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# Policy Brief

## S U M M A R Y

By electing a parliament dominated by Hamas, Palestinians have sharply challenged U.S. policy. The initial American reaction—undermining the new government—will leave the population in chaos, with various Palestinian groups vying for influence. Political constraints preclude anything but a Hamas government in the short term. But the Hamas victory should not be viewed as a defeat for the American vision of reform—which, indeed, may offer a path out of the current deadlock. The United States should develop a policy for the longer term to continue calming the Israeli-Palestinian conflict; maintain the Palestinian Authority; and work for political reform by focusing on the judiciary, media, and other institutions that are independent of the current regime. ■

## Living with Palestinian Democracy

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The victory of Hamas in the Palestinian parliamentary elections on January 25, 2006, has presented the United States with a democratic nightmare: An election judged by all observers as free and fair has brought an Islamist political movement to power that refuses to recognize the legitimacy of Israel and glorifies grotesque forms of political violence against civilians.

The United States has worked successfully to isolate the new Hamas government diplomatically and undermine it financially. But Washington's moves amount to a series of steps in search of a policy. The ostensible aim is to make the Palestinian leadership change its policies and actions. Another purpose—disavowed in public but hinted at in private—is to drive out Hamas and hasten Fatah's return to power. Unfortunately, the likely outcome will not be a quickly reformed Hamas or a peaceful transition to a chastened, democratic Fatah government. Instead, the U.S. measures are leading to political and economic collapse in the West Bank and Gaza.

Regionally, this will be a grievous setback for U.S. democratization efforts. Both governmental and opposition actors see the American reaction to the Palestinian elections as a test of the consistency and integrity of U.S. democracy

promotion. If the United States reacts to the first electoral defeat of a governing Arab party by working to overturn the results, the message will reverberate around the region almost as loudly as what is happening in Iraq.

Instead of embracing a series of short-term sanctions as a surrogate for a policy, the United States needs to allow time for Hamas to change, for Fatah to reform, or for a new political force to arise. This requires measures calibrated to facilitate democratic transition. It means pressuring, not destroying, the Palestinian government.

### **The Impending Collapse of the Palestinian Authority**

The United States has worked closely with the European Union and Israel to cut off funds for the Palestinian Authority (PA), forcing the new government into immediate bankruptcy. Most of the PA's recurrent budget and virtually its entire development budget come from external assistance or taxation controlled by Israel. Today, the new government cannot pay its teachers, clerks, or police; build roads; improve sanitation; or develop irrigation.

Even countries usually sympathetic toward the Palestinians have not dared to pledge more than small amounts, at best short-term palliatives. Banks have been threatened against transferring



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funds. Many nongovernmental organizations—rather than stepping in to fill the gap, as Western leaders had promised—have halted their operations, fearing that their activities in the West Bank and Gaza could be construed legally as support for terrorism.

If current trends continue, the PA will either collapse suddenly or (more likely) die gradually as its institutions decay and its employees abandon or attack it. The result will be a dangerous governance vacuum in a territory where close to 4 million people live. The government's inability to pay salaries has already deepened disorder. A recent attack on the Palestinian Ministry of Health by Fatah gunmen began in a dispute over a medical bill. The president and the cabinet have vied over command of the security services, a struggle that constantly threatens to escalate into violence. Private banks are bracing for attacks. Disorder and political decay are only likely to increase as salary arrears accumulate.

This decline serves no purpose. Hamas will not respond by forgoing its electoral victory and resigning. The stern international measures actually play to Hamas's mastery of nationalist symbols; it is already waving the flags of steadfastness and self-sacrifice and ostentatiously displaying frugality. Over the short term, the drastic cutoff of funds will lead most Palestinians to hold America, Europe, and Israel responsible for their plight, not Hamas. During a recent trip to the region, the author of this paper met only one Palestinian who clearly wanted Hamas to fail. All others—even those who rejected its agenda—opined that Hamas deserves a chance to govern after winning in a free and fair election. In the long run, Palestinians might change their minds—but by that time, there may be no authoritative structures left to speak for them.

Current measures amount to collective punishment inflicted on 3.9 million Palestinians because 440,000 of them voted for Hamas. In the blunt words of the Dutch foreign minister, "The Palestinian people have opted for this government, so they will have to bear the consequences."

The punishment is severe. The West Bank and Gaza are already in deep depression. Poverty, unemployment, and malnutrition are widespread and will worsen as PA employees lose their salaries. All parties involved—including the Israelis—wish to avoid a humanitarian disaster. But the only way to do so without bankrolling the PA is to place the entire population of the West Bank and Gaza on the international dole for an indefinite period.

Some European governments wish to square the circle by paying salaries directly to teachers and health workers. But there are only two ways to do this. One is to obtain the cooperation of the current government—thus undermining the goal of avoiding Hamas-dominated ministries. The second is to impose a trusteeship in which an international actor takes over key ministries. But such a step would mean making Hamas hand over the authority it has just won at the polls and finding an organization willing to move, quite literally, into the line of fire. Neither ousting nor bypassing Hamas is an option.

### **The Chimera of a Quick Return of Fatah**

While forcing Hamas to fail, the United States offers no way to build a democratic process or reform Fatah. There is no legal formula for Hamas to be thrown out; and even if there were, it would be some time before Fatah could reform itself enough to govern effectively.

Some Fatah leaders have suggested holding early elections, and some foreign observers have parroted the suggestion. But the Palestinian constitutional document (the "Basic Law") is definitive: the next parliamentary elections are due in 2010. Some Palestinians have also claimed that unwritten international practice allows a president to dissolve an assembly in case of constitutional stalemates. This right is wholly imaginary, as any member of the U.S. Congress could attest. Furthermore, the Basic Law states quite explicitly that emergency conditions cannot justify dissolving the parliament. Palestinian

president Mahmoud Abbas can lawfully dismiss the prime minister—but the old one would continue serving until a new one was found, and anyone designated would still have to gain the support of the Hamas-dominated parliament. Abbas might be able to trade one Hamas government for another, but he cannot legally rid himself of the movement.

Fatah can seize power only by shredding the law. With tens of thousands of security personnel, many of them loyal to Fatah, stripped of their salaries but not their weapons, Palestine might earn the dubious distinction of having experienced its first coup d'état before establishing an état. It is difficult to understand how that would be a step forward for any concerned party. Such a rake-over would place whatever is left of the PA in the hands of leaders who are widely viewed as corrupt and have proved unable to govern their own party, much less Palestinian society.

Fatah can return to power legally in the 2010 elections, but it will win only if it rebuilds itself from the ground up—activating democratic mechanisms within itself; canvassing and mobilizing supporters; and bringing in new recruits. If Fatah cannot reform, a new political force must emerge that is capable of building a broad-based electoral party.

Until 2010 at the earliest, Palestine's new leaders cannot be replaced by a reform-oriented, dovish leadership but only by chaos and further disintegration, dividing Palestinian society even more deeply into armed camps competing in their ability to attack Israel.

### **Preserving the Freedom Agenda**

Bringing down the PA would undermine the regional U.S. agenda of democracy promotion because it would be taken as final proof that Washington does not respect the voters' choice and prefers any outcome to an Islamist victory. Conversely, a favorable outcome for democratization and reform—a goal not yet out of reach—would revive the flagging American strategy for the region.

The most formidable challenge for democracy promotion in the Arab world is to incorporate the region's deeply rooted Islamist

movements within liberalized political systems. The entire logic underlying the democratization drive is to build a process whereby political differences can be resolved at the ballot box. That effort now stands on the verge of collapse in both Palestine and Iraq. With Hamas's victory, Arab autocrats have quickly rediscovered the excuse they had used for a generation—that liberalization would bring Islamists to power. And Islamist leaders who have entered the electoral fray are taking notice. None is likely to abandon the pursuit of peaceful change, but those Islamists suspicious of democratic politics are likely to be strengthened if they can claim that the international environment will never allow them to enjoy an electoral victory.

**If the United States reacts to the first electoral defeat of an Arab government by overturning the results, the message will reverberate around the region.**

It was Americans, not Arabs, who made Palestine a test case of political reform in the region a year before the invasion of Iraq. In June 2002, President George W. Bush declared: "If liberty can blossom in the rocky soil of the West Bank and Gaza, it will inspire millions of men and women around the globe who are equally weary of poverty and oppression, equally entitled to the benefits of democratic government."

Palestine was an odd place to begin an international effort at democratic reform. Israel was uninterested; the United States was truly motivated only when reform was aimed against Yasser Arafat; and Europe was anxious not to push beyond where the Americans would go. Yet if Palestine was an odd choice, it was not a hopeless one. The overwhelming executive and omnipresent security services that stifle most Arab political systems are only embryonic here, and leading Palestinians had

a well-articulated reform vision. In 2003, the Basic Law was amended to strengthen the parliament and introduce a prime ministerial position—the very institutions that Hamas has just taken over. Moreover, Palestinian finances were straightened out in a transparent process.

Even the election results offer some surprising encouragement to advocates of political reform. Hamas emulated Islamist parties elsewhere in the region by running on a platform of reform (in fact, it ran not under its own name but instead invented the banner “Change and Reform”), and it defeated a well-entrenched incumbent party.

## With tens of thousands of security personnel stripped of their salaries but not weapons, Palestine might earn the dubious distinction of experiencing its first coup d'état before an état.

Palestine may be on the verge of political collapse. But it may be able to avoid such an outcome if it can transform the current crisis into the birth of a viable two-party system. The United States can take advantage of this opportunity by developing a longer-term approach to the process of transformation, while in the meantime tolerating a Hamas government.

Tolerating a Hamas government even temporarily sounds like a radical idea in the United States—but not in other countries, including Israel. It is true that the total rejection of a Hamas government—because of its violent record and extreme program—is an approach based on sound principles. But it would be extremely unwise to ignore the likely consequences of this rejection. The best long-term hope for both Israelis and Palestinians is a stable and reformed Palestinian political system capable of reaching agreements with Israel. That is more likely to happen with either a moderated Hamas or a deeply trans-

formed Fatah than it is with a collapsed Palestinian Authority. This suggests a long-term policy based on pressuring Hamas, giving time to Fatah to reform, and presenting Palestinians with clear choices.

Hamas's electoral victory is not incompatible with political reform. The new leaders have pledged respect for rules and are respecting the legal and constitutional framework punctiliously. Because the democratic process has rewarded Hamas so handsomely and the law is generally on its side, it endorses democracy and the rule of law more than any other ruling party in the region. This is a very opportune moment to cement that commitment and require long-term guarantees that Hamas will observe the rules of the democratic process, even if it loses power.

Hamas's domestic platform is generally compatible with liberal reform. Though the party is unabashedly Islamist, it has subordinated its religious agenda to the immediate tasks of establishing clean government and ending chaos in the streets. New ministers stress that the party's electoral program did not mention the Islamization of Palestinian laws, and they will push forward very gingerly, if at all, in the religious arena. In media interviews and even in personal conversations, Palestine's new leaders are hard pressed to identify any specific legislative agenda, let alone an Islamic one.

There are still three very serious obstacles to political reform. First, Fatah, having lost, is skeptical about democracy. Some of its leaders speak publicly of their acceptance of the result, but others make off-the-record threats to overthrow the elections.

Second, the reform agenda is threatened by crime and violence. It is unclear how much any government can accomplish in an environment where the distinctions among security forces, party militias, guerilla bands, terrorist cells, and protection rackets have already become extremely difficult to draw.

Third, the external security situation poses a severe threat to internal reform. The problem here is partly of Hamas's own making. Even as Hamas adheres to its unilateral cease-fire, it proclaims that each Palestinian

faction may exercise “resistance” against Israel at will. This allows any faction—such as Islamic Jihad or Fatah—the ability to disrupt any “calm” that Hamas might prefer. And it undermines central Palestinian institutions because it denies the PA the most elementary characteristic of statehood: a monopoly on the legitimate use of force.

### Can Hamas Soften Its Stance toward Israel?

The Israeli government’s reaction to the formation of a Hamas government has been as severe as Washington’s. Nevertheless, many Israelis find the prospect of Palestinian political and economic collapse disturbing. Some quietly argue that the cutoff of revenue transfers to Palestinians serves no useful purpose. Israelis have no intention of once again taking on the full functions of an occupying power—such as running the schools and collecting the trash. The Israeli government has even dropped its bitter feud with the UN agency that supports social services for Palestinian refugee camps in order to find an alternative to Palestinian economic collapse.

However, even Israelis who realize the dead-end nature of current policy despair of Hamas, convinced that the movement will never change. Indeed, Hamas has given contradictory signals that confuse both outside observers and Palestinians. The movement, used to operating in opposition and led by a diverse and geographically dispersed group, has grown accustomed to hammering out vague statements that hint at many things but commit to very little. This pattern has not changed since the elections. One day, a prominent official will hint that the government is open to negotiations with Israel; the next day, a more truculent statement will undermine that apparent concession. It is clear that Hamas is divided on some critical issues, but it values unity so strongly that it papers over its divisions with slogans. A desire to not resemble Fatah, which can appear too anxious to curry favor with external actors, increases Hamas’s obstinacy.

Despite the ponderous decision-making patterns and slow pace of change, Hamas’s

positions have evolved on many key questions. It was born in the rejection of political negotiations and the insistence that resistance and jihad were the only path toward the recovery of Palestine; it now insists that both negotiations and resistance must be seen as means rather than ends. Its attitude toward elections has undergone even more extensive evolution.

Hamas seems to have laid some groundwork for accepting a two-state solution. For instance, the new leaders insist that they represent not Hamas and the party but the entire

### The Region Watches

“What the Palestinian people will witness and how they will be treated is the harshest type of political punishment for their democratic choice. The United States and the Western world wanted democracy their way for the region. The result is what we see in Palestine today.”

—AL-WATAN, SAUDI ARABIA, APRIL 30, 2006

“Great powers must be asked to wait until we see what will come out of this experiment. They must encourage Hamas to adopt realistic policies and respect the choice of the Palestinian people. Otherwise, we will find ourselves against a new storm that threatens the stability of the region.”

—SALAMA AHMED SALAMA, AL-AHRAM, EGYPT, FEBRUARY 2, 2006

“The United States and Western countries are known for their double standards in evaluating democracy. Domestically, they practice true democracy. But abroad, they practice it only to the extent that it serves their interests. These countries see Hamas’s victory and that of other Islamist movements that call for true democracy as against their interests. This is why they are doing their best to undermine Hamas’s victory. These countries will continue to support corrupt regimes as long as their interests are served.”

—MOHAMMED HABIB, FIRST DEPUTY OF THE EGYPTIAN

MUSLIM BROTHERHOOD’S SUPREME GUIDE, APRIL 21, 2006

“As the great powers increasingly concentrate on democracy promotion, it is unfortunate to note how the practice of democracy and the respect of a people’s free choice have become grave crimes punishable by blatant starvation by the United States and the European Union.”

—JUSTICE AND DEVELOPMENT PARTY, MOROCCO,

STATEMENT, APRIL 18, 2006

Palestinian people; new ministers belabor the distinction between the PA government (which serves the national interest) and Hamas (which is a political party with a specific platform). When pressed on whether they would recognize Israel, party leaders outside the government remain defiant. But some of those with high positions in the PA hint at more positive responses—by insisting that Israel and its borders must be defined before Hamas develops its position or by coyly stating that they would not recognize Israel for free. Hamas has made clear that it would accept the results of a referendum, suggesting that it might change its positions if pressured by the popular will. All the while, the party has staved off international pressure—including from key Arab states—to meet international conditions regarding the recognition of Israel.

Hamas's pattern of issuing contradictory signals is not new. It has confused observers for years. The most detailed consideration of

its positions on such issues came in a 1999 study by a Palestinian academic who concluded that it had suggested considerable flexibility and speculated that it might move beyond its rigid rejection of the peace process if given more favorable circumstances. That scholar was Nasser al-Din al-Sha'er, who was selected by Hamas to serve as deputy prime minister.

Al-Sha'er may now be in a position to test his ideas—but even if he is right, the transformation of Hamas will happen slowly and only under the pressure of events. And because the movement prides itself on its refusal to buckle to external pressure, the most likely source of change will be its tremendous sensitivity to public opinion rather than a response to sanctions.

Hamas may also be eased into more forthcoming positions by other Islamist movements in the region—in particular by Egypt's Muslim Brotherhood. Though excited by the Hamas victory, mainstream movements make clear that they will not stand in the way of Hamas's negotiations with Israel. When an Egyptian Muslim Brotherhood parliamentarian was asked by this author whether he thought Hamas would accept a two-state solution, he paused and then answered that they would—with time: "They will have to. Their people will demand it."

### A Better Policy

A new, long-term approach needs to be guided by three goals: maintain the calm; preserve the PA; and pursue genuine and sustained political reform.

The U.S. Congress, in particular, must avoid the temptation to place a vote against Hamas on the record by passing draconian and ill-considered legislation. Existing laws have already gone too far, making it almost impossible for policy makers, nongovernmental organization leaders, and the private sector to figure out what is legally permitted when dealing with Palestine. Crafting a new policy will be politically difficult. It is infinitely easier to ostracize a bloody-minded movement

### Palestinian Finances, 2005

<b>Number of employees</b>	<b>172,000</b>
<b>Annual budget</b>	<b>\$2.15 billion</b>
<b>Revenue sources</b>	
Taxes collected by the PA	\$476 million
Taxes collected by Israel on behalf of the PA for merchandise destined for Gaza and the West Bank	\$757 million
Foreign budgetary assistance	\$349 million
Profits from Palestinian Investment Fund	\$173 million
Transfer by Israel of past taxes collected and other one-time payments	\$137 million
Commercial borrowing	\$254 million

with bloody hands than to coax it toward reform. But the future of both Israelis and Palestinians and the credibility of the United States depend on a new, three-pronged approach.

*First, maintain the calm.* Hamas must be persuaded to continue its unilateral cease-fire and to contain violence from Fatah and Islamic Jihad. This cannot be accomplished solely through threats, demands, and rigid formulas that require the new leadership to repudiate all its past positions and to suppress other groups—immediately. A more realistic approach would focus on attainable but meaningful benchmarks—a formal renewal of the unilateral cease-fire; a dialogue among Palestinian factions on how to widen it; and acceptance of the Arab League’s Beirut Declaration (which offers Israel recognition in return for withdrawal to the 1967 borders and resolution of the refugee problem). Diplomatic and fiscal pressure will be important tools in securing such goals, but an international carrot must be used as well as a stick. Change must be rewarded with serious diplomatic engagement and a relaxation of the harsh closure that has strangled the Palestinian economy in various degrees since long before the current intifada. An initiative from Hamas (or more likely from President Abbas) to secure an agreement from Palestinian opposition groups not to attack Israelis will probably require an Israeli pledge not to take preemptive actions such as assassinations.

*Second, do no harm.* The collapse of the PA serves no interest. Therefore, Israel should be encouraged to resume transferring Palestinian taxes to the PA. Failing this, Washington should drop its objections to having European or regional states fill the gap. Hamas has expressed a willingness to accept some sort of international financial oversight to assure that funds are actually transferred to the Palestinian ministries. This will certainly not end international leverage, for the PA will still depend on large amounts of assistance even with the

resumption of Israeli revenue transfers. Any such assistance should therefore aim not just at the PA’s survival but also at its reform.

*Third, take democracy seriously.* The Arab world’s most promising democratic transition can become part of the solution rather than a new problem if all Palestinian parties are encouraged to use it as an opportunity to renew themselves. The international community must disabuse Fatah of the notion that it can return to power through legal and political

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trickery. Other political parties must rebuild themselves as electoral organizations. The small secular parties need to seize any opportunities opened up by Fatah’s obsession with short-term maneuverings. Beyond political parties, the biggest need is for institutions that are strong, capable, nonpartisan, and not under the direct control of either the president or the parliament. International assistance can support the judiciary, audit bureau, election commission, personnel bureau, and media as fundamental building blocks of reform. ■

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ISLAMIST MOVEMENTS AND THE DEMOCRATIC PROCESS IN THE ARAB WORLD: EXPLORING GRAY ZONES, Nathan Brown, Amr Hamzawy, and Marina S. Ottaway, Carnegie Paper no. 67 (Washington, D.C.: Carnegie Endowment, March 2006).

AFTERMATH OF THE HAMAS TSUNAMI, Nathan Brown, Web commentary, available at [www.CarnegieEndowment.org/pubs](http://www.CarnegieEndowment.org/pubs).

EVALUATING PALESTINIAN REFORM, Nathan Brown, Web commentary, available at [www.CarnegieEndowment.org/pubs](http://www.CarnegieEndowment.org/pubs).

FREQUENTLY (AND LESS FREQUENTLY) ASKED QUESTIONS ABOUT PALESTINIAN PRESIDENTIAL ELECTIONS, Nathan Brown, Web commentary, available at [www.CarnegieEndowment.org/pubs](http://www.CarnegieEndowment.org/pubs).

PROMOTING DEMOCRACY AFTER HAMAS' VICTORY, Marina S. Ottaway, Web commentary, available at [www.CarnegieEndowment.org/pubs](http://www.CarnegieEndowment.org/pubs).

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