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ISRAEL: AFTER THE ELECTION

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P R O C E E D I N G S

MR. INDYK: Good afternoon, ladies and gentlemen. Welcome to the Saban Center of the Middle East Policy of the Brookings Institution. We're very glad to have the opportunity this afternoon to discuss one of my favorite topics, Israeli elections. I think I went down in the history of the State Department as the U.S. ambassador who predicted wrongly the results of the 1996 elections, something that I will always be remembered for. And this time was no exception. I predicted wrongly the results of this election. But, fortunately, we have two experts on Israeli politics whose predictions are never wrong and who are going to explain to you why today.

First of all, I'm very proud to introduce a good friend of mine, Nahum Barnea. We who know him know him as the Tom Friedman of Israeli journalists. He is a columnist, pundit extraordinaire for Israel's main newspaper, *Yediot Ahronot*, and from that position has for many years now provided commentary on Israeli politics.

Before joining *Yediot*, he was editor-in-chief of the weekly journal of political opinion called *Koteret Rashit*, and before that, he worked at the *Davar* daily newspaper, which was broadly affiliated with the Labor Party in those days, before it folded. He served as correspondent columnist, and in the 1980s, early 1980s I believe, as its Washington correspondent.

He is the recipient of the coveted Sokolov Award for Journalism, and I'm very proud to say he has just arrived here at Brookings as the first Kreiz Visiting Fellow at the Saban Center, where he will be in residence for the next four months.

After Nahum speaks, we will hear from a veteran not just in Israeli politics but a Brookings Institution analysis of Israeli politics, Yaron Deckel, who is currently the Washington bureau chief for the Israel Broadcasting Authority, which means he reports both for Israel Television Channel 1 and for *Kol Yisrael*, Israel's radio. He is a top political analyst. He's been a guest

commentator on a number of American media outlets, including NPR and ABC News. He's most recently famous not only for appearing here at Saban Center but also for doing an interview, which he scooped all of his colleagues, with President Bush.

Yaron, although he reports from Washington, went back to Israel to observe the run-up to the elections and was there for the elections, and only returned to Washington early this morning. So we're very glad to have the opportunity of hearing his firsthand account as well.

We'll have a general discussion after that. I'm going to say a few words about American policy options in the wake of both Israeli elections and the earlier Palestinian elections, and then we'll go to you, the audience, for your questions.

But first, Nahum, the floor is yours.

MR. BARNEA: If I may correct you, Martin, we have here Ambassador Sam Lewis, who was the first American diplomat who made a great mistake regarding predictions of Israeli elections (laughter). We were sitting together on the eve of the 1977 elections in Israel, and he gave an interview to the Israeli correspondents here in Washington, and I believe the last question was, "What happens if Menachem Begin wins the election?"

I'm not going to tell you what Sam said, but I can tell you that we decided to print the interview on the day of the elections because it's quite an empty day in terms of the printed press. We don't have any news on this day, so this was the news. And Sam Lewis came to Israel with a prime minister who was quite upset with him. They somehow mended the relations.

MR. INDYK: I'm in very good company.

MR. BARNEA: Yes, right.

MR. INDYK: I've learned everything I know from Sam Lewis.

MR. BARNEA: We belong to the same company because we make mistakes all the

time, but this time we really contradicted a lot of things — and here it comes to my introduction, if you wish — because it was the most bizarre elections we ever had, and at the same time, probably the most stable.

It would take years to realize whether what we have seen is a sea change in the way the Israeli voters look at their political leaders, look at their system, or was it a kind of like a hurricane — I wouldn't say hurricane, but like, let's say a thunderstorm, which looks very, very serious and heavy, and after several minutes, it dies down and spring comes again.

The Israeli prime minister, his name now is Ariel Sharon. He's still the prime minister. He is lying in the first floor of the Hadassah Ein Kerem Hospital. If he was a regular patient, they would have sent him to an institution a long time ago. They didn't want to do it because they believed that it would be understood by the rival parties as a political gimmick to win more votes for the Kadima Party, the party he established. So they keep him in the hospital as an electoral hostage you can say, but he never opened his eyes since January 4th I believe.

What happened was so crazy in the sense that this guy, Ariel Sharon, decides — I will start from the victory of a guy named Amir Peretz over Shimon Peres, a completely surprising victory in the primaries of the Labor Party. If Shimon Peres won the primaries, Ariel Sharon would have delayed his departure from the Likud Party, which was the ruling party at the time. So you have the kind of domino process.

First, this guy Amir Peretz contradicting all the predictions, winning the elections in the Labor Party. Then Amir Peretz decides that the Labor Party will quit the government. The Labor Party wanted to stay, but they had no choice than to leave the government.

The government lost its basic power. Sharon had no alternative but to do something, so he decided to split the Likud Party. He forms his own party and gets a stroke. First, a kind of light

stroke, which after several days he leaves the hospital, and then his final stroke, and he's not relevant anymore.

Now, the people don't know or don't realize how serious his situation is. It takes time for people to understand that a guy who is in the hospital will never leave his bed. The basic idea, for some people up to the moment of the elections, was that at a certain moment, Sharon will pop up and will take over again, something which cannot be done legally in Israel, but this was I would say the general feeling among the other Israelis. So he's not relevant.

Now, the guy who was by accident, his vice premier was Ehud Olmert, a politician all his life, since he was 19. I would say not popular among people who know him, at least most of the people who know him. I'll correct myself; a non-entity for most Israelis. What I mean not popular is this. He was a career politician, very blunt, a hatchet man for his party. And these kinds of people, like James Baker here, are not very popular among the public. They are considered too aggressive to be the leader of the country.

So he becomes the acting prime minister, and people don't understand what they should do. There is a party which is a bubble. It's not an established party with roots in the political history of Israeli; it's called Kadima.

The first idea was that Kadima and Sharon would be the same, but Sharon is not relevant anymore. So they come up with another idea. We are going to have a Gaullist Party. Charles de Gaulle formed his own party in France. And when he quit government, the party was left after him, and the party still exists.

Sometimes French men give answers; they don't ask only questions. When I asked them what is the ideology of the Gaullist Party, what is the orientation of the Gaullist Party, the answer is, it's not easy to define them, but they are the ruling party in France for many years, most of

the years since de Gaulle, I believe, or the ruling party. So the hope of the Kadima Party was to become a Gaullist party, and they managed to do it, to an extent, in this election campaign.

Now, Ehud Olmert learned several things from Sharon and from his own experience. The basic idea was to run a Rose Garden campaign. We don't have a lot of roses in Israel, but the idea was important from Washington, to do the campaign from the prime minister's office. It was good enough for Sharon because Sharon was so successful as a prime minister in the last five years in his own terms that he could win the elections only by saying, look, rely on me. I will manage to do this or to do that. I don't have to get into details of what I'm going to do.

Ehud Olmert was in a different position. People asked, who is this guy; what is he going to do? So he decided, disputing his own advisors, to come up with a more concrete, detailed program for the main issue which bothered the Israelis, which is our relations with the Palestinians. And he came with a plan which he calls, in English, convergence if you want, gathering, or consolidation, a word which separates him from Sharon because Sharon's idea was disengagement, as you all remember. Olmert's idea is convergence.

The difference is not so big. What Sharon meant is that by unilateral withdrawal from Gaza and Gaza alone — I'll explain it — he will dismantle all the ideas in Europe and the United States regarding any imposed solution on Israel and on the Palestinians. He will take the initiative, and also he will get rid of something which most Israelis believed at a time, Gaza will not be part of Israel. The Israelis look at Gaza and have very, very little appetite to conquer it, to rule it. So this was the disengagement idea.

Now, what Olmert is saying is, look, I will disengage from most parts of the West Bank, probably 90 percent of the West Bank, and I'll do it like Sharon, unilaterally, and not in the framework of an agreement with the Palestinians but in a unilateral step accommodated with the

United States and maybe the Quartet, and so on.

Why he calls it convergence, or a gathering, or whatever? Because the idea is that the settlers who live in isolated settlements in the heart of the West Bank will have the opportunity not to move to old, pre-67 lines, but to move to the settlement blocks near the old border, inside the West Bank. So they will be consolidated or they will be part of the West Bank, but part of the West Bank which Israel will occupy forever. This is the idea. By the way, the Israel foreign ministers have a different idea, and I will elaborate the difference between them later if you wish.

When he came up with this idea, he suffered somewhat because in Israel it is considered a move to the left when somebody talks about a withdrawal from territories of the West Bank. Sharon would never have done it on the eve of the elections, never. At the same time, he demonstrated to the public that he has an idea, that he has a plan. It is clear for him what he's going to do after the election.

The topic of this election was not our relations with the Palestinians; this was a secondary issue. The main issue, or I would say the most prominent issue, was social affairs. Now, in Israeli, social affairs or economic affairs are always marginal when it comes to a decision of how to vote. They were marginal in this election too. But Amir Peretz installed on the Israeli agenda the idea that the social gap in Israel became too large to swallow. The idea that the low and middle class, the poor, and the elderly suffered too much under the policies undertaken by Sharon and his finance minister, Benjamin Netanyahu, and he convinced the public that Netanyahu has to be punished. He didn't convince the public to vote for him. At the end, he ended with less votes than the Labor Party got three years ago. He will have 19 members. The Labor Party had 21.

AUDIENCE MEMBER: Twenty-two.

MR. BARNEA: Twenty-two, I'm sorry. So now they will have 19. But the fact that

the agenda has changed is due to his credit, no doubt about it.

A final word about Olmert as a leader. Our experience shows that it doesn't matter so much what people say before the elections because after the elections, they do not do the opposite, but they do something else. It happened to Rabin, who had a very hawkish political campaign, won the elections in 1992, and went to Oslo. It happened to Menachem Begin, who had a very hawkish campaign in 1977, and then withdrew from Sinai and signed the peace treaty with Egypt. It happened to Begin again in 1981, when he didn't mention Lebanon before the election, and after the election he went to a war with Lebanon, or in Lebanon if you wish.

I can tell you one thing. Ehud Olmert is very serious regarding executing his plan. He really wants to imprint his own ideas on history. He would like to act very, very fast on the question of unilateral withdrawal from the West Bank.

There are two main reasons—and I won't elaborate, I'll finish here—or two main excuses if you want. One is the emergence of Hamas as the ruling government of the Palestinians, and the second reason is President Bush, who I'm not sure is willing to have an active role in any effort to revive the Palestinians-Israeli front or conflict to try to revive the political process. But I'm sure about one thing; next year he will be less willing, and then after elections, who knows. So Ehud Olmert has two good reasons to go as fast as he can.

MR. INDYK: Thank you, Nahum.

Yaron?

MR. DECKEL: I will continue from the point of Olmert and the cabinet, and I'll try to describe the next term. And the Israeli term is a very vague frame time, between one year to four years. This government was elected for four years and eight months. The next elections are scheduled in almost five years. Nobody really believes that any government could survive for almost

five years, but a lot could be done in two years, as we all know.

It seems likely that Olmert could form a stable cabinet and a coalition to begin with. I would say that the two main parties of the future government will be the Kadima Party under the leadership of Olmert with 29 seats, and the Labor Party under Mr. Peretz with 19 seats. And it gives him already 48 seats out of 120. And there is no doubt that the two ultra Orthodox parties will join the coalition, the Shas Party and the United Torah of Judaism, both are with 18 seats.

Then we have a new party, and Nahum talked about the social agenda, and the Pensioners' Party, which was the biggest surprise in this election, won with seven seats. It's amazing that they got so many votes from people who didn't know who was in the list, didn't know what was the platform, what is the ideology, and their agenda. But they received 7 seats out of 120.

They will probably be in the cabinet, and it gives Olmert 73 seats of support. Then he should make a decision if he wants to bring over the Leftist Party of Meretz, with the five seats or not. I think it will be a very interesting question to see if the Right-Wing Party, under the leadership of Mr. Lieberman, will join the coalition. He has 11 seats, and he has to make a decision if he wants to be an effective minister and build a political base in the cabinet or try to compete with Mr. Netanyahu, who will be the leader of the right in the opposition out of the cabinet.

I do believe that we are approaching a triangle cabinet: Olmert, Peretz, and Ms. Tzipi Livni, the foreign affairs minister. She will probably be a key politician because she at the moment, in the last few months, is the most popular politician in Israel. She could be a threat to the prime minister in terms of popularity. But she's too important to be ignored.

If Olmert really wants a stable cabinet, he needs Mr. Peretz. And a few hours ago, they hosted a common press conference for the first time since the election. They had a secret meeting in the last 48 hours and made a deal, not with all the details, but made a deal that Peretz and

the Labor Party will join the cabinet after a weekend of maneuvers, when Mr. Peretz had a temptation to try to form a coalition under his own leadership with the right-wing parties, which was only Israeli politics you can think of. But he thought the temptation was too hard to ignore.

Now, Mr. Olmert — and I agree with Nahum — wants to be in the center of his own cabinet. He's not Mr. Sharon. He lacks the gravitas, the popularity, and the military background of Mr. Sharon. But he wants to, as Mr. Sharon, be the center of the cabinet, not be on the right or on the left of his own cabinet. That's why he wants to have some right-wing parties. For that matter, the ultra Orthodox parties could be considered as right-wing parties. As much as I know, he was thinking of having, Mr. Lieberman, his own coalition, but Mr. Peretz might veto this idea.

The latest news from last night, when I was still in Israel, we had on our channel, Channel 1, the headline of the political news was that Mr. Peretz made a decision not to become a finance minister as everyone predicted, but the Minister of Defense, which is quite amazing because he was known as the leader of the unions, AFL-CIO, and then becoming a defense secretary, it's quite a challenge.

Mr. Peretz has the patience and the willingness to try to build his own popularity as a future candidate for prime minister. He understood that his main obstacle is the lack of experience in terms of peace and war, and that's why he thinks he could be Minister of Defense.

The idea is having another minister in the Defense Ministry, two ministers in the Defense Ministry, as we had the kind of same model in the Finance Ministry under Mr. Netanyahu. We had Mr. Netanyahu for two years as the Minister of Finance, and we had another minister without a portfolio in the Ministry of Finance under the name of Mr. Sheerit. Because of the fact that Mr. Peretz has no military background, he might nominate someone to be with him in the Ministry of Defense, such as Ami Ayalon— the head of the Shin Bet, Mr. Ayalon, before Mr. Dicter, or someone

who might be less than a threat to Mr. Peretz, but has an image of someone who has more experience.

AUDIENCE MEMBER:: He's a former minister.

MR. DECKEL: A former Minister of Defense. Ami Ayalon might try to run sometimes to be the Labor Party leader, so he could be a threat. And in Israel, politicians think of their own career before they think of the state of Israel.

AUDIENCE MEMBER:: Only in Israel.

MR. DECKEL: Not only in Israel, but in Israel, it happens.

One way or another, it means that the main security figure under Mr. Olmert will be the Army Chief of Staff, Dan Halutz. Olmert said it publicly, and he is probably going to do that; he wants to keep the Ministry of Finance in the Kadima Party. He understood that if you really want to run the government and make the priorities, you do it through the money. And that's why he will nominate a puppet as Minister of Finance. A puppet means someone who is 101 percent loyal to Mr. Olmert, a person called Hirschson. Probably he is going with Olmert for a very long time, for more than 20 years. And it means in effect that Mr. Olmert will be a prime minister and a Minister of Finance, practically.

One question people might ask is will the Likud Party be in the cabinet? It seems unlikely under the leadership of Mr. Netanyahu, though Mr. Olmert met Mr. Netanyahu and formally invited the Likud to join the cabinet, but the Likud said that the party cannot join the cabinet, which will promote disengagement number 2, or convergence, or any other name.

But there is a process in the Likud Party to impeach Mr. Netanyahu. Mr. Silvan Shalom, who was the Minister of Foreign Affairs had a thought to lead this process, but as Mr. Netanyahu found out a few months ago against Mr. Sharon, it's very difficult to impeach a leader of the party. Mr. Shalom learns it now the hard way. And Mr. Netanyahu says he's not going to quit

and he is willing to serve as the leader of the party, despite the fact that the party has crashed. And the crash of the Likud Party I believe is a very significant phenomenon in Israeli politics. The party which governed Israel almost for three decades has crashed due to the Kadima Party, and Mr. Netanyahu, the previous prime minister, received only 12 seats, which means 10 percent only from the Israeli electorate. The Likud is the right-wing beacon, and when the Likud crashes, it reflects the right in Israel. This is a very significant outcome of the elections.

The social agenda which Nahum talked about means that this will be one of the priorities of the cabinet under Mr. Olmert. He will have to compromise with Mr. Peretz, who has a few demands. The main one is the minimum wage of \$1,000 and also a national pension bill. And Mr. Olmert will have to compromise with him. It will be a more social cabinet than the cabinet of Sharon versus Netanyahu as the finance minister.

The priorities of Olmert I believe, as Nahum said, will be to implement the convergence, but before that he has to build his leadership because I personally don't think that Israel elected a leader a week ago. We elected a manager, a lawyer, but you hardly could see someone who believes that Olmert is the leader, unlike Mr. Sharon. He has to build his leadership if he wants to go forward for this drastic idea of relocation of 80,000 settlers in the next four years.

He said that, first of all, before everything, he will start a discussion in the Israeli public, and he will talk to the settlers, unlike Mr. Sharon, and this is a big difference between the two. And he will try to find a way for an agreement; and I believe the settlers, some of them do understand that if you keep the idea of all or nothing, you might get nothing at the end of the day. But I hardly see any agreement between the Olmert cabinet and the settlers.

I hardly see how two leaders as Olmert and Peretz, as a Minister of Defense, could lead disengagement number two because they will come to the Israelis, and they will say, trust us; this

is good for the security of Israel. And none of them I think could be very convincing, at least not now. So I would put a question mark that the two of them really could convince the Israelis of disengagement number two when we should remember that it's disengagement not toward the Fatah movement, who is willing to make peace with Israel but was unable, but it's a disengagement number two the Hamas government in the territories, and this is a huge difference.

There is one more point when we talk about disengagement, and in Israel it's quite known, the Jewish majority.

Every prime minister who went to a leftist agenda was attacked by the right of not having a Jewish majority in the Knesset, which means not going to such a major plan with a majority consisting of the three Arab parties. The Arab parties altogether have 10 seats out of 120.

If we look at the past, we see that there are a few parties that came into the cabinet at the beginning of the term and left it when the disengagement, or Oslo agreement, or any other move towards the left, and compromise upon the land took place. The Shas Party was not there for the Oslo Accords; the Shas Party was not there when Prime Minister Barak went to Camp David to try to make a deal with Yasser Arafat. The Shas Party was not there when Sharon decided to pull out of Gaza. Mr. Lieberman was not there, and he will not be there for the second disengagement or the convergence.

If we look at the numbers — and I call it the disengagement coalition, which is different from the formal coalition or the political coalition. If we look at the outcome of the elections a week ago, the disengagement coalition includes Kadima and the Labor Party - 48. The Pensioners' Party probably — they never made any declarations about their political agenda. We assume that they might support it. The Pensioners' Party is 55. And Meretz Party is 60. So there is no Jewish majority if we do not include Shas Party, United Torah of Judaism. It's exactly 60.

Though we should remember that the right has lost its dominance in the Israeli parliament. The right-wing parties altogether have around 50, 52 seats. So they also don't have a majority. But with Peretz as the Minister of Defense, Olmert who lacks the military background and lacks the leadership of Sharon, and 60 Jewish votes, I doubt if Olmert could go forward with a convergence as he declared in the last campaign. I'll stop here.

MR. INDYK: Thank you, Yaron, which leads into what I want to say about how the Bush administration will deal with this new situation. A new situation in Israel both Nahum and Yaron have described, but of course, in addition, a new situation as a result of Palestinian elections in the West Bank and Gaza, where Hamas now has a majority in the Palestinians legislative council and has formed a Hamas government in the Palestinians authority.

From the point of view of the Bush administration, this presents a series of dilemmas. Its first dilemma — and since we're talking about Israel, I won't go into detail — is, of course, how do we deal with the Hamas government without dealing with it.

Since Hamas is on the State Department terrorism list, since by law we cannot deal with Hamas as a terrorist organization, and since by inclination this administration will not deal with Hamas, the dilemma is how to deal with a situation in the Palestinian territories so as to prevent a collapse and a humanitarian disaster on the one side, something which, personally, I don't think is very likely but the administration is concerned about that, but on the other side how to do that without supporting Hamas or giving financial assistance to Hamas.

The dilemma for the administration in Israel's case is less difficult. It consists really of how to deal with the convergence plan since the administration I think made fairly clear in a number of ways that its preference was for Sharonism without Sharon, for a continuation of Sharon's policy, its preference was for the Gaza disengagement agreement, and its preference now will be to work

with the Olmert-led government, and that will be a fairly simple transition.

Overall, its preference is a center-left government that is moving out of the West Bank in the future — or at least has the intention to do so — than a right-wing government under Netanyahu and Lieberman that would be creating problems for the Bush administration if it was going through a process of expanding settlements and taking a very hard line on other issues.

But the dilemma comes with Olmert's first visit to Washington, because as Yaron has described and Nahum has described, Olmert has a mandate to pursue this convergence plan, this second disengagement, this time from the West Bank. But as Yaron describes it, he will have 60 votes. He actually will have a very hard time getting this through the Israeli Knesset and convincing the majority of the public to support it. We're talking about the West Bank here; we're not talking about Gaza, as Nahum was suggesting.

He is coming to Washington, I believe, to negotiate the second disengagement with Washington rather than with the Palestinians. This indeed was Sharon's plan before he was removed from the political scene, and I believe it will be Olmert's plan. And because he's in a relatively weak position domestically, he will need the Bush plus-up so that he can go back to Israel, much as Sharon did — not necessarily after his first visit but eventually — and say, we gave up territory to the Palestinians — in this case to a Hamas government — but we got from the United States.

Some of you might have recalled that that's exactly what Sharon argued in terms of what the United States should lay out in its letters of assurance from President Bush about settlements and refugees. It will be the same effort on Olmert's part to show that he is not a *fryer*. What's a fryer? A fryer is a sucker, and there is a profound fryer syndrome that dominates Israeli political psychoses and neurosis that Bibi certainly played; that is, if you give without getting, you're a sucker; you're a fryer. And that was Bibi's main argument against Sharon in Gaza. And that will certainly be the

argument against Olmert, who doesn't have the same credibility as Sharon.

So he wants to be able to say, I'm not a fryer; we didn't get from the Palestinians; we're getting from the United States. And essentially, the proposition I think Olmert will present to the administration will be his thoughts; I promise to the Israeli people I was going to harden Israel's borders. The extent of my withdrawal from the West Bank will be commensurate to the extent of American willingness to recognize our withdrawal as the final withdrawal, as the hardening of Israel's borders. Ideally, it would come in the form of President Bush's statement, letter, whatever, that the withdrawal constituted implementation of U.N. Resolution 242 in the American view.

Yaron or Nahum may have a different view on this, but for that I suspect that Olmert would be prepared to withdraw from 90 percent plus of the West Bank, including the Jordan Valley and including Arab suburbs of East Jerusalem, with the exception of the Old City.

One distinction between Olmert and Sharon in this regard is that Sharon I think was actually prepared to give up some of the West Bank as well, but he would never have touched Jerusalem. Never is a strong word when you come to Sharon because he was never going to give up the Gaza settlements either.

But Olmert, as mayor of Jerusalem, now has a demographic argument that he made to Sharon and to the Israeli people about the West Bank and Gaza, that is to say Israel had to get out of the West Bank and Gaza, or by 2010, Jews would be a minority in the land that Israel controls. He knows, Olmert as former mayor of Jerusalem, very well the demographic argument applies in Jerusalem as well, where there are 250,000 Palestinians that presently are on the Israeli side of the wall that Israel has built in Jerusalem.

And so, I believe that Olmert would be willing, even keen, to cede the Arab suburbs of Jerusalem if he gets in return recognition from the United States of this withdrawal as affecting final

status; that is to say as recognizing that these are Israel's final borders.

That will present a dilemma for the Bush administration. How far will they be prepared to go down this road? Because on the one hand there's a chance for major Israeli withdrawal from the West Bank, but on the other hand, the administration would clearly be preempting a final-status negotiation. The dilemma is made easier by the fact that there is a Hamas government on the Palestinians side, so some people who will be in favor of this will say, well, there's not going to be a final status negotiation anyway, and the closer that Olmert comes to the Clinton parameters, most people will say, well, this was the U.S. position anyway so why can't we recognize it?

On the other side will be those who will say we can't, saying we've got to preserve this for the future negotiation of a final-status deal, which looks very far off. And bear in mind the context of disaster in Iraq and growing confrontation with Iran. If Israel is willing to evacuate a large number of settlements and a large number of settlers in the process, in the context of which the United States has much bigger problems to deal with, I suspect that the Bush administration will embrace this. And so in that way, I suspect in the early days that Olmert will get his plus up from the Bush administration, which may actually make a withdrawal from parts of the West Bank, perhaps significant parts of the West Bank, still possible.

Question to Nahum.

MR. BARNEA: Yes?

MR. INDYK: You tempted us with saying there's a difference between Tzipi Livni and Ehud Olmert. And you seem to suggest that Ehud's moves were basically tactical.

First of all, tell us about this difference, and to what extent is Olmert's position dictated by a real concern about the demographic problem or was this just dreamed up by him as a way to ensure his path to Sharon succession?

MR. BARNEA: In December 2003, Ehud Olmert gave a speech in front of David Ben-Gurion's grave. He replaced Sharon who caught a flu. And the speech, surprisingly enough, talked about concessions Israel will have to make. He flew there in a helicopter. He was the vice prime minister at the time, and he flew with the Speaker of the House, Reuven Rivlin, and Rivlin, who belongs to I would say the real right end of the Likud Party, almost fainted when he heard what Olmert had to say. Later he told me, look, you have to ask Ehud what he is up to because something is going on there. I called Ehud Olmert, and I said, look, tell me what's going on, even off the record or something. It took about 60 seconds for him to decide to make an on-the-record interview, to grant an on-the-record interview, regarding his views.

Now, as you said, Martin, we will never know — I'll never know — what motivates politicians when they decide to cross the line. It's always a mixture. We still don't know what made Sharon decide — unlike, by the way, his first concept about the unilateral withdrawal to his door from Old Gaza and to evacuate four settlements also in Somalia, in the West Bank. It's always a mixture. And with Olmert I would say the same; it's a mixture. It's a mixture of his poor, I would say, stature in the Likud Party, his poor showing in the Likud Party; the fact that his family and friends, who are more to the left than him all the years, his children and his wife never voted for the Likud Party all these years, something which can kill an American politician, I'm sure. In Israel, we don't take voting so seriously as the Americans. The fact that he sensed that Sharon is going to move to the left, and he wanted to bypass him like a good driver, a sports driver, on his way. By the way, Sharon was very upset with this interview.

In December 2003, he talked about a withdrawal which will put the rate of Arabs in Israel not more than 20 percent, which meant in practical terms, evacuation of most of the Arab neighborhoods are now inside the Jerusalem boundary. Israel extended the Jerusalem boundary very

much. I mean, it's not the old boundaries of the Jordanian Jerusalem.

So answering your question, is started before, and here Ehud Olmert is consistent. I hope he will not sue me for saying he was consistent because it's liability for a politician to be so consistent.

At the same time, he, like Sharon, is a very pragmatic politician. I differ in a way with Yaron's analysis. The problem of Jewish majority is not a problem. You talk about when they face a dilemma, should they give up ideas they have or rely on the Israeli-Arab representative in the Knesset? They always relied on the Israeli-Arabs in the Knesset. It was not very nice, and the whole thing was considered a kind of clumsy action, but it always happens.

So if Olmert has to rely on the Arabs and fulfill what he believes is not only his idea but also a test for his credibility, he will follow his credibility and not the Jewish numbers. But the dilemma, for instance, is very complicated.

I'll say something about, if you don't mind, about the relations with the American administration.

Sharon was the most attentive Israeli prime minister to the needs and the demands of an American administration. We sit here with two former ambassadors who used several Israeli prime ministers, and how reluctant they were to comply with American demands. And here comes Sharon, and on his first or second visit, he fights publicly with the American president.

Czechoslovakia was mentioned. Wow. Imagine how difficult it was for Bush to learn the word, you know (laughter). I'm sorry. I'm the former Visitor Fellow in Brookings now. I was just fired (laughter).

Anyway, afterwards, Sharon loved to listen, and he was very attentive. Olmert followed his steps. And don't underestimate what he's done in terms of the relations between him and

the administration since he became acting prime minister.

For example, the decision to allow Hamas to be elected in Jerusalem, not only to have elections for parliament in Jerusalem but to allow Hamas to run in Jerusalem was not easy, especially because it was on the eve of the Israeli elections, but they did it because Condoleezza Rice called and asked, and asked for Israel to be restrained — again, in Israel terms — toward the launching of rockets to Israel during the election campaign, and also the very delicate way in which Israel is talking and not talking to Hamas.

Look, Hamas in the last year, because it wanted to become a legitimate part of the Palestinian system, was the most restrained Palestinian organization. The Fatah was the most active, I mean in terrorist activities against Israel. When I say Fatah, I mean, Tanzim, which is an affiliate of Fatah, but they were very, very active. And not because they got instructions from Abu Mazen to attack Israelis, they didn't. Abu Mazen was against it. But somehow the framework of Fatah remained very strong when it came to the diplomatic arena, but became very weak in the territories.

Now, Hamas, on the eve of these elections, Israel managed to comply with sending money and supplies to the Palestinian authority in order to make it a little bit less hard for the Palestinians to live until March 28th, the day of the elections. Now we face the dilemma which you mentioned; how the new government of Israel will deal with Hamas.

There are two schools of thought, I would say. One school of thought is saying by applying a lot of economic pressure on the Palestinians, they will understand that they cannot go on with Hamas and will get rid from the Hamas government. This is one school of thought. Many of these politicians believe in it. Many people in the army believe in it.

Our goal is to isolate Hamas. By applying economical pressure on the Palestinians, we do something which is a violation of human rights, and we only enhance the support for Hamas by the

Palestinian street, by the public.

Olmert is in the middle. He is not sure what he's going to do regarding Hamas. He believes that Abu Mazen — and, again, I'm talking about the kind of intimate thoughts these people have, and sometimes they share it with innocent journalists. He believes that Abu Mazen is trying something very smart. He's trying to — he doesn't listen to all the ideas from his advisors that he should — Abu Mazen — kick out Hamas. Instead of this, he gives more and more power to Hamas in order to test them whether they can run a government. If they can't, let's get rid of them. If they can, okay, then we become moderate. But you should confront them with the realities of running a government.

So Olmert I would say is following it very, very carefully, and when he becomes a real prime minister — which will happen in a few weeks — he will decide what policy he wants.

MR. INDYK: Yaron, I want to just focus on the social agenda for a moment. This is an unusual phenomenon for Israel. The fact that there's growing support for the social agenda, do you see that directly connected to the disengagement process and the desire for separation from the Palestinians; that this is, in a sense, something that Rabin started with his talk of a change in priorities? Is this now coming through that the Israeli people are less — as they turn their back on the Palestinians, they're more concerned with their own domestic problems, and that's the phenomenon you see?

MR. DECKEL: I'm not sure if the vast majority of Israelis connect their socio-economic problems with the political process in the West Bank and Gaza, because in the past, you have seen a phenomenon that many people supported one part but didn't support the other part. And it was kind of a barrier between the two issues, the economy and the disengagement.

What I think happened during Sharon's time was that there is a rare Israeli consensus

for a very long time of the separation, getting out of the Palestinian lives and leave the territories; 90 percent, 95 percent, 80 percent. I'm not sure the Israelis exactly know what percentage they want, but they want to get out. Now, that means, once there is such a consensus, people could focus on the other agenda.

We should also remember, as Nahum said before, that in the recent years we became more and more Americanized in terms of the gap between the rich and the poor. Unlike 20 years ago, there were always very rich people, but there was not such a huge gap between the rich and the poor.

The other phenomenon was that half a million I think people were under the poverty line. Half a million out of 6.8 million people. That's a lot. That's almost 10 percent of the population.

AUDIENCE MEMBER: But, Yaron, there is a linkage because we had five terrible years during the second intifada. And one of the reasons why the economy went down was the wave of terrorism, which Israel suffered from. And the poor suffered more than the rich from the decline of the economy. Now, we have a relatively great year, the terror went really down dramatically, and the poor didn't enjoy it.

MR. DECKEL: The poor didn't enjoy it, and Peretz, since he ran under one issue — he ran a single-issue campaign, the socio-economic problem. People at the beginning thought this is ridiculous, because we are still in that term of peace and war issues as we had this for the last 25 years. You cannot run a campaign on social issues. We had one successful campaign on corruption, the '90, '92 Labor Party under Rabin against the Likud Party.

But since then, there was always peace and war, war and peace territories, and one Lebanon campaign under Prime Minister Barak. But it wasn't the issue at that election. The personality of Mr. Netanyahu was on the table.

So with a consensus of getting out of the territories, it left some room for another issue to be on the table. The outcome was not that the Labor Party won, but we have some parties which reflect the social issues. The Labor Party, the Pensioners, clearly it's 26 seats. And now if you add the Shas Party, or at least part of the Shas Party, you have 12 seats more.

I think one third, or almost half of the members of the parliament were elected due to the social issues. That's why Olmert should consider it, and not focus only on the convergence but on the social issues, otherwise, he will not reflect the wishes of the voters.

MR. INDYK: Right. And it was interesting in his victory speech, half the victory speech was devoted to social issues.

Let's take questions from the floor.

MR. DANZIGER: I'm Raphael Danziger from AIPAC. My question relates to the prospects of actually implementing the disengagement, or convergence, when, on the one hand, you have like Sever Plocker, your colleague, was also a Visiting Fellow here, writes an article saying that this really cannot be done because it will cost \$25 billion to implement it, and Israel doesn't have that kind of money; nobody's going to give Israeli that kind of money. And he said after the failure of providing housing for the Gaza disengagement with only 7,500 people, how can you provide housing in advance for 60 to 80,000 people? So he doesn't think it's possible.

On the other hand, going back to the political issue with a possibility of a Jewish majority — which you said is not necessary but I think it certainly has some relevance — I think that some people say that the Aguda, the United Torah of Judaism, would also be a partner to that because it does not have a strong nationalist agenda. And in the past, the finance committee of the Knesset was willing to go along with the government, but now they're running together with Shas in negotiations.

Do you think it's possible that they will separate themselves from Shas, which may not want to join the government on a nationalistic issue? And for this new coalition, would it be possible to have a Jewish majority for disengagement?

MR. DECKEL: Let me answer the second part of the question. Two things I want to say. First of all, if both parties, both religious parties, the United Torah of Judaism and Shas, join the cabinet, which we can predict, let's assume there will be a huge pressure of the settlers of the right wing —

MR. BARNEA: Rabbis.

MR. DECKEL: — and the rabbis, and Shas leaves under the pressure, it will be very difficult for a six-seat party, a religious party, to stay against rabbis, the settlers, and say our rabbis are different. I hardly predict it happening.

It happened with Sharon's cabinet when the disengagement was done already. It was a done deal. And they said they are staying there to prevent Shinui from coming back to the cabinet. But the deal was done already. They didn't really need the United Torah of Judaism to support disengagement. Sharon, being a genius in politics, was able to maneuver and to get the support of the Knesset with Meretz and the Arab votes. One was a no-confidence vote when Meretz supported Sharon and his cabinet. Agouda, we hardly remember Agouda as part of the disengagement, the United Torah of Judaism, and I can't see how they could stand against the pressure.

Now, since Nahum mentioned the Jewish majority, I agree that both Rabin and Sharon needed the Arab votes. But it's good he mentioned Rabin and Sharon. I hardly see Olmert in one term as Rabin as Rabin and Sharon as Sharon. I come back to the thing that in the next two years, I personally think that the key is if Olmert is able to build his leadership because he's not Rabin and he's not Sharon. He might be needing votes in the cabinet, but he needs to convince the public that

this is a good deal to leave the territories despite of the Hamas leadership.

We should all remember that Kadima received 29 seats, not 61 seats. It was clear if Olmert had 66, that the public opinion is convinced already, and the deal is done. But with 29 seats, there is a lot of work to be done still in the next two years.

MR. BARNEA: I believe that most prime ministers are born equal. One of my colleagues once wrote that David Ben-Gurion became charismatic only after 1948 when the State of Israel was established.

People tend to forget that when Sharon raced to the prime ministry, we were all not surprised because the circumstances were very hard. But it was the failure of Ehud Barak more than to the charisma of Mr. Sharon. So let's conclude that he's a retroactive genius. He was a genius, but we didn't know it. So maybe Ehud Olmert is a genius; we don't know. Maybe we should wait and see.

This is the second linkage, what you mentioned. Those projects are very expensive. Correcting, amending the social gap in Israel will cost money. Adding to the social security, to the pensioners, will cost money, a lot of money. Evacuating most of the West Bank will cost even more money.

I can only correct you on one thing. The housing of the evacuees from Gaza went very well. They were not very happy with it. I'm sure you have seen in your life, let's say, a commercial for four years old, trying to impose on him eating Gerber banana pudding or something, I don't know. He doesn't want to eat it. They didn't want to eat it. So they were very bitter, and they were rightly so because they didn't ask the government to evacuate them. But I can assure you that they were better treated than the people of New Orleans (laughter).

MR. INDYK: That's true.

Sam Lewis?

MR. LEWIS: First, in the interest of historical accuracy, I would just like to ask you, did any of the Israeli correspondents with whom I met predict a Begin victory? No. Nor did anyone in the State Department. No. So we're all together.

I'm fascinated with Martin's questions, and I'd like to put your questions, Martin, in a different way to our two Israeli friends.

First of all, how can you expect even George Bush to acknowledge formally that 242 has been met as far as the occupation of the West Bank so long as the Israeli military is still there chasing after terrorists? And that I understand is likely to have to happen as part of the convergence arrangement. So there can be no total withdrawal in the foreseeable future. So how could you expect any government to acknowledge that the requirements of withdrawal have been made in any legal, international sense?

And second, is it only the United States that you worry about? That is to say, suppose Bush would in fact do what Martin suggested he might, and Ehud has that to wave around? Is there no influence whatsoever effective in this diplomatic environment of the rest of the Quartet, much less of Egypt or any other Arab player?

MR. BARNEA: I disagree with Martin. I believe that with all the Israeli chutzpa a new prime minister can have, he has no chance to get an official American green light or whatever, declaration, statement, that says that these are the final borders.

The main reason of my opinion is the fact that it's not the withdrawal to a border, but the fact that, according to 242, it has to be agreed upon. Here we speak about the unilateral measures set by Israel. How can the United States — which, by the way, never recognized West Jerusalem. The two of you were in Tel Aviv, you remember well.

AUDIENCE MEMBER: Olmert was very unhappy about it.

MR. BARNEA: I guess so. Maybe he will raise it in Washington, another issue.

But seriously, I can see a lot of very nice statements which the American president can make in order to make the prime minister of Israel happy.

MR. DECKEL: I think Olmert, unlike Sharon, will come and put a price tag before the disengagement, not after. Sharon came when the disengagement was open, and he declared, and then he said, well, I need help. I have the referendum of the Likud Party; give me something. And he received a change in the American policy, the famous letter of April 14 that the final status agreement will rely on the circumstances on the ground.

Now, Olmert will do it the other way around I believe, and he will come to the president and say, well, I can give you something big, and it could be under your name. And I need a price, and I need a good price for what I'm going to do.

Now, Martin is more an expert on American policies than myself, but if we look, we have two and a half years of the Bush administration. What is President's Bush legacy, the civil war in Iraq, the Hamas victory under the U.S. democracy in the Middle East, the lack of efficiency in Hurricane Katrina, or the corruption of the administration?

AUDIENCE MEMBER: Iran's nuclear weapons.

MR. INDYK: Iran's nuclear weapons. Well, I think Iran might be an issue in the coming year, but something big, really big, not 8,500 settlers but 90 percent of the West Bank is a huge thing. Now, the price should be the same. I can see declaration about the final borders of Israel, but maybe something in between. The price should be very high.

MR. INDYK: And bear in mind here — this is speculation of course — that what I think Olmert will do and will say, the extent of the withdrawal will depend upon —

MR. BARNEA: The nature of the statement, the contents of the statement.

MR. INDYK: Yes, so it's a negotiation, which if the administration decides they simply can't, won't endorse this as Israel's final borders or some formula that indicates in that direction, Olmert will do less.

Let's go to the last question

MR. HUGHES: Hi. Art Hughes, Middle East Institute. Thanks, Martin.

Martin, as you said, the final-status negotiations or talks are barely visible. I think they're way over it, about two or three horizons ahead. But just for discussion purposes, if Ehud Olmert's plan were fulfilled — a big if — what impact would that have on the viability of the two-state solution? What would that do to the viability of a future Palestinian state?

And then just to comment, Sam, regarding you, I'm surprised that you used the words "legal" and "international" in the context of something this administration might do.

AUDIENCE MEMBER: That's three.

MR. INDYK: Nahum?

MR. BARNEA: If you believe that there is a two-state solution, I don't see how it changes. Let's assume that Israel will occupy 5 or 7 percent of the West Bank under what we call the settlement blocks. This is not changing the viability, if there is a viability, of a Palestinian state.

The problem that should disturb all of us is that it's unilateral. For example, let's assume that there is a Palestinian government who is ready to comply with such a concept, then they can demand a tunnel which will link the Gaza Strip with the West Bank. They can demand to have certain kind of relations with Israel; security.

We mentioned Tzipi Livni. She said to me several days ago that she's concerned with the facts that unilateral action cannot assure the demilitarization of the West Bank. How can you

assure that the future Palestinian state will be demilitarized if you don't have a mutual agreement? So this is the problem in my opinion.

MR. INDYK: Maybe the administration will discover that it can get some kind of tacit mutual agreement by talking to Abu Mazen.

MR. BARNEA: Abu who? (Laughter)

MR. INDYK: Ladies and gentlemen, thank you very much. Nahum and Yaron, thank you.

Just a program note as you're leaving. April 26, we will be hosting here a group of high-level Israelis and Palestinians for a private workshop, but we're going to have them present the results of that discussion here in Falk in the afternoon of April 26th. You'll receive invitations. Hope you can join us then. Thank you very much.

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