



et Economy

vast supplies of other natural resources including ores, minerals, and precious metals. It must import food to supplement domestic production, but there are adequate supplies at relatively low prices on the world market, and the Soviets can afford to import food. While the gross hard currency debt (around \$40 billion) is substantial, it is manageable. In fact, Western bankers would like to lend the Soviets more. The Soviet Union lags behind the West technologically, but its industrial output is impressive. In some areas, such as defense and space, it remains competitive. It has an educated, skilled labor force.

The present inflation rate is comparable to levels experienced by many other industrialized countries in recent years. Much the same can be said about the budget deficit, which has increased greatly since 1986. The seriousness of the deficit problem has been somewhat exaggerated by a lack of understanding about the peculiarities in the Soviet government budget and financial systems. For example, the debts of industrial firms, which in the US would be considered private debt, are included in the overall Soviet budget.

Some of the agricultural reforms seem to be taking hold as farmers get used to making their own decisions about what and when to plant, and how to market their crops. Joint ventures and foreign investment are gradually increasing, although it will be some time before their success can be evaluated. Cooperatives (a euphemism for private businesses) have gained a foothold.

Most importantly, Gorbachev and the leadership seem firmly committed to reform and are pushing forward doggedly. Earlier efforts to reform the Soviet economy were undermined by opposition within the leadership. Restructuring is advocated even in the defense sector, largely on economic grounds. Although reliable estimates cannot now be made, it appears defense spending is being cut.

The clearest sign that economic reform may do better than expected is a recently announced plan that amounts to a stabilization program for 1990. Under it, there would be a reduction in investment for the heavy industries, a shift in production toward consumer goods, and a reduction in the deficit.

Stalinist central planning has failed, and the current system isn't working all that well, but it is much too soon to write off the Soviet economy.

■ Lee H. Hamilton (D) of Indiana is chairman of the Joint Economic Committee.

How the US Can Advance Israeli-Palestinian Peace

By Herbert C. Kelman

THE visit of Israeli Prime Minister Yitzhak Shamir to Washington last month has left unresolved the differences between the two governments on how best to advance an Israeli-Palestinian peace process.

If Mr. Shamir's election proposal is to have any chance at all of attracting Palestinian participation, it cannot exclude the Palestine Liberation Organization from at least an indirect role in the process, nor can it preclude the option of a Palestinian state alongside of a secure Israel as at least a possible outcome of the eventual negotiations. How can the administration persuade Mr. Shamir of these realities?

Direct pressure on Israel, in the form of threats to withdraw financial aid, is not the answer. United States aid to Israel is part of a long-term policy that successive administrations have considered to be consistent with US interests. The policy can, of course, be reviewed — and the Israelis are not unmindful of that possibility. But as long as the policy is in place, it is diplomatically inappropriate and politically infeasible to use aid as a carrot and stick to control specific Israeli actions.

Moreover, the use of such pressures is counterproductive, because Israelis across the political spectrum are likely to close ranks in the face of threats to deprive them of vital aid, as a means of imposing on them a policy that may affect their national survival. Above all, the use of such pressures is not necessary; there are more effective means to persuade Israel to rethink its approach by changing the political environment internationally and within Israel itself.

First, the administration must reiterate, forcefully and unambiguously, long-standing US positions regarding the Arab-Israeli conflict. Most important is that United Nations Resolution 242 (to which Israel recommitted itself at Camp David) is as binding for Israel as it is for the PLO; that 242 applies to the West Bank and Gaza; and that a solution will require Israeli withdrawal from these territories. Other US positions that need to be repeated are opposition to the establishment of Israeli settlements in the territories and condemnation of human rights violations.

Second, the administration must consistently and visibly insist on Israeli adherence to the agreed-upon limits for the use of US aid funds. For example, by calling attention to the rule that US funds are not to be used for settlements in the occupied territories, we would be communicating quite effectively our views about the shape of the solution that US policy favors.

Third, the administration must upgrade the dialogue with the PLO. Although the dialogue should not be confused with negotiations (which must be left to the Israeli and Palestinian parties them-

selves), it can contribute much more effectively to the prenegotiation process. In addition to considering what the PLO must do to advance the peace process, it should explore more fully Palestinian concerns, their views about the negotiating process, and their expectations about the outcome of negotiations.

Gradually, the dialogue should involve higher-level officials on both the Palestinian and American sides. By upgrading both the content of the dialogue and its participants, we would be signaling to the Israeli government that we consider the PLO an essential ingredient of meaningful peace negotiations. We would also be strengthening the hand of the PLO leadership, which needs to demonstrate to its Palestinian opposition that the commitment to a historic compromise with Israel is bearing political fruit.

In this connection, the administration should support an invitation to PLO Chairman Yasser Arafat to appear before the United Nations, which would provide him an opportunity both to recommit himself to a peaceful resolution of the Israeli-Palestinian conflict, based on acceptance of Israel, and to demonstrate the success of the political route that he has adopted. To deny Mr. Arafat a visa would send the opposite message and thus constitute a dangerous setback to the peace process.

Finally, the administration must reexamine its own assumptions about the outcome of Israeli-Palestinian negotiations. It

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needs to draw the logical implications from the decision to deal with the PLO, which stands for the concept of a Palestinian state. It is not necessary for the US to endorse a Palestinian state at this time, but it is important to modify our op-

position to such an outcome, to make it clear that a Palestinian state, committed to peaceful coexistence with Israel, is not precluded, if negotiations prove that such a state can be compatible with Israel's security concerns. For Palestinians, the establishment of a state of their own is an essential component of a compromise that would allow them to feel that their struggle was not in vain and that the justice of their cause has been acknowledged.

The PLO leadership has indicated a readiness to consider interim steps, demilitarization, security arrangements for Israel, and various forms of confederation or union of the Palestinian state with Jordan or Israel. Thus, there is good reason to believe that a formula that would allow a Palestinian state to live, peacefully and cooperatively, side by side with the Jewish state of Israel, could be worked out in a creative process of negotiation. At least it is worth exploring the feasibility of this formula. The administration could advance the peace process immeasurably by declaring its openness to such a solution.

■ Herbert C. Kelman teaches ethics at Harvard and chairs the Middle East Seminar at the Harvard Center for International Affairs. He is distinguished fellow at the US Institute of Peace.