**Part 5: Becoming citizens**

The largescale immigration to Israel from the former Soviet Union (known as the “Soviet Aliyah”), which began during the 1990s, was a significant development for Israel’s society and economy, both because of its sheer size—over a million people immigrated in total—and because of the human capital of the Soviet immigrants. The timing of the first mass wave of Soviet immigration was particularly crucial, occurring as it did immediately after the 1985 Economic Stabilization Plan, just as Israel was entering a long period of recovery from the hyperinflation crisis, and as it was beginning to make fundamental changes to how the economy was run. All these factors combined to spark unprecedented economic changes. The Soviet Aliyah fueled the engine of Israel’s nascent high-tech industry, enriching and boosting the skilled workforce that this sector needed to develop and flourish. The infusion of Soviet immigrants into Israel’s existing population created advantages not just for the country’s high-tech sector, but for the economy in general. The economic changes in Israel, coupled with significant international and regional political developments—not least the fall of Communism, Israel’s agreements with the Palestinians and the Jordanians, and the acceleration of globalization—combined to create new economic opportunities for Israel. Nevertheless, Israel needed special financial assistance to help it absorb almost a million new citizens, and the United States provided loan guarantees of $10 billion. This allowed Israel to contend with the Soviet Aliyah with relative ease, and also helped it develop its high-tech sector. Alongside these developments, Israel also experienced other demographic developments. In particular, the ultraorthodox community was growing and increasing in power, and Israeli society was beset by increased tribalism. These processes hampered the development of Israel’s economy.

**Chapter 23: The Soviet Aliyah**

The mass immigration to Israel from the former Soviet Union in the 1990s was, to a large extent, precipitated by the unexpected collapse of the Communist regimes in the Soviet Union and Eastern bloc. The Soviet Aliyah began with the opening of the borders of the Soviet Union in 1989 as a result of Soviet President Mikhail Gorbachev’s policies of *glasnost* and *perestroika*. While the exodus of the Soviet Union’s Jews had begun back in the 1970s and 1980s, only a minority of those who left during those years had chosen to immigrate to Israel, with most preferring the United States or Western Europe. Jews began to immigrate en masse to Israel in the 1990s a result of a request made by Yitzhak Shamir’s government to the United States in 1987 that Washington refuse to grant free entry of Soviet Jews into the United States. Israel accepted Soviet immigrants willingly and without conditions, despite the immediate difficulties inherent in absorbing them. By that time, around 200,000 Jews from the Soviet Union had already immigrated to the United States. Germany was also open to Soviet Jews, even in the 1990s, but by that time, most preferred to immigrate to Israel.

The Soviet Aliyah came in several waves. The first, during 1989–1999, saw around 825,000 former Soviet citizens immigrate to Israel. The second wave, from 2000–2009, consisted of around 165,000 immigrants, with 200,000 more arriving in the third wave in 2010–2021. In comparison, some 150,000 Soviet Jews had immigrated to Israel during the 1970s and 1980s. However, it is important to note that the Soviet Aliyah was not homogeneous. The immigrants who arrived in the first wave had a distinct Soviet mentality, conditioned by decades of Communist rule, whereas by the time of the third wave, the newcomers were already much more liberal and Westernized. In the short term, the increase in Israel’s population caused by the Soviet Aliyah gave rise to a number of difficulties, but in the longer term, the mass immigration was positive both for the newcomers and Israeli society in general.

The Soviet and post-Soviet immigrants arrived in Israel with ambitions, motivation, and a willingness to work. This was a secular Aliyah, where a high percentage of the immigrants, although entitled to Israeli citizenship under the Law of Return, were nonetheless not considered Jewish according to *Halacha* (Jewish religious law). These immigrants were notable for their high levels of participation in Israel’s workforce, and for the fact that around a third of adult immigrants were highly educated. As a result, Israel’s workforce became the most educated in the world. The Soviet Aliyah created opportunities for Israel’s economy, society, culture, politics, and government-religious relations.

When the Soviet Aliyah began, Israel had just emerged from a major economic crisis, which had had a severe impact on the functioning of its markets. It was in the midst of a recovery process that would transform it into a modern, market economy, open to international trade. The Soviet Aliyah would provide the fuel for the flourishing of the burgeoning Israeli high-tech industry. The Soviet immigrants, including those who arrived in Israel as children or young people, acquired good Hebrew-language skills, integrating well into the labor market and higher education system. The Soviet Aliyah also contributed to a cultural enrichment process that proved a positive addition to the already wide and diverse mosaic of Israeli society. The Soviet immigrants gained a reputation of having a high work ethic and a resilient character. The Soviet Aliyah brought an influx of doctors, engineers, scientists, and musicians, who, realizing that they would have difficulty integrating into Israel’s professional job market due to age and language barriers, were willing to find work as street cleaners and security guards. On the whole, Soviet doctors and engineers found work relatively easily, because there was a demand for those professions. However, like almost all newcomers to Israel, including those who came to pre-State Palestine, even these doctors and engineers experienced the usual difficulties immigrants face when moving to a new country and society. And despite attempts by the government to change how it absorbed immigrants and to invest more resources in their successful integration, many older Soviet immigrants in particular, who did not speak Hebrew and who found themselves in a country very different from the one in which they had lived all their lives, did struggle with integration. Some of the problems they faced were similar to those faced by past waves of immigrants, but others were unique to the Soviet Aliyah.

Soviet immigrants had to contend with trying to obtain suitable employment and housing, secure nursing care for the elderly, and find financial solutions for those past retirement age who had not accrued pension rights in Israel. Meanwhile, difficulties arose in the personal status of the large number of immigrants whom Israel did not consider Jewish according to *halacha*. In particular, solutions were required for those whose non-Jewish status prohibited them from marrying in Israel, and for those who had difficulty in proving their Jewishness. Many Soviet immigrants faced the need to formally convert to Judaism, while most wanted to preserve their original heritage and culture.

The sudden population jump of some 20 percent meant that, beyond the challenges of providing these immigrants with housing and employment, the government also had to increase its investments in economic and social infrastructure, in particular in health and education. This came after years of stagnating investments in infrastructure and social services as a result of the hyperinflation crisis. Unsurprisingly, it posed a considerable economic and budgetary challenge. It was no small effort to absorb an additional population of this size, many of whom had arrived in Israel with very little money or property within just a decade. For comparison, the reunification of Germany, which was occurring at the same period, required no investment in language teaching or housing, yet encountered many difficulties and was more costly than Israel’s absorption of Soviet Jews (and arguably, the unification of West and East Germany has not yet been fully completed).

Despite the recognition at the time that the Soviet Aliyah was a key event in Israel’s history, there were nevertheless fears that the large expenditures required to absorb these immigrants, in particular given the precarious state of Israel’s balance of payments, would lead to an economic backslide, one that loomed ominously in light of the fresh scars left by the recent economic crisis. In retrospect, the actions of the successive Israeli governments involved in the absorption of the Soviet immigrants meant that, within a few years, the Soviet Aliyah produced positive results for the economy. The large upfront costs required to absorb the Soviet immigrants did not cause any backsliding from the achievements of the 1985 Economic Stabilization Plan and Israel’s subsequent economic recovery. Moreover, the economy derived economic benefits from the immigrants, while the economic reforms were able to continue apace. Moreover, the Soviet Aliyah accelerated the growth of Israel’s high-tech industry and the country’s integration into the globalized economy.

The fact that a large proportion of the Soviet immigrants had a higher education increased the number of skilled and educated workers in Israel’s labor market and in academia. The demand for higher education overall increased, and, among other things, accelerated the reform of Israel’s academic colleges that took place in 1993–1994. The value of the Soviet immigrants’ human capital was estimated at around $25 billion, which boosted the economy, particularly the high-tech industry, which was growing apace. The combination of Israel’s western academic education system with the new immigrants’ Soviet academic background served as a power-multiplier that created technological advantages, particularly in terms of creativity and entrepreneurship. This combination of Western and Soviet technology and Israeli entrepreneurship helped revolutionize the country’s nascent high-tech sector.

The government encouraged Israel’s young high-tech industry to employ more Soviet immigrants with higher education, including by establishing the Yozma Fund to encourage venture capital funds, and tech incubators to give the immigrants experience in a Western and Israeli scientific and business environment. Israel’s healthcare system benefitted from the influx of Soviet doctors, and the country’s cultural life was enriched by an injection of classically-trained musicians and other artists (the Gesher Theater in Tel Aviv, for example, was established in 1991 by Soviet immigrants).

The first wave of Soviet immigrants proved yet again that Israel’s economy ultimately flourishes with a large population infusion, which serves as an engine for economic growth and development. In many countries, population growth is an economic burden. In the West, population growth is slow, and there are countries with small populations. In Israel, the positive effect from the population growth came despite the fact that the Soviet Aliyah was not selective. The immigrants included older adults and people with disabilities, a phenomenon that is not seen in countries that restrict immigration based on age, health, education, and income. After several years, the Soviet immigrants had integrated effectively into the labor market. Even after the 1985 Economic Stabilization Plan, Israel maintained its status as a “mobilized society,” even though the public-collective ethos had shifted to that of a privatized economy that relied on market forces.

**Immigrant benefits—the “absorption basket”**

The enormous scale of the Soviet Aliyah required government intervention—something that ostensibly went against the grain of the policy of government withdrawal from economic interference in the wake of the 1985 Economic Stabilization Plan. In this regard, there was an inherent tension between short-term policy (which required government involvement) and long-term policy (which called for the government to withdraw from economic involvement, and a program of widescale privatization). Accommodating the Soviet Aliyah called for government intervention in the short-term in order for it to then build the economy on new, long-term foundations.

It is important to note that, in 1988, there had been a shift in government policy regarding immigrant absorption. Previously, the government had maintained a policy of “direct absorption,” which had included the provision of state services to new immigrants for a defined period following their arrival in Israel. This consisted, first and foremost, of providing new immigrants with accommodation in “absorption centers” (temporary living quarters designed especially for new arrivals). In 1988, this policy was amended in favor of providing all new immigrants with a “*sal klita*” (“absorption basket”)—a package of financial benefits. During the 1980s, the number of immigrants had been relatively low, and the government had anticipated that, in the future, new immigrants would likely come from the West rather than from poor, underdeveloped countries, as had been the case in the past. Western immigrants come from market economies with high living standards, and are well-versed in how markets operate and how to use money to purchase goods and services. The “absorption basket” policy was designed to provide new immigrants with a sum of money in their initial period in Israel, and then leave it to their discretion to determine their priorities according to their personal needs and wishes. This was a policy designed around individualism, rather than paternalism or collectivism. On its surface, this policy appeared not be suited to the Soviet immigrants, who had come from a Communist regime with a command economy. Most of them did not own property, had no experience of market economies or of a Western-style economic system.

In retrospect, however, the “absorption basket” turned out to be a great success, since it addressed the main issue facing both the government and the immigrants—housing. The Soviet immigrants who arrived en masse between 1990–1992 found themselves in a country that could not immediately provide them with accommodation, due to a housing shortage. Nevertheless, the “absorption basket” system allowed them to purchase or rent housing on the free market. Some chose to use the money to secure housing for several households in the same apartment. The decision to defer to the immigrants’ own preferences regarding how to use their “absorption basket” benefits helped solve the troubling issue of how to provide accommodation for large numbers of immigrants amid a housing shortage, by allowing them access to the market and find practicable solutions. The government could not have resorted to the methods it had used in the 1950s of creating *ma’aborot* (immigrant absorption camps) for the Soviet immigrants. Without the “absorption basket” reform, the government would have had difficulty in meeting all the needs of the wave of new immigrants on their own and would have had to divert resources and money, at least in the short term, to creating housing rather than focusing on developing employment and infrastructure.

**The labor market**

According to data published by Israel’s Central Bureau of Statistics, the percentage of Soviet immigrants with a higher education was greater than that of Israel’s general population, and a greater proportion of Soviet immigrants held advanced degrees (master’s degrees or doctorates) than did native-born Israelis. From 1981–1990, among all Israelis who had gone on to acquire a higher education, 77% achieved a bachelor’s degree, 20 percent a master’s degree, and 3 percent a doctorate. Among all Soviet immigrants who had achieved a higher education, around 26 percent had obtained a bachelor’s degree, 68 percent a master’s degree, and 6 percent a doctorate, many in engineering and medicine.

The process of helping the Soviet immigrants acclimatize to the Israeli labor market so that they could find suitable employment took time. Employment difficulties among Soviet immigrants stemmed from several factors, including the inability of some to fully transfer their academic professional skills to Israel, language difficulties (in English as well as Hebrew), and the fact that they had to learn to adapt to Israeli working processes and methods. The immigrants needed a period of time for adaptation and adjustment in order to learn Hebrew, and they also had to possess a certain degree of willingness to accept work in jobs outside of their areas of expertise. Although it took time to integrate them into the workforce, overall, the Soviet immigrants were willing to undergo the process of learning and training, which helped smooth this process. As a result, some 66 percent of Soviet immigrants who held a higher degree managed to found work in their professions within the first three years of their immigration. The professional and occupational integration of Soviet immigrants began to stabilize after their first five years or so in Israel, and the process was considered successful, in that they achieved a sense that they were needed by their new society, which was important in helping to foster a sense of belonging.

Before the Soviet Aliyah, Israel’s labor market had been in a state of equilibrium, with a relatively high level of employment. The large influx of new immigrants caused unemployment to rise to about 12 percent in 1992–1993, and this was accompanied by a drop in salaries. Meanwhile, the Soviet immigrants, who were disillusioned with communism, loathed anything that even slightly resembled this ideology, including membership in trade unions and labor strikes. The influx of these immigrants into the Israeli labor market weakened the trade unions, not least because most of these newcomers were content to work for lower wages than their Israeli counterparts, including in occupations outside of their professional fields.

Between 2006 and 2016, the situation for immigrants in Israel’s labor market improved. Their incomes increased by around 60 percent, approaching the average salary, and immigrants were integrated into professions closer to their education and experience. The number of immigrants in white collar professions also increased. However, the number of immigrants from the former Soviet Union who subsequently left Israel to live in other countries is very high—estimates suggest around 150,000 left (12 percent of all immigrants), mostly young people who had immigrated to Israel to try to establish themselves there after facing economic and social difficulties in their home countries.

**American loan guarantees**

Absorbing the Soviet immigration was an extremely costly exercise, and there was a real fear that Israel would encounter fresh fiscal problems just as it was emerging from a major economic crisis. Regardless, Israel did not hesitate to come to the aid of the Soviet immigrants, considering this to be one of the *raisons d’être* of the Jewish state. The Ministry of Finance debated the optimal way to absorb the first wave of Soviet immigrants while avoiding a crisis, drawing on lessons learned from the past. The key concern, beyond the fears of precipitating a fiscal crisis, was that Israel would experience a major problem with its balance of payments. The most worrying issue was the scarcity of foreign currency reserves. The economy was still facing a large balance of payments deficit, and the absorption of the Soviet immigrants could have sparked a crisis similar to that of Israel’s first years of independence, when the government had been forced to impose rationing and austerity measures.

However, Israel knew that, beyond the immediate financial difficulties, there were many long-term economic benefits to the Soviet Aliyah, not least the import of a highly-educated workforce that would contribute to economic growth and exports. But in the short-term, absorbing these immigrants came with high budgetary costs, and would only exacerbate Israel’s foreign currency reserves problem. The government estimated that the foreign currency reserves deficit in the years following the Soviet Aliyah would amount to at least $25 billion. While Israel believed that world Jewry would mobilize, as they had in the past, to help absorb the Soviet immigrants, there were also fears that these efforts would not be enough to offset the large amounts of foreign currency that the economy would need. The government concluded that the only way to bridge the short and longer-term deficits was with an injection of a large amount of foreign aid.

The government conducted its economic analysis of how to absorb the Soviet Aliyah as if it were any other economic project. It reasoned that, with the Aliyah, Israel would import human capital of great economic value, which would generate income by increasing exports and replacing imports in the long-term. Therefore, the reasoning went, the Aliyah could be financed with a loan that would pay for itself after some 15 or 20 years. The key question was, who would be willing to grant Israel such a large amount of credit?

Israel was still not able to raise large sums in the international capital market. It remained in the throes of recovering from a major economic crisis, and had a high external debt of about 75 percent of GDP. The government’s calculations showed that, above and beyond any assistance it might receive from the international Jewish community, it would need at least $10 billion in aid. Collateral for such a loan would be the growth of the economy based on the Soviet immigrants’ human capital.

However, the foreign debt situation worried the Israeli government. As part of Israel’s special relationship with the United States, Washington had provided assistance to Israel for its 1985 Economic Stabilization Program. This had come in the form of a $1.5 billion grant, paid over 1985–1986, and intended as a safety net against the difficulties Israel experienced in its balance of payments. In 1985, the United States converted its security and economic aid into a grant. Until then, part of the aid package had been given as a loan. A large part of Israel’s foreign debt was the result of expensive loans it had taken out in the years after the Yom Kippur War in order to finance defense imports. These loans had double-digit interest rates, as was the norm in the late 1970s and early 1980s. The United States responded to Israel’s request to refinance its expensive debt, and in 1988 guaranteed the issuance of Israeli bonds on the American capital market that would allow Israel’s expensive debt to be paid off with a low-cost loan.

In the same year, Washington signed a free trade agreement with Israel, which gave it substantial economic advantages as the first country to have such an arrangement. Indeed, Israel was now in the unique position of having two free trade agreements—one with the European Union and one with the United States. The considerable assistance that Washington had already extended to Israel naturally led the Jewish state to turn to its American partner again to help with the challenges of Soviet Aliya. The dilemma was whether Israel ought to ask for a grant, or for guarantees for issuing bonds on the capital market.

For economic and political reasons, Israel, then led by Prime Minister Itzhak Shamir, chose to ask Washington to provide it with loan guarantees. Israel submitted a plan that estimated the foreign currency expenses required to absorb the Soviet Aliyah at $25 billion, and requested guarantees for a loan of $10 billion. However, Israel’s relations with the United States encountered difficulties as a result of the lack of a political process with the Palestinians and Israel’s ongoing settlement activities in territories captured after the 1967 Six-Day War. President George H. W. Bush, and U.S. Secretary of State James Baker were willing to grant Israel loan guarantees only when it made political progress with the Palestinians.

In this regard, I had a personal, one might even say dramatic, experience. As head of budget department in the Ministry of Finance, I was tasked with promoting the program and the need for the guarantees before Congress. In September 1991, I traveled to Washington to present an economic analysis to Congress demonstrating the cost-benefit to Israel of absorbing the Soviet Aliyah without falling into a foreign currency reserves crisis. In one-on-one and group meetings with members of Congress and Senators, I set out Israel’s strategy for absorbing the Aliyah, as well as the need for loan guarantees from the United States. However, to my misfortune, I found myself caught up in a stormy political battle. On the day I was to appear before Congress, there was a large demonstration of the Israel lobby, AIPAC, in front of the White House. President George H. W. Bush was determined to link the loan guarantees that Israel was requesting with the political arrangements he wanted to establish in the wake of the U.S. victory in the First Gulf War. Bush sought to convene a conference with Israel and the Arab states in the Middle East to restart the Israeli-Palestinian peace process. In discussions with President Bush, harsh expressions, with anti-Jewish overtones, were heard (from Baker), which caused a media and political uproar. After some time, the Israeli government, under Yitzhak Shamir, begrudgingly agreed to participate in the Madrid Conference co-sponsored by the United States and the Soviet Union in the fall of 1991. However, this did not help Israel receive the loan guarantees, which were only finally agreed on by President Bush in July 1992, with Yitzhak Rabin, who had been elected Prime Minister of Israel earlier that same year. Loan guarantees totaling $10 billion were eventually received in 1993 and helped Israel get through the 1990s without experiencing difficulties in its balance of payments. They also helped Israel absorb about a million Soviet immigrants overall, who fulfilled the expectations that their integration would allow Israel to grow and successfully repay its loans.

**Planning and construction, center and periphery**

The Soviet Aliyah demanded that Israel develop a policy for rapid construction of homes to accommodate the first wave of half a million new immigrants who started arriving at the end of 1989. When this wave of immigration began, there was no planned inventory of land or approved urban construction plans in Israel’s cities. Although the “absorption basket” policy created temporary solutions, it was obvious that a permanent housing and infrastructure solution was needed.

Ariel Sharon, as housing minister, sought to take advantage of the Soviet Aliyah and increase residential construction in towns, strengthen Israel’s peripheral regions, and change the demographic ratio between the center and the periphery. Sharon also took advantage of the housing crisis to serve ideological and political goals, including by building in Judea and Samaria (the West Bank territories captured during the Six-Day War). Sharon formulated the “Seven Stars” plan, which included a blueprint for Jewish settlements on both sides of the Green Line. This was a Zionist approach with economic considerations. Construction in the development towns was easy and inexpensive, because of the availability of land and because approvals for construction programs could be obtained quickly. However, most employment opportunities were in Israel’s central coastal plain. There was tension and debate among Israel’s planners and the immigrants. The “absorption basket” provided the government with a short breathing space to plan residential construction, since the immigrants found accommodations in existing housing in the central coastal plain. The immigrants preferred employment in the central region and overcrowded accommodation over life in the peripheral areas, which offered better living conditions but no work. The immigrants, mostly small families, often rented a single apartment for several families and shared the rent between them.

The government’s prodigious efforts to provide housing for the immigrants was successful, but mistakes were made, including in construction—which is evident on the ground. In 1990, the Ministry of Construction and Housing, led by Ariel Sharon, amended planning and construction procedures and sped up construction to meet was the burning challenge of the day. In doing so, they bypassed the procedures and strict planning processes typical of a modern, “normal” country in order to free up tens of thousands of dunams of agricultural land for residential construction. The orderly planning concepts that had taken shape since the 1960s were tossed aside amid the urgent need to provide housing solutions for the large influx of Soviet immigrants. Thousands of trailer homes were bought and erected at temporary sites in Israel’s peripheral regions, some of which proved to be unnecessary after the rate of immigration eventually turned out to be slower than predicted.

Sharon steps reflected the planning and construction principles that had characterized the 1950s, including population dispersion and Judaization of the land. And just as with these efforts in the 1950s, the outcomes of these new planning and construction projects also required corrections in later years. Despite attempts to act at the regional level, irreversible planning damage was caused by the approval of immature plans, the result of pressure at the time to address the housing problem. The effects of these errors lingered as evidence of planning errors.

The housing crisis precipitated a national mobilization of central and local government efforts to meet the urgent needs of the Soviet Aliyah. From the end of 1989, Israel saw a substantial jump in housing construction, from about 20,000 apartments in 1989 to 84,000 in 1991. Construction time was shortened from about 23 months to 14 months. Tensions arose between professional planners, who preferred to build in existing settlements (for reasons of employment opportunities for residents and the efficient use of existing infrastructure), versus those who advocated building in new settlements that were very distant from centers of employment, and which required the rapid construction of new infrastructure. In essence, this was a conflict between the aspiration to achieve national population dispersal goals versus the need to maintain sound planning considerations and high-quality construction.

The Soviet immigrants did not fully go along with the government’s preferences regarding where they should settle. Some did move to peripheral areas, because the housing shortage offered them no other choice. Some of these immigrants would later move to towns and cities in the central coastal plain, where they were able to find employment opportunities that better matched their skills, improving their housing standards as they became more financially established. These trends created, among other things, a demand for housing over time (as people moved up the housing ladder), which affected housing demand and drove up prices in 2010–2019.

Those who continued to live in the development towns were mainly in areas close to big cities and employment centers. As a result, the Soviet Aliyah benefitted a small number of development towns that are located reasonably close to the central coastal plain, in particular Carmiel, Yokneam, Or Akiva, and Ashdod. As these towns grew, they developed a critical mass of population that sparked the improvement of urban services and raised their socioeconomic status. However, in the dilemma between choosing employment or better housing, employment won, and even the enormous size of the Soviet Aliyah failed to produce any lasting significant change in the overall socioeconomic status of Israel’s peripheral regions compared to the central coastal plain.