hospitals, clinics and factory machines running once the main sources are cut. It is all right to reduce severely the operating capacity of vehicles such as ambulances, school buses, transport trucks and taxis, to limit heat and hot water supplies to homes and apartments, or to keep 1.5 million people from knowing when the lights will come on again.

Such conditions are acceptable, we are told, because on January 25, 2006, Hamas won free, fair and transparent democratic elections in the Palestinian

territories. Israel and the U.S.A. then imposed a siege upon the entire Gaza Strip. This has virtually completed the destruction of the Gazan economy. Of course the fact that the same or similar tactics were already in place before Hamas came to power complicates this argument – but then who’s asking?

An examination of other unreported facts will illuminate further what we can expect following the Annapolis summit. For example, Israel has systematically denied Gazan school children the right to receive textbooks, notebooks and writing paper, pens, pencils and binders, a sufficient number of desks, chalk, erasers

The hundreds dead in Gaza and the West Bank, including women and children, just since August, the scars of ruin across the spirit of children and adults alike – these are what we have left after the “peace talks” at Annapolis, at which not one of the truly critical issues went up for genuine discussion.

and bookbags because the trucks carrying these materials are prohibited from crossing into Strip. No one has been able to answer just how school supplies such as notebooks and pens promote terror. Again, however, the questions are never posed and often because the knowledge of this crime against the children of Gaza is unknown.

Israel routinely closes all of the industrial crossings into the Strip for indefinite periods of time and, even when they are opened, allows in only enough raw materials to keep people from starvation. This, too, is deliberate. Dov Weisglass, Ariel Sharon’s former advisor, must be pleased to know how well his goal of putting the people of Gaza on a starvation diet, as he

famously phrased it, has worked.

So, what if Gaza’s school teachers teach in double shifts to cope with overcrowding and the lack of classroom space, furniture, or teaching materials? Who cares that many of them have not received salaries for two years? The reply that these circumstances would significantly improve were Hamas to relinquish its control over Gaza fails to convince when we come to understand that most of the conditions in which teachers and school children find themselves today are merely the extension of policies begun well before the beginning of the 2nd Intifada in September 2000. Indeed, despite the heavy-handed measures meted out to Gaza’s children then and now, Hamas was one of the few reasons that some children actually did get looked after. As the ink on the Oslo accords was still drying in 1993, Israeli experimentation with such practices was well underway. Many had begun in the early 90s under the umbrella of “closure”, a policy of sealing all access into and out of the Occupied Territories.

The fact remains that the question of how much and what Palestinian school children are able to learn in school ought to be juxtaposed to the still more important question of how much and what they are learning outside of school. There, unemployment and underemployment have reached unprecedented levels (60-70 per cent). Additionally, domestic violence and child abuse have increased in direct proportion to unemployment and jobs in the overflowing security apparatuses, one of the only places where getting a salary is guaranteed. Understanding these relationships would help us assess the prospects for post-Annapolis peace.

Still more information surfaces with but a cursory glance at the newspapers outside the U.S.: for example, approximately 23 per cent of all Palestinian medical patients seeking care outside the territories in October 2007 were denied the permits necessary to get the care. Twelve patients seeking care outside Gaza in October and November 2007 died because their permits were either delayed or denied altogether. According to the U.N.’s Office for the Coordination of Humanitarian Affairs “Gaza Strip Humanitarian Fact Sheet,” infant mortality has increased. Psychological trauma manifesting itself in hyperactivity, lack of motivation, insomnia, anxiety, de-

pression, and bedwetting increased as the availability of crucial medications, particularly for psychological conditions, went gone down. There has been a 206 per cent increase in the number of patients seeking mental health care. Medical equipment functionality, including ceiling lights in operating rooms and incubators in the pediatrics hospitals, has decreased while construction of key hospital facilities has been suspended owing to a lack of funds.

According to the newly released OCHA fact sheet (Nov. 28, 2007), “91 drug items out of the 416 essential drugs, and 188 medical supplies items out of the 596 essential medical supplies, are at zero availability ... due to problems faced by one of the contracted suppliers to deliver [them]. First line pediatric antibiotics are no longer available in the Ministry of Health (MoH) [because they are] produced by the only drug manufacturer in Gaza [which is] now unable to import the necessary chemical precursors. Certain expensive drugs not on the essential list and that the MoH has no budget to procure have run out Two kidney transplant immunosuppressant drugs ... are no longer available. Eight patients are currently in critical need for them. One patient with kidney failure died in August after a medical item that is needed for kidney dialysis was not available. A 21-year-old leukemia patient died after the drug Cisplatin was no longer available in the MoH and after denial of a permit to cross Erez for treatment in Israel.”

On Dec. 4, OCHA reported that a mother of 7 children from the Nusseirat refugee camp in the Gaza Strip died at the Erez Crossing because she was unable to get the necessary permit to seek medical treatment outside.

Serious problems also exist in the areas of food security, in the prices and availability of market products, in the loss of the already severely limited agricultural production, exports and imports, and in Gaza’s crucial fishing industry. The economy of Gaza has been systematically destroyed, most notably since the completion of the much-lauded “disengagement” in August 2005, but the decline was well underway prior to it, as a 2004 World Bank report detailed. The water situation is especially severe, as the Coastal Municipalities Water Utility is receiving only 50 per cent of the amount of fuel it needs for wells, purifying and pumping

stations, and sewage treatment plants. Kidney diseases, cancers, stomach conditions, and tooth decay have all risen as the water quality has deteriorated. There are no signs that these conditions will improve in the coming months or years. On the contrary, the outlook is for further deterioration to the point of complete malfunction. Drink Gaza’s foul-tasting, brown water for a few days and give it to your kids and pets. Shower in it after a day in the dust and fumes on Gaza’s garbage-laden streets. There is no money to pay municipal workers their salaries or to

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fix the streets or collect trash. One thing is clear – if starving the Gazans to the point of death fails, if locking them in an enormous ill-equipped prison indefinitely until they’ve all gone collectively mad and devoured themselves in factional infighting doesn’t work, if denying them human, civil, social, economic and cultural rights doesn’t drain them of all their humanity, if punishing them collectively for objecting doesn’t send the right message, the putrid water of Gaza will ultimately finish them off.

Did the participants of Annapolis discuss the new checkpoint system going up in the West Bank, the high-tech checkpoints that are oblivious of the human life that passes between them? Were they aware that these sterile, state-of-the-art crossings will cost the U.N. Relief and Works Agency five times what it has been

paying to transport goods because it will adopt the hugely inefficient system of back-to-back transport used for the Gaza Strip? Did the participants mention that settlement construction is continuing? In particular in “greater Jerusalem,” where 307 new housing units have just been announced – post Annapolis? Or that these and other “housing units” cut the northern and southern sections of the West Bank into two, making travel between the two areas almost impossible except for Jews, since the only highways connecting the two areas are “Jewish only” roads? Did they mention that the Israeli mayor of Jerusalem, Uri Lupolianski, has proposed a plan for East Jerusalem that, for all practical purposes, annexes it to Israel? Did anyone notice the problem with a plan that seals the fate of Jerusalem at a time when the “status of Jerusalem” is supposed to be included in the negotiations process over the next year?

Did any of the Annapolis participants complain that the IDF staff responsible for carrying out house demolitions didn’t even get the day off for the summit? Or that every time Israel promises to freeze the construction of settlements and reduce the number of internal checkpoints, settlement construction increases and the checkpoints are simply rearranged? Did anyone at Annapolis utter a sound about the “security barrier” that has been declared illegal by the International Court of Justice but whose construction continues, day-by-day, without objection by the major parties, while people’s lands are devoured and lives ruined forever? Have there been any discussions of whether it is OK for the Israelis to take over the Jordan Valley, thus completing the encirclement of the West Bank cantons?

Did anyone reproach Israel for its daily intrusions into West Bank cities and towns, in which “militants” are rounded up for detention, hunted down, and executed on the spot – a practice that has become so routine, so acceptable, that mere mention of due process and “innocent until proven guilty” is unheard of? That it is simply taken for granted that “militants” are militants and not brothers, husbands, fathers and sons of people objecting to the complete silence from the “international community” surrounding their fate?

Are there going to be any headlines on the fact that, since June, Israel has rounded up and imprisoned more than

four times the number of people being released as a “goodwill gesture” to Abbas this month? Is Abbas going to sit there silently, smiling for the photo-ops, so that his bosses aren’t unhappy with him? Have people forgotten that a third of the democratically elected PLC members of the Hamas government from January 2006 were rounded up in an illegal sting operation on June 28, 2006, and that most of them are still in prison? Has anyone counted the total number of dead as a result of Israeli operations in the territories? Does anyone know how many of those dead were children? Have we become so cynical that the mere mention of dead children or dead civilians is not looked upon so much as highlighting the enormity of the crimes being committed as a sympathy-garnering tactic by those who “don’t care about Israel”? Does this mean we can’t call a war crime a war crime because if we do, we’ll be put on someone’s list of “Terrorist Sympathizers and Supporters of Radical Islam”? What then are we supposed to do when we see war crimes being committed daily and no one is saying anything? Pretend they are not happening? Pretend that they aren’t really there? Just as we assume that by ignoring Hamas, it will simply disappear?

The hundreds dead in Gaza and the West Bank, including women and chil-

dren, just since August, the hundreds more wounded, struggling to get back to the lives they once knew; the scars of wreckage across the landscapes and the greater scars of ruin across the spirit of children and adults alike – these are what we have left after the “peace talks” at Annapolis, at which not one of the truly critical issues went up for genuine discussion.

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consequences of the housing bust remain to be realized. American consumers lack discretionary income and can pay higher taxes only by reducing their consumption. The service industries, which have provided the only source of new jobs in the 21st century, are already experiencing falling demand. A tax increase would cause widespread distress.

As John Maynard Keynes and his followers made clear, a tax increase on a recessionary economy is a recipe for falling tax revenues as well as economic hardship.

Superpower America is a ship of fools in denial of their plight. While offshoring kills American economic prospects, “free-market economists” sing its praises. While war imposes enormous costs on a bankrupt country, neoconservatives call for more war and Republicans and Democrats appropriate war funds, which can only be obtained by borrowing

abroad.

By focusing America on war in the Middle East, the purpose of which is to guarantee Israel’s territorial expansion, the executive and legislative branches, along with the media, have let slip the last opportunities the U.S. had to put its financial house in order. We have arrived at the point where it is no longer bold to say that nothing now can be done. Unless the rest of the world decides to underwrite our economic rescue, the chips will fall where they may. CP

Dr. Roberts was assistant secretary of the U.S Treasury for Economic Policy in the Reagan administration. He is credited with curing stagflation and eliminating “Phillips curve” trade-offs between employment and inflation, an achievement now on the verge of being lost by the worst economic mismanagement in U.S. history.

The extent to which Israel has deliberately destroyed the socio-cultural and physical infrastructures of the Palestinian territories, the extent to which it controls all access into and out of these territories, the extent to which it can determine the physical, social and psychological well-being of their inhabitants – all of these things might not necessarily add up to the impossibility of genuine peace negotiations. They are clearly a significant set of obstacles – and ones that cannot be overlooked by people claiming to want peace. The problem is that such people were not present at this past November’s Annapolis Summit, a summit whose sole intention was to garner continued support for U.S. hegemony in the Middle East. Otherwise, the facts presented in this paper would come as no surprise to those wondering if a just Israeli-Palestinian peace were on the horizon. CP

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Knowing Where the Bodies Are Buried

By Allan Nairn

The phrase “knowing where the bodies are buried” has different meanings in Timor and Washington.

In Washington, it means knowing some incriminating gossip about somebody, whereas in Timor-Leste the meaning of that phrase is literal.

The November 12, 1991, massacre at Santa Cruz cemetery in Dili, East Timor, was a turning point in Timorese history. The fact that it got outside attention opened the door for an independence that has been rough for Timor (due to ridiculous squabbling among its politicians), but that has ended the daily terror and massacre that was the Indonesian occupation.

But one thing that Timor independence didn't do was to produce a regime confident or responsive enough to stand for justice and insist that Indonesian officers be put on trial for their crimes.

Of course, a Timorese insistence would not suffice, since the Indonesian generals are still in power and the last thing

Washington wants is a Nuremberg for its trainees – or, for that matter, itself – but it makes some political and moral difference when the new Timorese rulers say, “Don't bother.”

The Jakarta generals killed a third of their target population – 200,000, starting after the 1975 U.S.-backed invasion. Instead of testifying and watching the perpetrators of this Nazi-like slaughter hauled off to prison, the Timorese people

The elected leaders of independent Timor have been hugging the Indonesian generals for years.

have been reduced to politely begging their murderers to tell them where they dumped the bodies.

This past November 12, some Timorese survivors requested precisely that in a petition submitted via the Indonesian Embassy in Dili to President General Susilo of Indonesia.

The press quoted the group's spokes-

man as suggesting that “every human being must have a grave,” but reported that the petitioners made clear that they weren't seeking to offend Indonesia's government. (See Jose Sarito Amaral, “East Timor marks anniversary of 1991 cemetery killings,” Tempo [Jakarta] website, November 13, 2007, [in English], via BBC Monitoring, Asia Pacific, via Joyo Indonesian News Service).

It's easy to imagine the response to this petition by whatever uniformed man may have perused it: laughter and a search for the trashcan. “Will those Timorese never learn?”

The elected leaders of independent Timor have been hugging the Indonesian generals for years (this is not a figure of speech). Instead of being jailed, the perpetrator officers have been promoted, gotten richer, gotten their U.S. aid restored, and make regular appearances as respected figures, including ones on Indonesian TV.

Maybe that's one reason why people turn to God. For they often cannot turn to politics for even such a simple, earthly thing as justice for their family's slaughter. Bereft, they feel no choice but to pray. Either that, or change the system. CP

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