

A REQUEST FOR ACTION by WOLF BLITZER

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THE HEARING room in the House of Representatives Rayburn Office Building was packed on Wednesday when senior officials from the State Department, the Pentagon and the Agency for International Development (AID) came to testify on U.S. economic and military assistance to Israel.

Democratic Representative Lee Hamilton of Indiana, chairman of the Foreign Affairs Subcommittee on Europe and the Middle East, almost always attracts a large crowd to such sessions. But even by those standards, this meeting was quite impressive.

Virtually every member of the panel, Republican as well as Democratic, showed up. In addition, there were many diplomats from the Israeli, Arab, British and even Soviet embassies in Washington. The major U.S. news media were also in full gear.

Coincidentally, Finance Minister Yitzhak Moda'i had just arrived in Washington for talks with Secretary of State George Shultz. Secretary of the Treasury James Baker, Budget and Management Director David Stockman and other senior Reagan Administration officials on the very same subject.

The stage, therefore, was set for some excitement.

At the hearing, the point man for the administration was Under Secretary of State for Economic Affairs Allen Wallis, an articulate and knowledgeable economist. Like Shultz, he is clearly very sympathetic to Israel's case. Wallis was accompanied by Assistant Secretary for Near Eastern and South Asian Affairs Richard Murphy; Russell Misheloff, deputy director of AID's Office of Middle Eastern and European Affairs; and Major General Kenneth Burns, deputy secretary of defence for Near Eastern and South Asian affairs.

When it came to aid to Israel, Wallis did almost all of the talking. In recent months, he has been the chief U.S. delegate to an intensive round of discussions with Israel on the fate of its economy - the so-called U.S.-Israel Joint Economic Development Group. He has been assisted in those sessions by several top-notch private American economists, including Professors Herbert Stein and Paul McCracken, both former chairmen of the President's Council of Economic Advisers.

"Our discussions have been free, frank and informative," Wallis said in his opening statement. "We have made clear our view that without a comprehensive programme, additional U.S. assistance would not resolve Israel's economic problems and, indeed, could help to perpetuate them. Moreover, without effective adjustments, Israel will become even more dependent on U.S. aid in the future, which neither the U.S. nor Israel desires." He praised Israel's economists as among the best in the world.

Wallis and the other officials certainly underlined the administration's fundamental readiness to help Israel overcome its current economic problems. "Because of our commitment to Israel's security and well being," he said, "we have devoted a significant share of our world-wide economic and security assistance to Israel." Wallis then talked numbers.

"From 1948 through 1985, the U.S. has provided \$10 billion in economic assistance and \$21 billion in military assistance - for a total of \$31 billion to Israel," he said. "Sixty per cent of this assistance has been in the form of grants, and as you know this fiscal year is the first when our aid has been on an all grant basis."

But Wallis made clear that this assistance was in America's own best national interest. He called it "a very good investment" for the United States. "This aid," he said, "has paid high dividends in supporting Israel's security and economic development over three decades in which Israel has faced more than its share of challenges and adversity."

Thus, Major General Burns, during subsequent questioning by Republican Mark Siljander of Michigan, strongly defended the administration's decision to increase by \$400 million the military aid to Israel in the pending 1986 fiscal year budget. The new total is \$1.8 billion.

Burns said the military ties between the two countries provide "mutual benefits." He cited the "tremendous amount of exchange" between the U.S. and Israel on military-related matters, including technology advances. He also pointed out that "a great deal" of the \$1.8 billion remains in the United States to pay American defence manufacturers for weapons purchased by Israel.

But "first and foremost," he added, the assistance is aimed at helping Israel maintain a qualitative edge over its Arab adversaries.

WALLIS, in his opening statement, referred to another U.S. objective in making the military grants available to Israel. "Israel's ability and willingness to take the steps necessary for peace depend in part on confidence in its ability to withstand threats and confidence in U.S. support," he said.

There has been no basic disagreement between Washington and Jerusalem on the military side of the aid story. Indeed, Murphy, during the course of the hearing, pointedly said that the administration was not asking Israel to reduce its defence spending.

But where there have been differences have been on the economic side. Specifically, of course, the administration officials made clear that they have not been satisfied with the steps taken by the national unity government in Jerusalem in coming to terms with Israel's economic crisis.

This same theme was also underlined in a separate 23-page report on the Israeli economy which AID submitted to the subcommittee a day earlier. "The wage-price packages negotiated with the Histadrut and employers' association in November 1984 and January 1985 may represent an important step toward the needed delinking of incomes from increases in the consumer price index and exchange rate movements," the report said.

"Of equal importance, reductions in budget expenditures are required to curtail aggregate demand and the monetary expansions associated with government deficit spending. If the link between wages and consumer price increases were loosened and if aggregate domestic demand pressures were also reduced via fiscal policy measures, real costs in Israel could be expected to decline with positive impacts on both export competitiveness and profitability."

The lengthy report, which reviewed in considerable detail the dramatic decline of the Israeli economy in recent years, addressed the need to dismantle Israel's "pervasive indexation system" if there was to be any hope of reducing inflation. It noted that Israel is still trying to put together a "fully articulated programme" and then added: "Until it is firmly in place, U.S. economic assistance is likely to be of little help in putting Israel back on the sound economic footing it once enjoyed."

CONTINUED ON NEXT PAGE

Wallis had the same message during his testimony. While he praised Modai and Prime Minister Shimon Peres for "making vigorous and courageous efforts to address Israel's many economic problems," the U.S. official made clear that much more was needed before additional U.S. economic aid would make any real sense.

"Our economic assistance can be helpful in promoting this process of recovery if it is coupled with a comprehensive Israeli programme," he said. "But in our view, Israel has not yet reached the stage in the evolution of its recovery programme where additional U.S. support will be helpful."

That, in short, explains why the administration has not yet submitted its recommendation to Congress on economic aid levels for Israel, Wallis said. Israel has been seeking \$1.84 billion in economic grants as part of the regular 1986 bill plus an additional \$800 million emergency supplemental aid package as part of last year's already-passed bill. Last year's economic aid level was \$1.2 billion.

Wallis described in considerable detail what the U.S. believes Israel should do - beyond what it already has done. The Americans, who have their own budget problems, recognize the political headaches facing the fragile national unity coalition. Wallis spoke of Israel's "very lively democratic process." He made clear the administration did not want to interfere in domestic Israeli politics.

Yet during questioning, he volunteered the following steps which Washington would like to see Israel take:

□ Budget cuts. The Israeli government, he said, must further reduce its spending. The announced cuts have not yet been really implemented. And in any case, they are not enough. The government has not been able to assert any real control over its spending. Peres, he said, has not been able to push through badly needed legislation in the Knesset to impose spending discipline on the various governmental ministries.

□ Money supply. Israel, Wallis said, must change its current pattern of having the Central Bank simply print "enormous amounts of money" to cover budget deficits. This merely fuels inflation. It is an illusion, he said, to think that inflation has really been reduced since the imposition of the price and wage controls. That merely masks the continuing inflation, still probably running at a real 1,200 per cent per year irrespective

of what the monthly rate shows. This would be seen by Israeli consumers if they could buy what they wanted. Wallis said the continued runaway printing of shekels is a true barometer of the effective inflation rate - "the same as before."

□ Exchange rates. The shekel, he said, has been artificially pumped up by unofficially linking it to the U.S. dollar, which, of course, remains extremely strong. Israeli products are sold overseas in dollars. This has made Israeli exports very expensive. What Israel needs to do is permit the shekel to float so that it will have a more realistic value.

□ Employment adjustments. Wallis said there was "an excessive part of Israel's manpower" working for the government in inefficient and un-

productive jobs. It was not enough, he said, simply to remove them from those positions. What the government simultaneously must do, he said, is retrain those people for productive employment in the private sector, especially in export industries. Such an employment adjustment programme, he said, has not really gotten off the ground yet.

Wallis and the others insisted that the clock was ticking. Yes, they agreed, there would be domestic political problems, unemployment and pain in the necessary adjustments to the Israeli economy. But a continued delay, they maintained, would make a recovery even more difficult later - if not impossible. They even raised the spectre of a real "crash" and "panic" in Israel unless these remedial steps were taken very quickly. They spoke in those dire terms.

Wallis said the Israeli government has informed Washington in recent days that it did not plan to undertake any such additional measures for the time being. This has been very depressing to the Americans.

There was some good news for Israel during the hearing. Almost all of the members of the subcommittee voiced strong support for Israel. This is probably the most pro-Israel panel in Congress. Indeed, Wallis, Murphy and company were roundly criticized for delaying the economic aid recommendation for Israel. Democrats Tom Lantos and Mel Levine of California, Robert Torricelli of New Jersey and Gary Ackerman of New York joined Republicans Siljander of Michigan, Chris Smith of New Jersey and Ben Gilman of New York in appealing for a speedy administration economic aid proposal for Israel. Their pressure - as well as that coming from many others in

Congress - is likely to result in the long-awaited package later this month. But whether that genuinely helps ease the economic crisis in Israel or merely serves as a stop-gap bandage remains to be seen.

The writer is the Washington correspondent of The Jerusalem Post.

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An 'Understanding' On Request for Aid Reported by Israeli

Special to The New York Times

WASHINGTON, March 8 — The Israeli Finance Minister said today that he had achieved "tangible results" in a meeting with Secretary of State George P. Shultz on his Government's request for a large increase in American economic aid that until now the Reagan Administration had delayed acting upon.

The Israeli official, Yitzhak Modai, who met privately with Mr. Shultz for a half-hour on Thursday night, refused to go into details. He said, however, that he was pleased by his talk with Mr. Shultz.

He said that he and Mr. Shultz "came to an understanding on the objectives" but that "the methods, timing and figures are to be worked out."

When asked if he was satisfied that he had achieved all or most of what he had come here for, he replied, "The answer is yes."

On Thursday Mr. Shultz told a Senate subcommittee that Israel had not made enough progress in its economic program to warrant the \$2.6 billion in new aid it is seeking from the United States.

Israel has asked for an \$800 million supplemental economic grant for 1985 in addition to the \$1.2 billion in economic aid already given to it for the 1985 fiscal year. Israel is seeking \$1.8 billion in economic aid for the 1986 fiscal year.

Other Israeli officials said no agreement was reached with the Administration. They said that the Administration was still seeking austerity measures but that Mr. Modai was pleased with the support for Israel that was voiced by Mr. Shultz.

Mr. Modai said there was an agreement "not to publicize" the details of his discussions.