et Economy

vat supplies of other natural resources including ores, minerals, and precious met-
als. It must import food to supplement do-

cestic production, but there are adequate supplies at relatively low prices on the market world, and the Soviets can afford to import food. While the gross hand cur-

ercy debt (around $4 billion) is sub-

stantial, 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 out-

put 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 compara-
tible to levels experienced by many other industrialized countries in recent years. But
self-infla-

tion has been somewhat exaggerated by
a lack of understanding about the peculiarities in the Soviet government budget and financial systems. For exam-

ple, 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 invest-

ment 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, Gorbatchev and the leadership seem firmly committed to the reform and are pushing forward doggedly. Earlier efforts to reform the Soviet economy were undermined by opposition from within the leadership. Restructuring is ad-

vancing 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 will be driven through is a recently announced plan that amounts to a stabili-

zation program for 1989. Under it, there would be a reduction in investment for the major heavy industries, a shift in production to consumer goods, and a reduction in the deficit.

Since the central planning process has failed, and the current system has produced all that is bad but is much too soon to write off the Soviet economy.

How the US Can Advance Israeli-Palestinian Peace

By Herbert C. Kelman

The US does not need to endorse a Palestinian state now, but we should modify our opposition to such a possible outcome.

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 Palest-

ian 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 with-draw 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 unac-

ceptable to use aid as a carrot and stick to control specific Israeli actions.

Moreover, the use of such pressures is counterproductive, because the Israeli- Palestinian 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 ways to persuade Is-

rael to rethink its approach by changing the political environment internationally and within itself.

First, the administration must reiterate, forcefully and unambiguously, its long-standing positions regarding the Arab-Israeli conflict. Most important is that United Nations Resolution 242 (to which Israel renounced itself at Camp David) is not binding on Israel but is binding on the PLO; that 242 applies to the West Bank and Gaza; and that a solution will require Israeli with-
drawal from these territories. Other US positions that need to be repeated are opposition to the establishment of Palestinian authorities in the occupied territories and condemnation of human rights violations.

Second, the administration must consis-
tently and visibly insist on Israeli adher-

cence to the agreed-upon limits for the use of US aid funds. For example, by calling at-
tention to the rule that US funds are not to be used for settlements in the occupied ter-

ritories, we would be communicating quite effectively our views about the shape of the solution that US policy favors.

Third, the administration must up-

grade the dialogue with the PLO. Al-

though the dialogue should not be confined with negotiations which must be held both to the Israeli and Palestinian parties then-

velops, it can contribute much more effec-
tively to the prenegotiation process. In ad-

dition 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 Palestin-

ian and American sides. By upgrading both the content of the dialogue and its partic-

ipants, 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 commit-

ment to a historic compromise with Israel is being carried forward.

In this connection, the administration should support an invitation to PLO Chairman Yasir Arafat to appear before the United Nations, which would provide him an opportunity both to recommit him-

self to a peaceful resolution of the Israeli-Palestinian conflict, based on the existence of Israel, and to demonstrate the success of the political route that he has adopted. To deny Mr. Arafat a meeting, suddenly to reverse his post-

pose message and thus constitute a dan-
gerous setback to the peace process.

Finally, the administration must recon-

sider its own assumptions about the out-

come of Israeli-Palestinian negotiations. It needs to draw the logical implication 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 impor-
tant to modify our opposition to such an outcome, to make it clear that a Palestinian state, committed to peaceful coexistence with Israel, is not pre-
cluded, if negotiations prove such a state can be compatible with Israel's security concerns. For Palestinians, the establish-

ment of a state of their own is an es-

sential 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, demili-

tarization, security arrangements for the road, and various forms of codetermination or union of the Palestinian state with Jordan or Israel. Thus, there is good reason to be-

lieve that a formula that would allow a Palestinian state to live, peacefully and co-

operatively 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 form-

ul. The administration could advance the peace process immeasurably by declar-

ing its openness to such a solution.

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