



Cato Institute Foreign Policy Briefing No. 13: Let the Soviet Jews Come to America

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Executive Summary

In the controversy surrounding President Bush's decision to postpone \$10 billion in loan guarantees for the settlement of Soviet Jews in Israel, one resolution has gotten short shrift: scuttling the loan guarantee program altogether and admitting the Soviet Jews to the United States. That idea has much to recommend it. It would be advantageous for all concerned: the Soviet Jews, the United States, and the people in Israel and the Israeli-occupied territories.

The dispute is over the president's wish to delay the loan guarantees for four months and then to attach restrictions on using them to build settlements in the occupied territories. President Bush, hoping to convene a Middle East peace conference in October, says he wants to avoid jeopardizing the peace process by a "contentious debate that would raise a host of controversial issues." [1] He has threatened to veto a bill that goes against his wishes. The president's position is related to his dissatisfaction with Prime Minister Yitzhak Shamir's intent to continue building Jewish settlements, subsidized by U.S. foreign aid, on Arab-owned land in the occupied territories.

The United States has long held that the settlements are in violation of the Fourth Geneva Convention and United Nations resolutions, and the Bush administration has characterized them as the chief obstacle to peace in the region. Bush is said to be particularly angry that the Shamir government accelerated its settlement program just as Bush was trying to arrange a regional peace conference and that Shamir reneged on his promise not to use previous loan guarantees in the territories. [2] The president undoubtedly fears that the United States cannot be regarded as an honest broker if it is subsidizing the de facto annexation of Palestinian land.

The administration, however, has muddied its position with conflicting statements, reportedly made by Secretary of State James A. Baker III, about requiring a freeze on the settlements. An initial demand for a freeze was softened the following day to say that the administration wanted to attach unspecified conditions, perhaps that the money not be used in the territories. The problem with that "restriction," as many have pointed out, is that since money is fungible, the loans would free other money for use in the territories. The United States would still be subsidizing the settlement program, albeit indirectly. It is not clear how President Bush could solve that problem without demanding a commitment from Israel that no money be spent on new development in the territories, that is, a freeze. Even reducing American aid by the amount spent in the territories would constitute a de facto freeze. As Israeli political scientist Ehud Sprinzak wrote recently, "American approval of the loan guarantees without linkage to the settlement issue would make it financially possible to settle the occupied territories simultaneously with the absorption of the Soviet Jews." [3]

It is hard to understand what Baker meant when he said, "We have asked for a delay, because we want to avoid the question of linkage, not promote it." [4] The question of linkage cannot be avoided. The settlement of Soviet Jews even in Israel proper creates incentives (such as higher rents) for other Israelis to opt for the subsidized accommodations on the West Bank. Moreover, one wonders how the administration could have thought that its decision to delay the guarantees would deemphasize the link to the settlements in the territories when the link is what motivated the decision in the first place.

The Future of the Occupied Territories

Israel wants the United States to co-sign \$2 billion in private loans for each of the next five years in anticipation of the arrival of 1 million Jewish immigrants from the Soviet Union and to help settle the 350,000 who have arrived during the last few years. Israel says the money would be used to build housing, roads, and other infrastructure and to create jobs. (For reasons to be discussed below, the actual number of immigrants will probably be much lower.)

The political difficulty arises because of the Arab concern that the influx of Soviet Jews will provide Israel leverage in its effort to retain control of the West Bank, East Jerusalem, the Gaza Strip, and the Golan Heights--Arab territories occupied by Israel since the Six-Day War with Egypt, Syria, and Jordan in 1967. Israel has confiscated much of the land and water in the occupied territories in order to build settlements exclusively for Jews. The 1.7 million Palestinians in the territories, through the intifada, have increasingly resisted the occupation, and Israel has responded in a variety of repressive ways.

Shamir has said Israel must keep the territories in order to accommodate the immigrants. "A great aliyah [immigration]," he said, "requires a Greater Israel." [5] He has insisted that, although Soviet Jews are not being directed to the territories, any Jew has the right to live anywhere in the land of Israel, which for most Israelis includes the territories. As Foreign Minister David Levy said in August: "The right to settle every part of Israel is unequivocally clear even if there are disagreements over this matter. Israel's stance on this issue is known." [6] Israeli and many American Jewish leaders see the matter as going to the very core of the Jewish state's mission, which is to "redeem" the land of historic Israel on behalf of the Jewish people. To allow outsiders to interfere with that mission is regarded as impermissible and dangerous. The issue is explosive inside Israel, because a compromise by Shamir could rock his coalition government and increase the power of allegedly more extreme leaders, such as Housing Minister Ariel Sharon.

The building now going on is intended to more than double the present population of some 100,000 Jews on the West Bank within a year. Additional housing for at least 15,000 more families is planned. [7] It has been no small source of irritation to the Bush administration that virtually every time Secretary Baker visits the Middle East, a new settlement goes up.

The influx of Jews into the territories undermines Israel's claim that it is willing to negotiate some form of autonomy with the Palestinians. Current plans include strings of settlements that would divide the West Bank, as well as sever Jerusalem from that territory. Moreover, under the "star plan," 12 new towns to be built on Israel's pre-1967 eastern border would be linked with Jewish settlements on the West Bank, effectively relocating the border further east in occupied land. [8] Israel already controls most of the scarce water on the West Bank.

Arab villages inside the green line (pre-1967 borders) are also vulnerable to Israeli plans for new housing. The Arab town of Ramya in Galilee was ordered vacated and razed on September 16, 1991, so that a new Jewish settlement could be built. [9] (An Israeli court delayed the demolition for two weeks.) Some immigrants have been directed to the north in an effort to "Judaize" Galilee. Thirty-two percent of the Soviet immigrants live there. According to Avishai Margalit of the Hebrew University in Jerusalem, the Israeli government wishes to increase the ratio of Jews to Arabs in Galilee to avert a future move for autonomy or secession. [10]

Merely delaying the loan guarantees will not really solve any of the problems. Granting the guarantees, even four months later, would harm the Soviet Jews, American taxpayers, and the Israelis themselves. Since Israel has couched the request for help in humanitarian terms, the adverse effect on the Soviet Jews will be examined first.

The Impact on the Soviet Jews Although many Soviet Jews have moved to Israel over the last few years, tens of thousands of others still in the Soviet Union have chosen not to immigrate to Israel. [11] More than 200,000 Soviet Jews have registered at the U.S. embassy in Moscow for visas, although they may have to wait five years to come to America. [12] Considering the disastrous state of the Soviet economy, the absence of complete freedom, the notorious anti-Semitic history of tsarist and communist Russia, and the reported rise of extreme nationalist groups such as Pamyat, the significance of that fact is immense. For one thing, it means that Israel will not need the amount of absorption money it plans to borrow.

Jews are willing to risk staying in the Soviet Union because the Soviet Jews already in Israel are suffering. "With the economy sputtering, thousands of recently arrived Soviet Jews are being ill treated, their problems neglected, their complaints ignored. Some who can't find housing have begun moving into tent camps. Nearly all of them, it seems, are warning others to stay home,"[13] writes New York Times correspondent Joel Brinkley. Recent suicides among Soviet immigrants prompted the Israeli government to create a commission to look into the matter.

Soviet Jews are some of the most highly educated people in the world. The immigrants include scientists, physicians, mathematicians, and concert musicians. Sixty percent or more are professionals or managerial specialists, but most cannot work in their fields, or even remotely related fields. Instead, when they can get work at all, they sweep streets, scrub floors, and drive taxis. Seventy to 80 percent of last year's immigrants are unemployed; overall unemployment for the immigrants is 40 percent. Poverty and despair have driven some to prostitution.[14]

The poor conditions explain the small but significant on-migration of Jews to Germany, Australia, and Canada. But moving on is difficult for many because, before leaving, would-be emigrants must repay the cost of transportation from Russia to Israel. (They are not told in advance that the cost of their transportation is a loan that is forgiven only after five years of residence.)[15] Word of the bad conditions has gotten back to the Jews in the Soviet Union; that partly explains the drop-off in the number of immigrants. Simcha Dinitz, chairman of the Jewish Agency, conceded that unless "something drastic" is done soon, the number of immigrants will continue to fall.[16]

The situation would be tragic even if the Soviet Jews wanted to live in Israel. Before 1989, when the Soviet Jews were free to go where they wished, about 90 percent of them chose the United States. America would still probably be the first choice of many. Some have relatives here, and most prefer American urban centers to the Middle East. Moreover, most Soviet Jews are secular. "They are not religious," said Baruch Gur, director of operations of the Jewish Agency. "The immigrants have little knowledge of Judaism."[17]

Until 1989 Soviet Jews, who could leave the Soviet Union only if they had Israeli visas, were free to head for the United States after stopping over in Vienna. They did so under an American refugee program designed to help victims of repression who had no other place to go. Israel hoped to stanch the flow of immigrants elsewhere by providing direct flights from Moscow to Tel Aviv or by having immigrants stop in Bucharest, where they could be better controlled. To limit the Jews' options, Israel persuaded the United States to cap the number of Soviet refugees. The Soviet quota was set at 50,000, about 90 percent of whom have been Jewish. Germany also virtually ended Jewish immigration after being pressured to do so by Israel in early 1991. Before then more than 100 Soviet Jews were registering each day for entry into Germany.[18]

In sum, allowing Soviet Jews to come to the United States is consonant with human rights, their own conception of the good life, and the legend on the Statue of Liberty. It would be wrong to force them to go to Israel as pawns in the Israeli leadership's ideological power play. The United States should not be an accomplice in the cynical enterprise for which the Soviet Jews are being conscripted.

The Costs to American Taxpayers

Those who favor the loan guarantees have emphasized that, unlike outright aid, the guarantees would cost American taxpayers nothing. Douglas M. Bloomfield, formerly of the American Israel Public Affairs Committee, has written:

Let's clear up one thing immediately: Israel is asking for guarantees, not loans or grants or gifts. . . . If Israel were to default, the U.S. government would be responsible. But Israel has never missed a payment, so the risk is minimal. Administration number crunchers will devise a formula--the technical term is "scoring"--for determining how much the guarantees are worth and how much money should be set aside in case Israel defaults, and that sum will count against the [budget] deficit. But, in reality, this is a paper transaction, and there is no real expenditure and no real cost to the U.S. taxpayer for the guarantees.[19]

Things are not so simple. The set-aside has been unofficially estimated at as much as \$800 million.[20] Since Congress and the president have agreed to limit the budget increase, the amount of the set-aside would either have to be deducted from another program or be allocated by a supplemental appropriation that would increase the deficit and

future interest costs. There would also be administrative costs as well as expenses for servicing and secondary placement of the loans. Those costs could run to considerable sums that American taxpayers would pay even if Israel repaid the loans.

And a default is not out of the question. The Israeli economy, which is about 80 percent state owned, is a socialist system akin to those that have been dismantled in the former Soviet bloc because they failed so spectacularly. Annual per capita growth has been an anemic 1 percent since 1974. Israeli tax rates are among the highest in the world, and inflation is running at 20 percent. Israel, a country of 5 million, is already heavily dependent on outside assistance. It gets at least \$4 billion a year in grants from the United States. It owes the U.S. government \$4.5 billion (other debts have been written off) and U.S. banks \$148 million.[21] Since 1972 Israel has received more than \$600 million in loan guarantees, 93 percent of which are still outstanding. Standard and Poor's investment index rates Israel the lowest triple-B-minus for long-term debt not backed by the United States, a rating just one notch above that of "junk bonds." The Export-Import Bank gives the Israeli economy a grade of D.[22]

Actually, Israel need not formally default to shift the full burden of the loans to American taxpayers. Of the \$1.2 billion in economic aid given Israel each year, \$1.1 billion goes to pay the principal and interest on old loans.[23] Thus, we can expect Congress in future years to make grants to Israel that will be used to repay the immigration-absorption loans. Israel's defenders boast that that nation has never defaulted on its loans. But in judging that, one should know that in 1984 Congress passed a law requiring that economic assistance to Israel not fall below the principal and interest Israel is due to pay the United States during the year under consideration.

There is also another kind of cost involved. By making it possible for Israel to borrow scarce capital at privileged rates, the United States would deprive others of that money. At least some of the would-be borrowers would have invested in things that might have made all our lives better. The diversion of money to the Israeli government would thus have a real, though immeasurable, cost in forgone consumer products.

Thus, the costs to American taxpayers could be immense. Sen. Robert Dole (R-Kans.) noted that, considering the costs of the recent \$400 million loan guarantee to Israel, an outright grant would have been cheaper.

The final cost to the United States of the guarantees would be the loss of economic and other benefits that would have been provided by the immigrants themselves. Soviet Jews are some of the most highly educated, potentially most productive immigrants in the world. Israel's wish for the money and the immigrants can only be described as chutzpah. As someone recently quipped, if Israel is to get the money, America should at least get the immigrants.

Soviet Jews are steeped in a tradition of education, family values, and hard work. They are precisely the type of people we should heartily welcome to our shores. Moreover, an influx of people who do not take liberty for granted could not help but reinvigorate our society. Although immigration is a burden to a socialist economy, it is a boon to a capitalist one. There is no question that such immigration would be a net benefit for the United States. As immigration economist Julian Simon wrote, immigrants "come here to improve their material life as well as to enjoy liberty and other spiritual benefits. They struggle for their own sakes and for the sakes of their loved ones, but inevitably they benefit the rest of us, too." [24]

The Harm to the Israelis

At one time the idea that denying Israel the loan guarantees would be good for Israel might have seemed absurd. With the collapse of centrally controlled economies in the former Soviet Union and Eastern Europe, that should no longer be the case. Giving money to a central government is self-defeating because it reinforces bad policies and puts off the day when market-directed reforms are recognized as necessary. Israel is a socialist country, 80 percent of whose economy and 92 percent of whose land are owned by the state. It appeals for loan guarantees and other aid because of its economic problems, which stem from its statist economy. Aid to the state, therefore, cannot create the requisite conditions for a vibrant, which is to say free, economy. Aid will only transfer resources to the bureaucratic planners who caused the problems in the first place.

Consider this: in the northern Negev desert town of Arad, the Israeli government is building apartments and houses for Soviet Jews--not in response to market demand in the town but in a bureaucratic attempt to develop the area.

According to one reporter: "So far, the effort is failing, both here and in other 'development towns' in Israel's more remote areas. Although Soviet immigrants in the center of the country face a desperate shortage of housing, not enough of them have moved to Arad to fill even the 1,700 units nearing completion--much less the 2,500 more soon to be started." [25] Mayor Bezalel Tabib says that even if immigrants moved there, they would have no jobs because employers have no interest in locating in desert mountains far from ports and markets. This typical story of government planning would surprise few people if it came out of the Soviet Union. Clearly, aid to the Israeli government would only give the bureaucrats who planned the Arad project the power to do more of the same.

Two years ago Israeli economists and international financial experts warned the Israeli government that the successful absorption of immigrants depended on privatization of its state economy. "Nevertheless, these experts now say, Shamir's government has responded to the influx in classic socialist fashion, launching massive, state-run housing and job programs in which political and nationalist priorities--such as settling the occupied West Bank and Gaza Strip--have taken precedence over economic criteria, or the preferences of the immigrants themselves." [26] So 29 percent of the new houses are being built in the Negev, but they have attracted only 7 percent of the immigrants. Nearly half of the immigrants live in the Tel Aviv area, where only 22 percent of the new housing is being constructed. [27] The result of prohibiting the market to operate is a terrifying inflation of housing prices in central Israel.

In a vivid illustration of the standard pyramiding of government controls, the Shamir government has responded to those problems with more intervention. The state plans to use the \$10 billion guaranteed by the United States to create the jobs in the desert that private investors will not create. But of course they will not be the same jobs; they will be the make-work jobs that only governments create. Israel thus will travel further down the statist road at the very time it should be dismantling its bureaucratic economy. If government jobs do not induce the immigrants to move, will the next step be forced relocation? "In the Israeli mindset," says economist Alvin Rabushka, "the current immigrant crisis is an even more compelling reason not to risk free-market economic reforms. The path of least resistance is to carry on the failed interventionist policies of the past on an even larger scale." [28]

Cushioning the Israelis from the folly of their bureaucratic planners does them no favor. It merely puts off the day of reckoning, allows the country to end up in a deeper hole, and makes the eventual cost of reform even greater. Israel needs to switch to a market economy in which land and all the means of production are privately owned, internal and external trade is free, and the rule of law protects the rights of all individuals. (Israel's Arab citizens today do not have the same access as Jews to government-controlled resources and services.) The United States can give Israel a much-needed push in that direction by scrapping not only the loan guarantees but all foreign aid.

Notes

[1] "Excerpts from Bush's Comments: We Must Avoid a Contentious Debate," New York Times, September 13, 1991, p. A10.

[2] Andrew Rosenthal, "Fed Up with Shamir; Aides Link Bush's Anti-Israel Stance to Anger at Premier over Settlements," New York Times, September 14, 1991, p. A5; "The President Is Right on Israel," New York Times, September 17, 1991, p. A20; Thomas L. Friedman, "Baker and Shamir Still at Odds," New York Times, September 17, 1991, p. A6; Thomas L. Friedman, "U.S. Links Loan Guarantees to Freeze on Settlements as Baker's Trip to Israel Fails," New York Times, September 18, 1991, p. A1.

[3] Ehud Sprinzak, "Underwriting Israel's Radical Right," Washington Post, September 15, 1991, p. C7.

[4] Thomas L. Friedman, "Loan Case Is a Window onto U.S.- Israel Tensions," New York Times, September 19, 1991, p. A18.

[5] Michael Walzer, "Shamir vs. Israeli Security," New York Times, September 18, 1991, p. A19. See also Avishai Margalit, "The Great White Hope," New York Review of Books, June 27, 1991, p. 25.

[6] Miriam Jordan (Reuters), "Settlers Enter as Baker Leaves," Washington Times, August 7, 1991, p. A7.

[7] R. W. Apple, Jr., "Bush Is Adamant in Demanding Delay on Backing for Israeli Loan," New York Times,

September 13, 1991, p. A10. According to the U.S. Department of State, there are 225,000 Jews living in the Golan Heights, the West Bank, East Jerusalem, and the Gaza Strip. Friedman, "U.S. Links Loan Guarantees." Israel has taken over 70 percent of the West Bank and more than 50 percent of the Gaza Strip, according to the Israeli human rights organization B'Tselem and the Coordinating Committee of International Non-Governmental Organizations. Hady Amr, "Is Putting Immediate Strings on Aid to Israel the Best Hope for Peace?" Washington Report on Middle East Affairs 10, no. 3 (August/September 1991): 18.

[8] Jackson Diehl, "Israel Plans New Building in Settlements," Washington Post, September 8, 1991, p. A37.

[9] Alisa Solomon, "Broken Promise," Village Voice, September 17, 1991, p. 27; Alisa Solomon, "Threatened Village," The Other Israel, no. 48 (August/September 1991): 6.

[10] Margalit, p. 23.

[11] Joel Brinkley, "A Price for Security," New York Times Magazine, September 8, 1991, p. 44.

[12] John Asfour, "A Bush-Baker Ace in the Hole: Lift the U.S. Cap on Soviet Immigration," Washington Report on Middle East Affairs 10, no. 3 (August/September 1991): 20.

[13] Brinkley, p. 44.

[14] Frank Collins, "As Soviet Jews Seek Other Destinations, Israel Blocks the Exits," Washington Report on Middle East Affairs 10, no. 3 (August/September 1991): 8; Margalit, p. 24.

[15] Collins, p. 8.

[16] Jackson Diehl, "Soviet Jews in Israel Dream of America," Washington Post, April 15, 1991, p. A17.

[17] Georgie Anne Geyer, "How Will Emigres Change Israel?" Washington Times, August 7, 1991, p. G3.

[18] Jewish Advocate (Boston), March 12, 1991, p. 2; Washington Jewish Week, March 7, 1991, p. 11. Israel also pressured Germany to return 300 Soviet Jews who went to Berlin from Israel in January 1991. Jewish Advocate, April 12, 1991, p. 2. In 1959 Israeli officials opposed legislation aimed at allowing Rumanian Jews to enter the United States as refugees. "Zionists Oppose Jewish Immigrants to USA," Jewish Newsletter 15, no. 10 (May 18, 1959): 1.

[19] Douglas M. Bloomfield, "Eyeball to Eyeball," Washington Jewish Week, July 18, 1991, p. 13.

[20] Donald Neff, "The Bruising Battle between Bush and Shamir," Middle East International, no. 404 (September 13, 1991): 3.

[21] Ben Wattenberg, "Security Fears," Washington Times, September 18, 1991, F4; Georgie Anne Geyer, "Pressures," *ibid.*; Amr, p. 18. Inflation hit triple digits in the 1980s.

[22] Parker Payson, "The Real Cost of the Israeli Loan Guarantees: \$3.1 to \$117 Billion," Washington Report on Middle East Affairs 10, no. 3 (August/September 1991): 90.

[23] Tom Bethell, "Getting Off the Dole," American Spectator, July 1990, pp. 9, 11.

[24] Julian L. Simon, *The Economic Consequences of Immigration* (Oxford and Cambridge, Mass.: Basil Blackwell/Cato Institute, 1989), p. xxix.

[25] Jackson Diehl, "Immigrant Influx Tests Israel's Economic Approach," Washington Post, September 8, 1991, p. A37.

[26] *Ibid.*

[27] Ibid.

[28] Quoted in Diehl, "Immigrant Influx."