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ARIEL SHARON'S COALITION PROSPECTS AND POLICY OPTIONS

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Despite his impressive personal victory in the recent Israeli election, Ariel Sharon's range of coalition and policy options is not as wide as sheer numbers would suggest. His Likud Party's representation in the Knesset did more than double to 40 (following the merger with Natan Sharansky's Israel Be-Aliya Party), while Labor plummeted to 19 and Meretz fell from 10 to just six seats. But within his own faction, 16 members are openly opposed to the provisional Palestinian State Sharon says he would agree to, and many of those who finished in the top 20 in Likud's pre-election primaries are loyal to Sharon's rival and nemesis, Binyamin Netanyahu. Beyond that, Sharon faces a real problem piecing together a coalition that is both broad enough to give him 61 assured votes in the House and open enough to move forward on some process to resolve or at least mitigate the Israel-Palestinian conflict.

Labor leader Amram Mitzna is categorically opposed to a national unity government unless Sharon is prepared to remove settlements from Gaza immediately, complete the security fence separating Israel from the West Bank, and start direct peace negotiations with the Palestinians. Sharon can't comply with those demands and Mitzna, who needs time both to establish his own leadership and redefine Labor's shattered

identity, may not even want him to. So while some individual Labor members like former foreign minister Shimon Peres and former defense minister Binyamin Ben Eliezer may join such a government, mainstream Labor will not, meaning that a centrist Sharon-led government remains a remote probability.

Theoretically, Shinui, with its 15 seats, could step in where Labor refuses to go. But Shinui, whose main concern is ending what it sees as the ultra-Orthodox stranglehold on the country, has vowed that it will not under any circumstances sit in the same government as Shas, the Sephardi ultra-Orthodox party. Conversely, Sharon cannot bring Shinui, a party comprised mainly of Ashkenazi professionals, into his government while leaving Shas out; that would be a slap in the face to the traditional Sephardi voters who form the core of Likud's constituency.

Sharon could go with a right-wing coalition that would include Shas, the National Religious Party, and the National Union Party led by Avigdor Lieberman. That would give him a workable majority of 63 and neutralize the objections of the right wing within his own party. But it would also hamper his chances of reviving the economy and risk a rift with the United States, not to speak of Europe.

Sharon desperately needs the \$12 billion in

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grants and loan guarantees that he has requested from the United States. Israel's economic situation has never been worse since 1953. Income from taxes has fallen billions of Shekels behind projections, while expenditures on defence, transfer payments to the growing ranks of the unemployed, and losses from core industries such as tourism have left the State's coffers totally depleted. Consequently, Sharon does not want a coalition that will demand new settlements (which will do little to facilitate the loan guarantees) or advocate policies such as transfer that could encourage comparison to South Africa under Apartheid and invite economic sanctions, particularly by Europe. It is therefore doubtful that the Prime Minister will opt for a right-wing coalition.

Instead, he will probably prefer a narrow government that will include one or two relatively undemanding partners and will rely for the rest of his support on safety nets provided by Labor, Meretz, the Arab parties and elements of Shinui -- if he generally conforms with the process outlined by President Bush in his speech of 24 June 2002 and implements the reforms necessary to save the economy from looming disaster. In that case, he may be able to appoint non-political experts like Ya'acov Frenkel, the former Governor of the Bank of Israel, to key Cabinet posts without incurring the wrath of his coalition partners while preserving enough ministries to reward those in the Likud whose loyalty he needs. A narrow government, from many points of view, theoretically makes the most political sense for Sharon at this time. He would be beholden to no one and, by focusing on issues rather than ideological causes, he could probably survive well into another term.

Even so, it is not altogether clear what Sharon wants to attain in this term. There is also much uncertainty about the outcome of a war in Iraq and about the state of relations between America

and Europe, excluding Britain, following a war. The conventional wisdom is that Sharon has almost five years to leave a serious legacy behind him and that wants to be remembered, not as the disgraced architect of the Lebanon War, but as the man who set the foundations for peace between Israel and the Palestinians. But some insist that Sharon has no vision and that he operates only as a brilliant tactician to no strategic advantage.

Between the two is a Sharon who has said that he is prepared for a provisional Palestinian state and for "painful concessions." If a campaign in Iraq ends in a way that allows the Bush Administration to give the Israeli-Palestinian conflict its full attention, Israel's current political alignment, with Sharon at its head, could sustain a significant policy reassessment. The potential for that reassessment is grounded in the first signs of reform in the institutions of the Palestinian Authority, including Yasir Arafat's expressed willingness to appoint a prime minister who would assume at least part of Arafat's executive authority. The leading candidates for the position, particularly Finance Minister Salam Fayyad, are acceptable to both Israel. Moreover, the Palestinians are, with European encouragement, openly debating the continued use of violence and even discussing a possible ceasefire under Egyptian auspices. The Saudi Peace Plan and the Beirut Declaration are still waiting to be pursued, and Sharon needs the loan guarantees.

These factors might make it possible for all sides to move toward a mutually acceptable long-term process. Sharon will not divide Jerusalem, but he may well give up outlying and isolated settlements and agree to a provisional Palestinian state with territorial contiguity on 42 per cent of the West Bank -- leaving the final status to be worked out later, probably by his successors.