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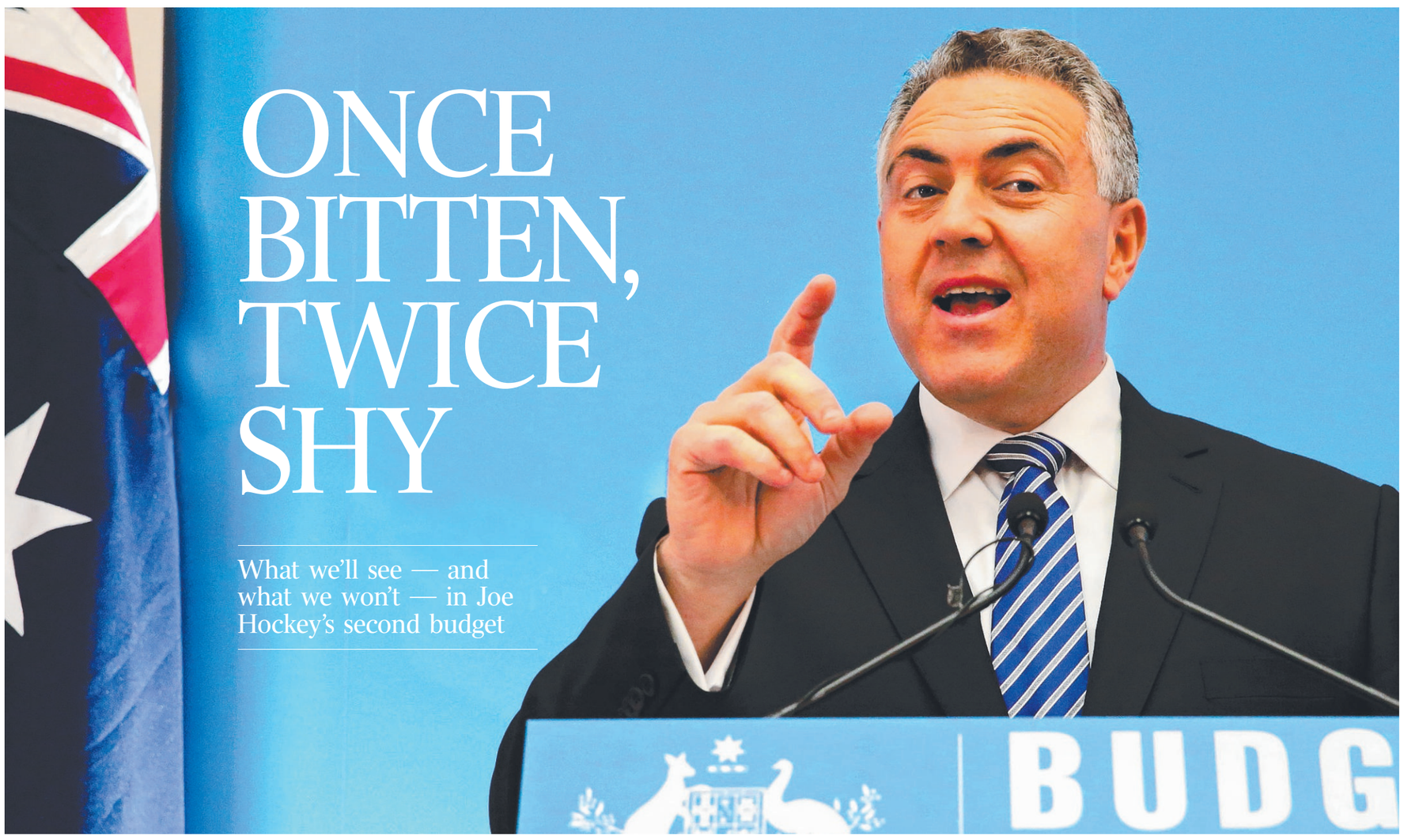

ONCE BITTEN, TWICE SHY

What we'll see — and what we won't — in Joe Hockey's second budget

JUDITH SLOAN
CONTRIBUTING ECONOMICS EDITOR

It was a cold Canberra night last year when Joe Hockey handed down his first budget, but there was a sense of elation on the part of both the Treasurer and Tony Abbott.

There was a genuine feeling that a package of measures had been assembled that made economic sense and would return the budget nearly to surplus at the end of the four-year period of the forward estimates.

This sense of elation would not last long. Apart from the mixed reception to many of the measures — and recall the budget had many moving parts over a large number of portfolio areas — it would soon become apparent most of the key measures would be blocked by the combined opposition of Labor, the Greens and a ragtag group of crossbench senators.

The unfairness tag soon stuck, and the government began to wallow in its sense of uncertainty about what measures should be pursued and what measures should be abandoned or heavily modified.

Nearly 12 months on and this sense of uncertainty still prevails, although some budget measures have been definitively ditched.

One of the things to watch in the upcoming budget is how the unlegislated savings from last year's budget are treated.

Will the savings associated with the twice-failed higher education changes continue to be booked? How will the changes to the indexation of the age pension be handled? And how will this year's budget account for the $80 billion of savings in payments to the states for schools and hospitals, outlined in last year's budget to apply from 2018-19?

Presumably, the savings associated with the abandoned Medicare co-payments will need to be adjusted, but there will probably be another heroic assumption about changes to Medicare that will yield similar savings.

The broader point is that the budget position remains so dire the government will be unable to give up any savings already in the books, however remote the prospect of the savings ever seeing the light of day.

So just how dire is the budget position? What can the government do to improve the fiscal outcome in an achievable and politically acceptable way?

Take a look at the figures. When the mid-year economic and fiscal outlook was released in December last year, the expected deficit this financial year was $40bn, an increase of $10bn from the budget delivered just seven months before.

Where the budget had predicted a cash balance close to zero in 2017-18 — the final year of the forward estimates — MYEFO recorded a figure of $11.5bn, or 0.6 per cent of gross domestic product. Instead of expected receipts in 2017-18 of $469bn, MYEFO recorded a written-down figure of $460bn.

Where once upon a time the Coalition boasted it would be able to bring the budget back into surplus in its first year in office, there is now no prospect of the budget returning to the black in the foreseeable future.

These days Hockey prefers to talk about a "quality trajectory" in which each year the recorded budget deficit is lower than the year before.

Using the Intergenerational Report as a guide and working from currently legislated measures, the earliest the budget could return to close to balance is 2020-21, and even that is assuming the key variables, particularly the terms of trade, behave as expected.

At the time of last year's budget, the terms of trade were expected to fall 6.75 per cent in 2014-15; by MYEFO, this figure had been revised to a decline of 13.5 per cent. In 2015-16, the terms of trade are now expected to fall by a relatively modest 3.75 per cent, compared with the even more modest 2014 budget forecast of 1.75 per cent.

It is hardly surprising that in the MYEFO document several pages are devoted to outlining iron ore price developments.

At the time of the budget, the expectation was the iron ore price would be $US92 a tonne by June 2016, which was considered conservative. It is now under $US60 a tonne.

The reason assumptions about the future iron ore price, specifically, and the terms of trade (the ratio of export to import prices), more generally, are so important to determining the fiscal bottom line is that changes to nominal GDP drive government receipts, not real GDP. It is estimated $25bn could be shaved off the revenue over the forward estimates if the iron ore price were to drop to $US35 a tonne, although adjustment to the exchange rate could significantly reduce the budget impact of this figure.

The combination of sagging terms of trade and sluggish wage growth means growth in government receipts is lagging expectations. And note the budget convention is simply to plug in trend figures on all the key variable in years three and four of the forward estimates, which is likely to impose an unduly rosy hue on the fiscal outlook.

By contrast, government spending is powering on as expected. In the budget, payments in 2017-18 were expected to be $467bn; an almost identical figure is recorded in MYEFO.

So what should we expect to see in this year's budget?

No doubt, it will be delivered on another cold Canberra night, but the contents will involve only modest promises and some small tweaks to revenue. The government is not in a position to be picking fights and it certainly doesn't want to frighten the horses. And we shouldn't forget that among these horses are backbenchers, particularly those sitting in marginal seats, who are not keen to see entitlements cut, while a bit of infrastructure spending in their electorates would go down well.

Without doubt, the Prime Minister must feel he needs to keep these backbenchers on side.

While we have been warned in general terms what to expect in the budget — dull and boring; households won't be hit further (not that they were because none of the relevant measures have passed the Senate); and the government won't chase down the falling revenue — there has been surprisingly little kite-flying in this year's lead-up to it.

It has been a common practice for many years for various potential measures to be mentioned, often by a backbencher or member of the outer ministry, to gauge the public's reaction, as interpreted by the press. If the reaction is not too extreme and the relevant interest groups go quiet — or, best case scenario, endorse — then the measure can be slotted into the budget.

To be sure, we have been given a heads-up about the families package — a ramp-up in government spending on childcare and some rejigging of subsidy arrangements — but its announcement is expected before the budget.

Then there will be the jobs and small business package, which will involve the daft policy of reducing the company tax rate for small business by 1.5 percentage points, with the company tax rate left at the present figure of 30 per cent for big business.

But because so many small businesses don't pay company tax, there will be additional sweeteners in the form of accelerated depreciation allowances and the

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Anzac Day terror plot haunted by the ghosts of Gallipoli

Historical symbolism is a potent weapon in the propaganda arsenal of Islamic State's tacticians

DAVID MARTIN JONES

In the aftermath of the discovery of a home-grown terror plot to attack on Anzac Day, it is worth considering why Islamic State would want to target a defining moment of Australian national identity.

Victoria Police and much of the media have focused on the role of Islamic study centres such as Al-Furqan in Melbourne in radicalising apparently alienated youth. Such home-grown plots are presented as isolated events, ignoring or avoiding the wider ideological purpose of Islamic State in prompting these actions.

Such avoidance underestimates the intent of Islamist violence, which is destabilisation in the West.

History, myth, symbolism: these are tools Islamic State has become adept at employing in its increasingly sophisticated propaganda war to capture the hearts and minds of young Western Muslims.

We don't know at this stage how much of the Gallipoli story informed this week's foiled plot. Mustafa Kemal Ataturk, the great secularist founder of the modern Turkish state in 1923, spoke these words to his troops on this day 100 years ago: "We are fighting for the sake of Allah ... and for the protection of the heartland of Turkey."

Reinforcing his point, he told them, "I'm not ordering you to attack, I'm ordering you to die."

Have the words of the great commander of the 19th Division of the Ottoman imperial army been conscripted into the jihadist narrative? Are the Turks at Anzac Cove in 1915 being reimagined by Islamic State as early martyrs to their cause?

To understand the symbolic importance Islamic State and its followers attach to disrupting national commemorations such as Anzac Day, or, indeed, grand final day, it is important to understand how the strategy and presentation of the Islamist cause has changed since 9/11.

After the wars in Iraq and Afghanistan, which led to the death or capture of the first generation of global jihadist revolutionaries, a younger and social-media-savvy group of Islamist thinkers, with extensive experience of the West, recognised that the global confrontation between a purified Islam and the *jahiliyyah*, or infidel West, needed to be conducted with far greater sophistication.

They also recognised that the global movement required dual jihadist strategies: an intensification of violence in the Middle East after the withdrawal of US forces in 2011 and a more amorphous but transnational leaderless resistance such as that practised in Paris in January.

Although security services and the Western media hasten to dismiss as lone wolves the actors in recent attacks in Ottawa, Sydney and Paris, these attacks serve a wider strategic and ideological purpose, reflecting the philosophy of the more important jihadist tacticians since 9/11: Abu Musab al-Suri, considered one of modern jihad's most articulate writers and author of the much-translated *Call to Global Islamic Resistance* (2005); Abu Bakr Naji, author of *The Management of Savagery: The Most Critical Stage Through Which the Ummah Will Pass (2004)*, which is a virtual blueprint for building a caliphate and a guiding text for Islamic State's leaders; and Anwar al-Awlaki, the American of Yemeni background who was the leading figure in al-Qai'da on the Arabian Peninsula until he was killed by a US drone strike in 2011.

It is the work of these three in adapting Islamism's apocalyptic political vision for a global audience that informs the thinking of Islamic State and requires greater attention from Western governments.

Al-Suri, still wanted in connection with the 2004 Madrid train bombings and with an extensive network of Middle Eastern and European connections, recognised that the global jihadist movement required greater flexibility than al-Qai'da allowed. His *Call to Global Islamic Resistance,* published online, sought spontaneous, self-radicalised actions "which will wear down the enemy and prepare the ground for waging war on open fronts ... without confrontation in the field and seizing control of the land, we cannot establish an (Islamic) state, the strategic goal of the resistance".

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Britain's destiny becoming a captive to minority voices

AP

Prime Minister David Cameron and mayor of London Boris Johnson show the colours for the Conservatives at a school in Surbiton, south of London

Next month's election is unlikely to provide a clear-cut major party victor

GREG SHERIDAN
FOREIGN EDITOR

The British election on May 7 is the most important since 1979, when Britain decisively changed direction, embracing economic modernity and social dynamism, by electing Margaret Thatcher. It is the most unpredictable since 1992, when the Conservatives' John Major sneaked back against all the odds.

It is important not only for Britain but for the world. Good-naturedly baiting and mocking the Poms is an old Australian sport. But this shouldn't blind us to the sober reality that a disproportionate amount of global governance, such as it is, rests on British efforts.

As the single most important ally of the US, as a permanent member of the UN Security Council, as an independent nuclear military power, and given the vast soft power Britain has in a world still mostly made in English, the UK remains seriously important to the world.

Yet foreign and strategic policy have never played a smaller role in any modern British election.

The Conservative-Liberal Democrat government of David Cameron stands on the brink of defeat. This in itself is amazing and shows how all the rules of modern politics have been upended. Cameron has overseen a remarkable economic recovery after the devastation of the global financial crisis. British household incomes are back to pre-crisis levels. The deficit has been halved and two million jobs created. Britain is the fastest growing big, developed economy. Inflation is tamed.

Cameron is no folk hero but neither is he obnoxious, disagreeable, arrogant, corrupt or aloof. He is certainly no national embarrassment. He is much more popular than Opposition Leader Ed Miliband. He is not particularly right-wing. He doesn't come from the right of the Conservative Party and his government has hewed rigidly to the centre under the effective veto of its coalition partners, the centre-left Liberal Democrats.

So why might he lose?

There are some special British characteristics but there are also broad trends at work that seem to be evident in all Western democracies.

One special British feature is the anti-Tory gerrymander in electoral boundaries. England makes up 85 per cent of the population of the United Kingdom of Great Britain and Northern Ireland, to give the country its correct name, but gets fewer than 85 per cent of the seats in the House of Commons

There is a pro-city electoral bias whereas Conservatives score more heavily in the countryside and in outer suburbs.

Then there is the special question of Scotland.

British politics demonstrates three of the great destructive electoral dynamics at work all over the West right now. These are: the triumph of identity politics, the rise of Left populism, the increasing disconnect of public debate from hard reality and the fracturing of the electorate.

Britain's political structures were designed to reinforce two-party politics. Between 1945 and 1970, the two main parties, Conservatives and Labour, never won less than 88 per cent between them and sometimes went as high as 98 per cent. This time they may get as little as 65 per cent.

Even the British electoral system will now produce an Israeli-style electoral result. This is the consequence of the electorate's fracturing and the triumph of identity politics.

At least 10 parties will be represented in the next House of Commons. From England there will be Conservative, Labour, Lib Dem, United Kingdom Independence Party and Green. Scotland will provide the Scottish Nationalist Party, and Wales Plaid Cymru. Northern Ireland will provide the Democratic Unionist Party, Sinn Fein and the Social Democratic and Labour Party.

The polls strongly indicate no party will get a majority. The latest YouGov poll has Labour just ahead by one point, but a Survation poll has the Tories ahead by four. The Tories will need a lead like that to have any real chance of winning the biggest number of seats and having a chance at cobbling together a governing coalition. Most polls have the Conservatives and Labour roughly equal on 33 per cent. The eccentricities of Britain's first-past-the-post voting system can produce extremely undemocratic results.

There are 650 seats in the Commons. To govern, a party or coalition needs 326. Last time, with 37 per cent of the vote, the Tories won only 307 seats. Tony Blair often won government comfortably with that kind of vote.

Cameron was able to form a government with the Lib-Dems, who won 23 per cent of the vote and got 57 seats, giving the coalition a comfortable parliamentary majority.

Ed Miliband

This time the Scottish Nationalists will win something like 4 or 5 per cent of the vote overall, but could win 50 or more of Scotland's 59 seats. Last year's Scottish independence referendum was lost 55 to 45. This was a slightly rigged vote that overstated support for independence because the voting age for the referendum was lowered to 16. If it had been 18, as it is for elections, the margin would have been closer to 58-42.

In any event, the Scottish Nationalists have been able to mobilise the essence of modern identity politics — imaginary grievance — to paint this democratic outcome as a conspiracy against Scottishness. The SNP is the most loopy far-left party in modern Britain outside the Greens. Yet it has managed to get the idea across that any criticism of the SNP is an English criticism of Scottishness. Most Scottish voters now believe independence is inevitable and a strong plurality think the way the election has gone has increased the chance of Scotland breaking from the UK.

> One special British feature is the anti-Tory gerrymander in electoral boundaries

Miliband's Labour cannot win a majority in its own right. If it governs it will be with the support of the SNP. But the SNP is far too canny to enter a formal coalition, having seen the way the responsibilities and hard choices of government have cut the Lib Dems' support in half. So the SNP will guarantee supply for a minority Labour government, giving it maximum scope to cause havoc.

All these results will be undemocratic in several ways. UKIP, according to the polls, will get 15 per cent or so of the vote and be lucky to return four or five members to parliament. The SNP may get a third or a quarter of that vote yet have more than 10 times as many MPs.

The SNP will be to a Miliband government what the Greens were to Julia Gillard, only a hundred times worse. They will seek extravagant payments to Scotland and will also demand left-wing policies for matters, such as education, within England, while being free under devolution to resist any English influence on education policies within Scotland.

It demands the abolition of Britain's independent nuclear deterrent and has threatened to vote against any funding for it. It may demand from Miliband another quick referendum on Scottish independence while preventing a referendum on Britain's membership of the EU.

But no result is reliably predictable. If the SNP takes the right number of votes from Labour in some Scottish electorates, the Tories could fluke a half-dozen seats in Scotland, whereas now they have only one. The Northern Ireland Unionists could win 10 seats, which, in alliance perhaps with the Lib Dems' remaining couple of dozen seats, could possibly provide a governing coalition for Cameron. This election, with all its fateful consequences, is more than a little bizarre.

Note to readers: I do not have a Twitter or Facebook account. I don't tweet and I don't Facebook. Any emanations in these domains claiming to be me are entirely fraudulent.

The Anzac Day terror plot was haunted by the ghosts of Gallipoli

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Al-Awlaki adapted extracts from this tract for Inspire, the English online journal that recalibrated the strategy and made jihad hip for the young Muslim diaspora in the West.

The leaderless resistance abroad that al-Awlaki and al-Suri envisaged and that Islamic State promotes with an estimated 90,000 posts a day — "generation jihad" — complements the "management of savagery" within the protean Islamic state.

In this context, it is Naji's thinking, also modified by al-Awlaki for Western consumption, that influences Islamic State's strategy. Ultimately, contends Naji, the purpose of violence, whether in the West or in Syria, is to secure the borders of the Islamic state. In *The Management of Savagery*, he writes that the chaos brought by savagery represents the intermediate stage of state breakdown, which the revolutionary cadre must manage en route to the purified Islamic state.

As he explains, "if we succeed in the management of savagery, that stage will be a bridge to the Islamic state which has been awaited since the fall of the caliphate".

In his revolutionary approach to the conduct of jihad, Naji applies Mao Zedong's thinking on protracted warfare to the international Muslim condition. He argues it is permissible to read the revolutionary warfare thinkers such as Mao or Che Guevara as long as their religious "mistakes are corrected".

In the manner of a Marxist dialectician, Naji thus distinguishes between the stage of state breakdown characterised as one of "vexation and exhaustion" where the failing state's power, as in Afghanistan, remains contested, and the subsequent stage of "savage chaos", where the people "yearn for someone to manage the savagery".

Here, management requires securing the region's borders before the transition to the final historical stage of the re-formed caliphate. As with Mao's *On Guerrilla Warfare* (1936), so with Naji: the control and support of the masses would achieve unity and power "through armed struggle".

To achieve this, Naji points out, "violence is crucial", any backsliding or "softness" will "be a major factor in the loss of the element of strength". Moreover, even if the caliphate is not achieved immediately, it is not the end of the matter. Indeed, "the more abominable the level of savagery is", it is still less abominable than enduring stability under "the order of unbelief, *nizam al-kufr*, by several degrees".

Given the power of the internet and the media in the West, the savagery is intended to draw the US and its allies into real war rather than the proxy variety. In this context, the Islamic State ideology embraces the doctrine of "paying the price", whereby "if you bomb us we'll bomb you", especially in your heartland where you are weak.

Moreover, says Naji, in confronting and combating the West, the global jihadi has to understand and play Western democracy's "political game": it is vital to work the democratic political process for purposes of infiltration and manipulation of the population. From this perspective, Islamic State promotes the fifth-column infiltration of the army, police, civil institutions and, most significantly, secondary and higher education, where Western multiculturalism proves particularly congenial to the promotion of the purified political religion.

In its ideological reading of Islam, the global jihad movement argues that as Mohammed used small bands against his enemies during the *hejira*, small bands of committed jihadists groomed online are the approved model for conducting jihad in the West.

In the evolution of jihadism since 9/11, the Islamic State ideologists, following Naji, thus discriminate between the military strategy, the media strategy and the planning for the effects of these strategies in the aftermath, for example, of a successful attack, such as Paris, or a failed one, such as Melbourne, to justify it.

The internet provides the technology to develop this managerial skill. As Naji observes, "the rate of operations escalates in order to send a practical message to the people that the power of the mujaheds is on the rise".

From the perspective of global jihadism, the world of the infidel is fragile and lacks cohesion. Global jihadist ideology, as presented for consumption in the West in online journals such as Dabiq and Inspire by figures, provides an interpretive framework for home-grown terrorists to exploit this fragility.

The global jihad movement has thus developed an online capacity not only to project its ideology but to package it attractively for Western consumption. Whether it is the trangressive violence of a Westminster University graduate such as "Jihadi John" (Mohammed Emwazi) or the 14-year-old from Blackburn, England, helping to concoct an attack on Melbourne, myth and symbolism are vital to the action and its motivation.

The Melbourne plan may have failed, but it feeds into the myth of the Islamic State and its appeal for a Western diaspora that finds jihadism cool and the actions of foreign fighters a source of inspiration that gives meaning to otherwise meaningless lives.

At the same time as exercising a simplistic but media-savvy appeal to second-generation Muslims unconvinced by the empty secularism of modernity, the historical and politically religious symbolism that informs the Anzac plot indicates the importance Islamism attaches to its reading of the 20th-century history of the Middle East.

Like Ataturk, with whom it shares nothing else in common, Islamic State considers the resistance at Gallipoli a holy war to resist the invading infidel. The Ottomans entered World War I as German allies in October 1914, and at the time of Gallipoli the caliphate still dominated Sunni political and moral consciousness across the Middle East. Consequently, Muslims consider those who died defending the caliphate as martyrs to the faith.

The subsequent destruction of the Ottoman Empire, and with it the caliphate, symbolises for the Islamist the ruthlessness of the Allied powers, particularly France and Britain. As James Barr says in *A Line in the Sand* (2011), in 1916 British politician Mark Sykes and French diplomat Francois George-Picot secretly agreed the division of the Ottoman world: "They drew a line in the sand from the Mediterranean to the Persian frontier, and together remade the map of the Middle East, with Britain's mandates of Palestine, Transjordan and Iraq and France's in Lebanon and Syria."

The Treaty of Lausanne (1923), with some modifications, confirmed the Sykes-Picot plan and began a process of decline that led, from the Islamist perspective, to the proliferation of pharaonic and idolatrous (*taghut*) regimes that lasted until 9/11 and the eventual emergence of Islamic State.

Significantly, in June last year at Mosul in northern Iraq, Islamic State announced the rebirth of the caliphate and the end of the Sykes-Picot era. The historical and religious mythology informing Islamic State ideology sees in this symbolic move the beginning of the end of the West's "hideously schizophrenic" regional dominance.

To attack an Anzac Day commemoration on Australian soil then would serves two symbolic purposes: it would tarnishes a potent symbol of Australian national identity on its 100th anniversary and it would symbolically reinforces the Islamic State version of the clash of civilisations and the sacrifice that Muslim martyrs made in 1915-16 for the caliphate. In effect, it would establish a genealogy for contemporary martyrs who die in the service of the reborn global caliphate.

An attack on an Australian or British commemoration of Gallipoli would bring the Middle Eastern conflict into sharp relief not only in Australia and Europe but also in Turkey, where there is growing ambivalence about the West's strategy with regard to Bashar al-Assad in Syria and the growing regional influence of Iran.

An attack on western World War I ceremonies might also affect the Turkish political elite's growing uncertainty about European political manoeuvring over the Sunni-Shi'ite divide in the Middle East, including the Pope's recent denunciation of the Armenian genocide, which occurred at the same time as the Ottoman campaign in the Dardanelles.

Islamic State's "management of savagery" at home and abroad has driven a Manichean religious wedge between a purified Sunni utopian ummah maintained by a regime of ultra-violence and those who exist outside its intolerant, absolutist maw.

The plot in Melbourne was yet another indication of the threat Islamic State poses.

Significantly, as with its ideology, Islamic State derives its strategy from anti-democratic Western and non-Western sources. While it draws on 20th-century totalitarian ideologies for its sanctification of violence, the management of savagery derives its logic from the Maoist theory of protracted warfare.

Islamic State has considered tactics and a strategic goal. In their response, Western governments engage in a discourse of denial. As a consequence, there has arisen a disjuncture between what Islamists say, and have said for a while, and what the media and security community claim they mean.

Such delusion ultimately will prove self-defeating. Before assuming Islamic State will wither on the vine, or at some point adopt a more moderate and negotiable position in which the self-styled caliph Ibrahim mutates into a version of the IRA's Gerry Adams, but with a better beard, the elected representatives of a secular democracy ought to do far more to defend our political way of life by targeting the online promulgation and appeal of this potent and ultimately fascist death cult.

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