

Political

update:– Israeli cabinet approves the budget for 2009 and 2010 after scrapping planned cuts – 14 May

Key points:

- The Israeli government approved a new budget this week. The budget contains £640 million fewer cuts than originally proposed by the treasury
 - The Labor leader praised the budget for taking into account the needs of workers, manufacturers and the defense establishment
 - The chairman of the Histadrut (Israeli TUC) campaigned hard against changes which he argued infringed the Labor-Likud coalition deal
 - The budget now requires the approval of the Israeli Knesset
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Latest developments

- The Israeli cabinet approved the country's 2009-2010 Budget on Wednesday (13 May) after days of deliberations. All parties in the Likud-led government except the ultra-Orthodox Shas party approved the budget, which includes NIS 4 billion (£640 million) fewer cuts than originally proposed by the treasury on 6 May.
- The budget, which represents an overall NIS 3 billion (£480 million) cut, including a 6.5 percent reduction for all government departments, as well as a one percent VAT increase, now requires parliamentary approval. Israeli Prime Benjamin Netanyahu praised his government's decision saying:

“The budget deals with two challenges: A global economic crisis, unprecedented in scale, and an accumulation of security challenges [of a number] the state has not known for many years... These two challenges are competing for the same resources and, therefore, we need to combine policies of unity and balance... We prevented harm to the weak sectors of society, as we promised.” (13/05/09)

- Israel's minister of welfare and social Services, Labor party MK Isaac Herzog, welcomed the deal. Whilst Minister Herzog's department had been billed to suffer deep cuts, campaigning largely undertaken by Histadrut (Israeli TUC) chairman Ofer Eini, meant that its allocation was NIS 2.5 million (£400,000) above that originally proposed by the treasury ministry. On Wednesday (13 May) Herzog said:

“Most of the cuts of social services were removed... The welfare ministry succeeded in receiving meaningful additional funds for the weaker population, including disabled people, autistic people, at-risk children and people with learning disabilities.” (13/05/09)

- Ofer Eini, who was integral in negotiating the Likud-Labor coalition agreement in March, threatened on 7 May to pull Labor out of the coalition unless the proposed cuts were scrapped. In response, Netanyahu's senior economic advisor, Ori Yogev, met with Eini, treasury officials and the Israeli

Finance Minister Yuval Steinitz, to agree a deal. These meetings ran from 7 May until the early hours of Tuesday (12 May).

- Israeli Defense Minister and Labor party chairman Ehud Barak also praised the plan, saying that it struck a good balance between the needs of the public and the economy. He applauded the prime minister and finance minister's handling of the negotiations, saying that the new budget took account of the needs of workers, manufacturers and the defense establishment.
- The agreed budget includes a NIS 1.5 billion (£240 million) cut in defense spending. The original budget prepared by the treasury had included cuts of NIS 3 billion (£480 million) in defense spending. Barak, however, negotiated assurances on Monday night (11 May) from Netanyahu that the cuts would not be far less severe.
- Shas criticised the budget due to its 10 percent cut to child benefit payments, a key plank of the party's coalition agreement.
- Tzipi Livni, chairwoman of the opposition Kadima party told her Knesset colleagues on Wednesday (13 May) that:

“This is a blatantly bad budget, that weakens Israel's ability to deal with the crisis... Netanyahu is paying the price for his political agreements. He is supposed to know about economics and this is therefore unforgivable. There is no responsible government in Israel.” (13/05/09)

- In addition, Ram Balinkov, the head of the treasury's budget division, tendered his resignation to Minister Steinitz in the wake of the budget's approval on Wednesday (13 May), criticising the government's lack of fiscal discipline.

Background

- The treasury argued, in its proposed budget of 6 May, that the state needed to cut annual spending by NIS 7 billion (£1 billion), to curb the growing deficit, which currently stands at an estimated NIS 40 billion (£6 billion). The treasury recommended cuts to health, education, welfare and defense spending.
- Labor and Shas MKs, accusing Likud of going against coalition agreements signed in March this year, were joined by Likud ministers Gideon Sa'ar (education) and Gilad Erdan (environment), in criticising the proposals for being potentially damaging to the country's most vulnerable people.
- Industry, Trade and Commerce Minister Benjamin Ben-Eliezer (Labor), who described the proposals as irresponsible, said:

“It is a combination of lack of economic understanding and social and human apathy... The budget harms the central issue that I deal with in my ministry - employment - as well as education and national security. I will say it simply - in a period in which people don't have food to eat and are living in modesty, it is impossible to take away the half piece of bread that remains.” (06/05/09)

- The Labor-Likud coalition agreement, signed on 24 March, was integral to persuading the party to join Netanyahu's government. Ofer Eini, who was involved in the coalition negotiations, described the deal as “unprecedented” for the support it promised to society's most vulnerable.
- The deal stated, amongst other things, that a government led by Netanyahu would aspire to spend an additional £17 million for career retraining and £33

million for childcare for working mothers per year. The agreement also promised £124 million for increased pensions between 2009 and 2011 and an extension of the period for which people can collect unemployment benefits by one month.