THE SOCIAL POLICY GROUP

Australia Locked In

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FORWARD GUIDANCE SERIES

Acknowledgement of Country

The Social Policy Group acknowledges the Traditional Owners and Custodians of the land on which we live and work. We pay our respects to Elders past and present, who hold the knowledge, traditions, and customs of their peoples.

We also extend our respect to emerging leaders and to all Aboriginal and Torres Strait Islander peoples, acknowledging their enduring connection to the lands, waters, skies, and communities across this nation. We honour the resilience, strength, and diversity of First Nations cultures and celebrate their ongoing contributions to society.

About The Social Policy Group

The Social Policy Group (SPG) is Australia's foremost policy organisation. We provide integrated, end-to-end solutions that combine policy and programme design, economic modelling, community development, digital and multilingual communications, and strategic cross-sector connections. Our approach aligns with the priorities of governments and partners to develop policies and systems that respond effectively to the diverse needs of Australia's people and communities. By bridging sectors and fostering collaboration, we enable practical solutions that address complex challenges and improve outcomes for all Australians.

This report is part of the Forward Guidance series, a strategic initiative designed to provide clear, evidence-based insights into emerging trends and challenges shaping Australia's policy landscape. The series aims to support decision-makers by delivering timely analyses and actionable recommendations that address critical economic, social, and community issues. By offering a forward-looking perspective, this report establishes a foundation for ongoing dialogue and collaboration, equipping stakeholders with the tools to anticipate change, adapt strategies, and drive meaningful outcomes in a rapidly evolving environment.

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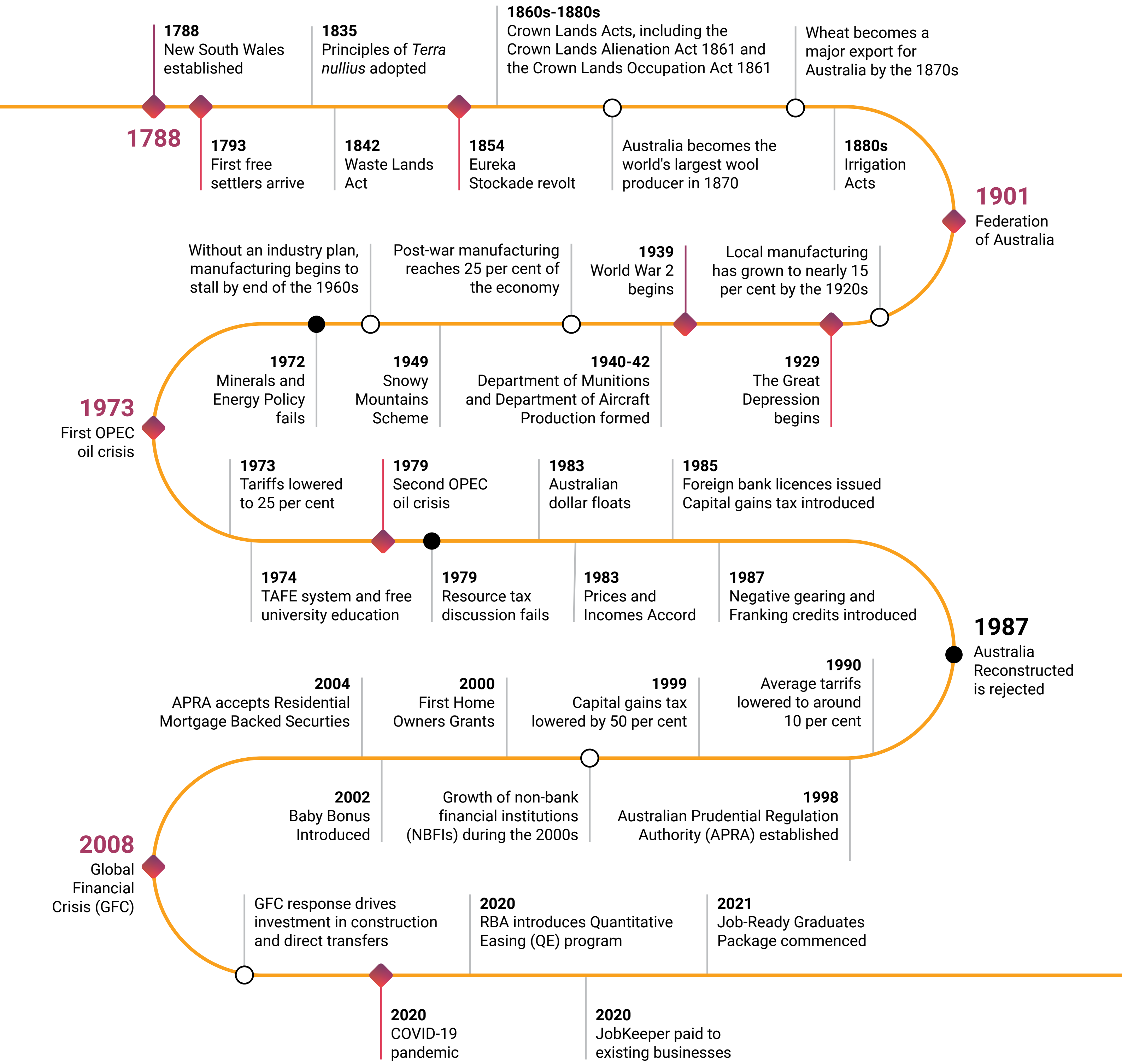
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Executive Summary: The Locked-In Economy

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Australia's economy is misaligned with the future. Resource wealth, speculative housing markets and financial conservatism, once the celebrated cornerstones of a robust economic system, are now a losing trifecta that perpetuates the nation's strategic inertia. Our underlying economic structure is built on raw extraction exports and inflating domestic debt. Deliberate decisions of history, each made in turn to strengthen the perceived fixtures of affluence, have systematically entrenched dependency and deflected any forces that might alter the nation's fate.

'Australia is locked in on a fast track to obsolescence.'

In pursuit of stability and prosperity, Australia has conditioned itself into an economic machine optimised not for evolution but perpetuation. Through a chain of commitments, we have steadily vested momentum in the flywheel of a system that pursues the dependability of extraction over the risk of innovation, rewards speculation about the value of what already exists over the creation of new things, and upholds industrial simplicity over building industrial complexity.

The global order is undergoing a rapid transformation. New hierarchies are being defined by sovereign capabilities, advanced technological ecosystems and the ability to adapt. Complexity is now the dominant currency, resilience a prerequisite of achievement and innovation the highest measure of relevance. Geopolitical security is intimately connected to global production supply chains and control over frontier technologies such as artificial intelligence (AI) and renewable energy. And yet, in this dynamic era, Australia is constrained by a rigid architecture of its own making. We face the prospect of becoming a geopolitical afterthought, a nation pushed to the periphery of consequence in a future we failed to anticipate.

Each year, Australia slips further and further down the Economic Complexity Index. We are now ranked 102 globally, behind Bangladesh (100) and Senegal (101), and marginally ahead of Yemen (103) and Ghana (104).[1]

Mining has indeed delivered prosperity to our country, but in doing so it has suppressed other industries and fuelled complacency. Our oversized housing market has enriched one generation while excluding the next, turning intergenerational wealth accumulation into a zero-sum equation and entrenching the social stratifications of privilege. Financial conservatism has

[1] Harvard Kennedy School, *Australia: Economic Complexity and Trade*, Atlas of Economic Complexity, n.d., retrieved 5 February 2025 from https://atlas.hks.harvard.edu/countries/36

created stability, but at the cost of innovation, sending invention abroad while starving domestic industries. Projected by geography and resource availability, our success is a mirage that obscures a malignant fragility. Due to our own short-sighted design and a craving for safety, our economy is on a direct course to disaster.

If this sounds like the language of resignation, that is not the intention here. Australia can correct its course. But to do so, we must be as purposeful as when we bolted on our economic stabilisers – and far braver. Reform is no longer optional; it is obligatory. Our economic structure must be rebuilt to allow us to survive in a world where anything short of profound transformation means acquiescing to inevitable decay.

Innovation and daring are threaded through the cultural fabric of our nation. Now we must find bold ways to weave them into an industrial blueprint for our future.

This paper examines the economic forces that have shaped Australia's industrial structure, revealing the feedback loops and dependencies that perpetuate stagnation (see Appendix Four). These interlinked mechanisms enforce a state of inertia, keeping Australia locked into outdated economic patterns, limiting our capacity for innovation and diversification. By examining the historical foundations, present-day dynamics and global context of these forces, this paper highlights the challenges Australia faces and explores the transformative changes required to break free of this restrictive cycle.

The first section traces the origins of Australia's locked-in economy to the nation's colonial foundations. The legacy of colonial values, grounded in the exploitation of land and resources for the benefit of the British Empire, was a system of economic extraction rather than local development. Inherited hierarchies based on landholding further entrenched inequality, defining a national identity centred on property. This pattern persisted through Federation, with attempts at industrialisation during the pre- and post–World War I period subverted by poor policy decisions and an overreliance on resource exports. Each boom-and-bust cycle tightened the focus on short-term gains, leaving Australia with a limited industrial base.

The second section illustrates the present-day model of Australia's locked-in economy, which is driven by a self-reinforcing continuum of resource exports, housing market speculation and an expanding domestic economy characterised by financial conservatism. This economic flywheel is further lubricated by a complex network of interactions that constrain diversification. These structural dependencies not only limit the development of alternative industries but also leave Australia perpetually vulnerable to external market fluctuations, further cementing its economic inertia.

The third section proposes that Australia's economy operates under a dual identity, which celebrates short-term gains on the surface without acknowledging the hidden reality of long-term instability. While metrics like GDP and employment paint a picture of prosperity, what the economy is actually fuelled by is debt-fuelled consumption and resource dependency. With manufacturing and industrial complexity in decline, Australia relies heavily on housing, financialisation, and services, leading to structural vulnerabilities and stifling progress. As global dynamics shift, Australia risks economic stagnation unless it embraces innovation, diversification, and long-term resilience over short-term preservation.

The fourth section situates Australia's economic model within emerging global contexts. In the post–Cold War era, Australia aligned itself with the US-led global order, benefiting from stable trade networks and a predictable demand for resources. However, the 21st century has brought de-globalisation, geopolitical shifts and technological change, exposing the fragility of Australia's reliance on traditional export markets. As global economies pivot toward sustainability and innovation, Australia's extractive economy risks being left behind, unable to adapt to a rapidly changing international environment.

The fifth section outlines Australia's economic opportunities, if only we can find the courage to break free from the constraints of history and shape a future worthy of a truly brave country. These include rethinking economic strategy to prioritise diversification and value-added industries, investing in education and infrastructure to support innovation, and fostering policies that reduce the current dependence on resource exports. By addressing labour market distortions and creating incentives for emerging sectors, Australia can build a more resilient and adaptable economy. Embracing a forward-looking approach would allow us to align ourselves with global shifts and leverage our resources to support sustainable, long-term growth.

Exposure of the mechanisms behind Australia's economic stagnation, along with a serious critique of our plummeting trajectory, are long overdue. But most importantly, the way ahead can be reimagined and the first steps taken via strategic action. By understanding the historical and global context of the current challenges, and by implementing bold reforms, Australia can break free of its locked-in economy. The path forward demands courage, vision, and a commitment to valuing the ingenuity of people above the extraction of resources.

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Golden Soil to Gilded Cage: How Australia Became Locked In

Golden Soil to Gilded Cage: How Australia Became Locked In

The founding story of colonial Australia is pure speculation, a wild gambit in the Age of Empires. It is a story that belongs to the interests of another country, namely Britain. The crux of the gamble was whether the liability of an incarcerated population could be strategically converted into an asset, and the bet was made by the British Crown. The stakes? A tiny naval contingent along with a collection of expendables with little future or expectations.

We are a nation conceived as the servant of an empire, optimised for extraction, export and imperial profit. It began with land, stolen at a scale so as to be owned and controlled for its prospective abundance rather than as a physical necessity for life – land commodified and granted, reshaped into the bedrock of wealth, power and identity in a colony conceived not for self-reliance but as bounty for the British kingdom. The land became a resource, a speculative asset and a symbol of success, its value defined by the rewards it could reap for its masters. From this foundation emerged a culture of export dependency, first with wool, then gold, and later minerals, wheat and meat, all harnessed to an imperial system that defined Australia's purpose as a supplier of raw materials to interests abroad.

Agriculture, celebrated as the strength of the new nation, indentured vast geographic regions into cycles of boom and bust while reinforcing a logic that prioritised raw volume over refined value. Federation offered the promise of coordinated industrial policy but instead embedded a system optimised for simplicity rather than complexity. By the 20th century, these patterns had hardened. The global opportunities for uplifting industrialisation created by World War II and the postwar boom, and the subsequent commodity super-cycle, were squandered, while the rest of the world forged ahead.

The anthem of our nation exalts the wealth of the land and the valour of its golden soil, presenting these as the pinnacle of our virtues. It enshrines the value derived from land as not merely a source of pride but the sole pathway to independence, with little regard for broader aspirations such as innovation, sustainability or any higher vision for the country's future.

Colony is as colony does, and we have yet to stray far from our comfort zone. This section tells the story of how Australia's choices were made, how they became entrenched, and how they now define our industrial identity.

Bonded to the Land

Land was the foundation of the colonial economy and remains the wellspring of its wealth mythology. From the outset of colonisation, land ownership was inexorably tied to power, status and legitimacy. The British legacy of land ownership principles rooted in feudal traditions and hierarchy was replicated in Australia. The Empire's establishment tactic was transparent: land was a resource to be exploited, its title a tool for securing loyalty and consolidating control over colonists. Generous grants of land were bestowed by the Crown on free settlers, military officers and freed convicts, creating an elite whose wealth was secured by the commodification of that land. This distribution was framed as a pragmatic solution to the challenges of settlement, but it was deeply unequal and violent.

First Nations communities, whose stewardship had spanned tens of thousands of years, were forcibly displaced or killed, their systems of sustainability replaced by echelons of estates. The *Proclamation of Terra Nullius* in 1835 and the *Waste Lands Act 1842* institutionalised this dispossession, defining the land as empty. The Crown assumed ownership of it all, ensuring its value could be maximised for imperial purposes. Indigenous connection to the land, to Country, was disregarded, fixing ownership within the normative European legal construct of exclusive possession and use. Policies such as *terra nullius* embedded structural racism that continues to entrench inequality across generations, while the resulting system prioritises control and profit, framing not only land but the resources it can yield as a private asset rather than a shared resource, a legacy that continues to influence Australia's property laws today.

The speculative nature of colonial land ownership, be it the prospect of a title from the Crown or potential export yield, was amplified by geographic advantage and the overlay of infrastructure. Consequently, decisions about public projects became determinants of land value. Railways and ports were built to link productive land to export terminals rather than to integrate regional markets or support domestic industries. The value of land was tied to its proximity to these trade corridors, consolidating wealth among those with the means to acquire prime locations.

The Crown lands Acts of the 1860s entrenched inequality by legitimising squatters' claims to vast tracts of pastoral plots, converting informal control into legal ownership. While the selection Acts sought to break up these estates and encourage smaller-scale farming, they often failed due to inadequate support for selectors, many of whom were forced into debt and ultimately sold their land back to the original pastoralists. These policies confirmed a system where land ownership was synonymous with power, and where wealth accumulation remained dependent on connection to external markets. At every stage, the wealth, power and hierarchy of landholding bestowed by the Crown ingrained our submission to the British Empire. We shunned a commitment to the colony and instead maintained an outward-facing loyalty, looking across the sea, our backs wilfully turned on each other.

The Embrace of External Dependency

The rise of wool as Australia's first heroic agricultural export fixed the colony's course, establishing our global potential as a high-volume producer of raw materials with greater utility abroad than domestically. By the mid-19th century, sheep were being grazed across enormous expanses of land, producing fleece that accounted for over half of the colony's exports. Profits from wool enriched a clique of pastoralists whose commercial and political dominance shaped the colony's development. In 1861, the *Crown Lands Alienation Act* along with the *Crown Lands Occupation Act* began facilitating the expansion of pastoral estates, ensuring that large-scale wool production commanded agriculture. Infrastructure followed that was designed to serve the needs of this industry, with railways and ports moving wool efficiently from inland estates to coastal export terminals.

The reliance on imperial markets was steadily reinforced. Wool was shipped to Britain where its value multiplied in textile mills, while Australia remained confined to a marginal role in the global value chain, resolutely failing to develop domestic processing industries or diversify into other sectors, our prosperity contingent on the fortunes of overseas industrialists. The narrative of 'riding on the sheep's back' celebrated our subservience as a national strength. Wool itself, as a heavy animal fur with the highest utility in cold climates, produced at scale in a country of subtropical and temperate climate, would be emblematic of the industries to follow.

The discovery of gold in the 1850s added immense national wealth, but at the strategic expense of reinforcing our role as a raw supplier. The gold rushes in Victoria and New South Wales converted settlements like Ballarat and Bendigo into boomtowns that drew prospectors from across the globe. Policies such as the *Gold Fields Act* 1855 established a licensing system that encouraged individual prospecting over coordinated development. This approach fostered entrepreneurial independence, ensuring that the industry remained fragmented and lacked the scale or cohesion needed to build long-term growth.

The wealth generated by gold flowed outward, underpinning Britain's financial system, while Australia was left with temporary infrastructure and environmental destruction. Railways, housing and supply chains were hastily constructed to service gold-mining regions. Designed for immediacy rather than permanence, these investments brought no real structural sustainability. The 1854 Eureka Stockade revolt, romanticised as a fight for democracy, epitomised the ethos of the gold era: a fierce defence of the individual right to pursue private resource wealth over any collective approach to wealth building. The potential for systemic growth was limited, so the benefits of the gold rush were fleeting, and local communities were eventually eroded by the costs of boom-and-bust.

Agriculture expanded alongside mining. Wheat, meat and sugar joined wool as major agriculture exports, feeding Britain's growing population. Policies like the irrigation Acts sought to expand agricultural productivity, and in so doing reinforced monoculture systems that left growth regions vulnerable to price fluctuations and land degradation. Political leaders nonetheless celebrated agriculture as the backbone of the economy, framing the rugged independence of farmers as central to the Australian identity. While other settler colonies such as Canada and the United States invested in industrialisation and urban development, we surged ahead on primary exports.

Through recursive commitments to an inherited colonial economy, and bolstered by cycles of synergistic policy, Australia actively built up its national identity as a proud exporter serving the imperial market.

A Fleeting Glimpse of Commonwealth

Federation in 1901 offered the opportunity to reset this trajectory. The creation of a federal government promised greater coordination and the potential for integrated development. In practice, however, it served to reinforce the edifices of colonialism. The federal government's reliance on customs duties for revenue created an incentive to rank imports above domestic production, while the states retained control over land, infrastructure and mining royalties, resulting in fragmented policies that undermined national strategic cohesion.

In a positive sign, the national government bought in two critical policies: a standardised curricula and teacher training across all states, and the introduction of tariffs. The latter proved to be a pivotal economic shift. Aimed at reducing the dependence on imported goods by fostering local production, tariffs created a framework within which nascent domestic manufacturing industries could flourish. By the 1920s, manufacturing had grown to nearly 15 per cent of gross domestic product (GDP), signalling an era of cautious optimism for Australia's potential.[2] Growth was uneven and lacked the strategic coordination seen in more industrialised nations, but the momentum of new industries carried the hope of delivering on the promise of the Commonwealth.

The push for import substitution encouraged the development of skills, infrastructure and industrial know-how. Factories producing machinery, vehicles and consumer goods began to lay the groundwork for more complex manufacturing industries in the decades to come. Yet, despite these advances, challenges persisted. Industries emerged opportunistically rather than as part of a broader industrial strategy. Key sectors such as textiles, clothing and food processing were aligned with Australia's abundant raw materials and modest technological base.

Manufacturing was often high-cost due to the small market size, limited economies of scale, and a heavy reliance on imported machinery and expertise. The industry struggled to compete internationally, confining its reach largely to domestic markets protected by tariff barriers. New industrial development remained primarily concentrated in urban centres like Sydney and Melbourne, leaving rural areas reliant on agriculture and resource extraction. As a result, while domestic industries explored import substitution, exports remained dominated by wool, wheat and minerals. These sectors benefited from strong global demand, particularly from Britain, Australia's primary trading partner.

[2] House of Representatives Standing Committee on Economics, Finance and Public Administration, *Australian Manufacturing: Today and Tomorrow*, 'Chapter 2: Australia's Manufacturing Sector and the Resources Boom', Parliament of Australia, July 2007, retrieved 5 February 2025 from https://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=efpa%2Fmanufacturing%2Freport%2Fchapter2.pdf.

The dichotomy between a growing yet protected manufacturing sector and a thriving export sector underscored the structural imbalances in the Australian economy of this period. While the Commonwealth's vision of diversification had begun to materialise, the nation remained deeply bound to its role as a supplier of raw materials to global markets.

Indeed, Australia's first industrial spark failed to ignite lasting change. The Great Depression devastated the country, causing commodity prices to collapse and plunging the nation into crisis. The federal government responded with austerity rather than investment, slashing public spending and deepening unemployment. While other nations embraced Keynesian policies to stimulate demand and build industrial capacity, we retreated into our old colonial model, doubling down on extraction and agriculture. Manufacturing stagnated, unable to gain the traction needed to drive diversification or resilience. The vulnerabilities of a dependency on global markets were fully exposed, yet no substantive reforms were enacted to address the structural weaknesses that had defined the shape of our industrial structure since its colonial foundations.

Our Second Chance: Australian Manufacturing Foreclosed

By the end of the 1930s, Australia had succeeded in establishing only a domestic manufacturing base focused on textiles, clothing, footwear and basic metalwork. While urban centres like Melbourne and Sydney had hubs of activity, with factories supplying the domestic market with goods ranging from food and beverages to agricultural machinery, industrialisation remained shallow by global standards, continuing to prioritise volume over complexity. The small footprint of these industries reflected the constraints of the domestic market, our geographic isolation, and a lack of integration with broader value chains or advanced technologies of the period.

World War II fundamentally altered the make-up of our industrial structure. The demands of total war called for the radical expansion and diversification of manufacturing, transforming the country into an industrialised economy virtually overnight. Factories that had been producing goods for local consumption were swiftly repurposed to manufacture munitions, vehicles, aircraft and heavy machinery. By the end of the war, manufacturing accounted for over 25 per cent of Australia's GDP, and the sector had grown in both scale and sophistication.[3] Centralised planning played a critical role in this transformation. The Commonwealth Government established bodies such as the Department of Munitions and the Department of Aircraft Production, which coordinated resources, labour and capital to maximise output. These agencies introduced new technologies, streamlined production processes, and fostered collaboration between private industry and the state.

Infrastructure development accelerated alongside this industrial expansion. Wartime projects, such as the construction of railways and ports to support troop movements and resource extraction, laid the groundwork for postwar growth. The Snowy Mountains hydroelectricity scheme, initiated in 1949 under Prime Minister Ben Chifley, symbolised the potential of large-scale infrastructure to integrate regions and diversify the industry base. Labour markets also shifted dramatically. Women entered the workforce in unprecedented numbers, taking on roles traditionally reserved for men, while migration policies began to reshape the demographic and skill composition of the labour force. The crucible of war had moulded the possibilities for a coordinated, industrialised complexity, demonstrating that we could produce

[3] House of Representatives Standing Committee on Economics, Finance and Public Administration, *Australian Manufacturing: Today and Tomorrow*, 'Chapter 2: Australia's Manufacturing Sector and the Resources Boom', Parliament of Australia, July 2007, retrieved 5 February 2025 from https://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=efpa%2Fmanufacturing%2Freport%2Fchapter2.pdf.

at scale and adapt to complex global demands. Proof of our industrial export potential had at last been realised.

The postwar period presented the nation with an extraordinary opportunity to capitalise on its new-found industrial momentum and to secure its position as a diversified, globally competitive trade partner. Immigration policies, including an ambitious migration scheme, brought millions of skilled and unskilled workers to the land, expanding the labour force and establishing the ideal conditions to both build out industrial development and grow a domestic consumer market to fuel the new industries. However, once more, this would remain the road untravelled. Instead of building for national wealth, the federal government invested heavily in housing, infrastructure and public services. While achieving the immediate objectives of spurring commercial activity and raising standards of living, the long-term structural weaknesses of the export economy and resource dependence remained unresolved. The window for a postwar national reimagining would soon close.

Manufacturing, though expanded, remained encumbered and immature, lacking the coordination, depth and dynamism needed to compete internationally. Tariffs and subsidies continued to shelter domestic industries from foreign competition, but these measures were unconnected to a cohesive industry policy that would enable businesses to thrive. Unlike the many other countries that used protectionist policies to cultivate industries capable of dominating global markets (see Appendix Two), Australia's manufacturing sector stayed steadfastly inward-looking.

Factories produced goods for domestic consumption, focusing on substituting low-complexity imports rather than developing advanced technologies or integrating strategically into global value chains. The postwar Commonwealth Reconstruction Training Scheme provided reskilling opportunities for returning soldiers but made little attempt to align the program with clear-eyed industrial ambitions. Similarly, initiatives like the Chifley government's push for the nationalisation of industries failed to gain traction, leaving the private sector fragmented and disconnected from state priorities.

By the end of the 1960s, the manufacturing sector had stalled and was adrift. The absence of coordinated industry policies left manufacturing detached from thriving sectors that might provide wind for its sails. Infrastructure projects such as suburban rail networks and highways were systematically directed to support housing development rather than serve industrial hubs. Labour markets followed the same course. Immigrants were absorbed into expanding legacy sectors when they could have invigorated emerging industries, and wage arbitration systems safeguarded rising living standards but not advanced industrial development.

The Menzies government encouraged foreign investment in mining, particularly iron ore and coal. Japan needed materials to feed its industrialising economy, so favourable trade relationships were established with that country in exchange for capital, which largely went towards purchasing mining assets. Menzies encouraged the states to manage mining licences, creating a patchwork regulatory approach that overlooked unified policy in favour of rapid extraction. The upshot was that while Australia focused on pulling raw materials out of the ground, Japan's economy built an industrial empire. The Japanese Ministry for International Trade and Industry coordinated the show, securing materials and heavily subsidising advanced industrial manufacturing like automobiles and electronics, and later semiconductors and robotics.

The resources booms of the 1960s and 1970s lifted Australia's economy to new highs, with the discovery and exploitation of natural gas adding to our resource trade surpluses, stabilising public finances and funding consumption. We were rewarded for our commitment to resources, affirming our identity as a supplier of raw materials within the globalising international order, and diminishing the appeal of alternative, unfamiliar pathways to prosperity. This strategy solidified mining as the centrepiece of Australia's export strategy, deepening its reliance on volatile global commodity markets. This approach delivered short-term economic rewards, but it left the economy vulnerable to external market fluctuations, undermining long-term resilience.

The 1972 *Australian Minerals and Energy Policy* devised by the Whitlam government, which was intended to nationalise key resource industries and generate greater public benefit, faced fierce opposition from interest groups and was ultimately dismantled. Mining profits flowed disproportionately to state governments and corporate shareholders, bypassing investment in value-added industries, sovereign wealth funds (as per Norway), and broader research and development. More encouraging was the defining industrial change of the Whitlam era: the 1974 reforms that established a skilled workforce. These reforms included the introduction of the Technical and Further Education (TAFE) system and free university education, along with the Tertiary Education Assistance Scheme (TEAS). The TEAS provided living allowances to students from low-income backgrounds, highlighting a commitment to fairness and equality. Australia's education system evolved to be world-class, somewhat preparing us for the high-tech future that was to come and ensuring that some of the greatest scientific breakthroughs happened on our shores.

Mining wealth reinforced the extractive logic of our industrial base. In keeping with Australian tradition, railways, ports and pipelines were built to move resources to export terminals rather than integrating mining regions into wider economic systems. Mining towns operated as isolated enclaves, detached from natural population centres and dancing to the tune of boom-and-bust cycles. The high wages offered in the mining sector disrupted labour markets, attracting workers away from manufacturing. This shift intensified skill shortages in industries that could have supported economic development. The narrative of mining as nature's gift left little air for debate about diversification, inducing a fresh bout of economic strategic stasis.

While our country exported raw materials, for most Australians, housing emerged as the dominant driver of wealth. Government policies such as first-home-buyer grants, government-backed loans and favourable tax treatments for property investors, fuelled a housing boom that reshaped our financial and social landscapes. The expansion of War Service Homes Scheme subsidies beyond veterans confirmed home ownership as our primary cultural aspiration. Further amendments to the 1956 Commonwealth–State Housing Agreement prompted low-interest loans along with direct tax deductions on mortgage interest.

By the late 1970s, the Fraser government recognised the need for industrial diversification and initiated discussions on resource rent taxes while cautiously approaching tariff reductions. In 1985, the Hawke government restricted negative gearing, allowing investors to offset rental losses only against rental income. However, just two years later, in response to housing shortages in certain Australian cities, the government reversed this policy, reinstating negative gearing in its original form. This pivotal decision transformed housing from a fundamental aspiration into a speculative asset, fuelling a national obsession.

Rising property prices became the primary mechanism of wealth accumulation, not only for individuals but also for banks, which saw property assets inflate their balance sheets and profit margins. Our reliance on resource export prices and our dependency on the import of refined petroleum exposed our economy to external shocks such as the 1973 and 1979 oil price hikes. The effects were amplified by a monetary policy framework that responded to stagnation with liquidity injections, fuelling speculative asset inflation rather than addressing the underlying productivity deficits. Housing markets, distorted by decades of tax concessions and financialisation, exacerbated this fragility, tying economic growth to rising debt and living costs while leaving innovation and industrial growth underfunded. Inflationary pressures persisted alongside stifled output, not as isolated phenomena but as outcomes of a self-reinforcing system. As a result, Australia entered the 1980s in a period of stagflation.

In sum, the postwar period saw the dismantling of empires. Globally, it was an era of expanding national independence, technological and political possibilities, and liberation from the covenants of history. Yet, in Australia, while material prosperity did indeed rise, our chosen path of economic inertia was fully paved. Manufacturing stalled, housing speculation absorbed financial and human capital, and mining staked the nation's fortune on the temperament of global markets. Critical opportunities remained unrealised: wealth could have been reinvested in value-adding industries to strengthen economic resilience; suburban infrastructure could have been developed to connect regions and support industrial growth; and immigration could have been channelled into emerging sectors through coordinated policies.

The 1980s to Today: The Rise of Financialisation and Monetary Policy

By the 1980s, Australia's modern economy was cruising, purposefully engineered to fit the availability of familiar export options and conserve the steady growth of value for existing wealth holders. Locked within an unyielding structure shaped for complacency, the nation now confronted the challenges of globalisation. The Hawke–Keating era, often celebrated as a period of economic modernisation, did not challenge these patterns at their core. Instead, the reforms of this period, marked by trade liberalisation, financial deregulation and the floating of the Australian dollar, merely restructured and reinforced the existing systems, tying our agenda to the framework of neoliberal globalisation. These reforms were framed as transformative, yet beneath the narrative of progress lay the quiet fortification of economic inertia. While we negotiated confidently with the words of change, we tightened our grip on an allegiance to the past.

Australia made two-faced choices that sold innovation while confirming old patterns of industry. We resisted the new order of global dominance configured to favour risk, liquidity and innovation. The floating of the dollar in 1983 was presented as a mechanism to enhance flexibility and competitiveness. Instead, our country was exposed to global capital flows, amplifying its reliance on resource exports. Commodity price booms drove currency appreciation, marking the end of manufacturing, which was uncompetitive both domestically and abroad. Due to our export monogamy, the value of the dollar became wedded to the global demand for iron ore, coal and gas – a future bound both in sickness and in health. The objective of monetary policy was currency stabilisation over addressing inflation or unemployment.

The decision in 1985 to issue foreign bank licences in the Australian market, marked by the granting of 15 new banking licences to overseas institutions, was designed to increase competition and attract foreign capital. Ultimately, however, it pressured domestic banks to further pivot away from business lending and toward retail mortgage lending, which offered higher returns and lower risks.[4] Concurrently, the removal of interest rate controls allowed banks to set competitive terms for borrowers, furthering the shift to mortgage lending, and establishing the perfect conditions for a financial sector focused on housing markets. In 1985, the Hawke government removed negative gearing, but after fierce opposition by property and financial interests, it was reinstated in 1987, institutionalising housing as a tax-sheltered environment. In the same year, Treasurer Paul Keating pushed for the introduction of franking credits, further simulating the financialisation of the economy.

Tariff reductions, introduced during the same period, eroded the last of the protective barriers that had shielded manufacturing from the deluge of globalisation. The consequences were catastrophic. Manufacturing, left fragile by decades of inward focus, collapsed under the combined weight of a rising dollar and increased competition from lower-cost producers. Regional Australia, dependent on manufacturing, was left to bleed dry, its labour force displaced into low-complexity sectors such as retail, real estate and construction. This decline was branded as the inevitable cost of modernisation, but in reality it was a policy failure rooted in the absence of a coherent industrial approach.

The impact of deregulation was amplified by the prevailing global conditions. Along with many industrialised countries, Australia found itself in a period of entrenched stagflation. The Prices and Incomes Accord, introduced in 1983 as a compact between government, business and the Australian Council of Trade Unions (ACTU), played a central role in shaping the reforms of the era. By linking wage restraint to improvements in social welfare, such as the introduction of Medicare and, later, superannuation, the Accord succeeded in stabilising inflation, pulling down interest rates and decreasing unemployment. However, it also marked a profound shift in the power of labour and the economic voice of the workforce, and saw Australia preference social services over industrial bargaining.

Wage growth decoupled from productivity gains, while labour market policies increasingly favoured flexibility over stability. Superannuation, originally proposed by the union movement to pool national savings for investment in manufacturing and infrastructure, was implemented under Keating as a

[4] Australian Treasury, 'Liberalisation of Foreign Investment in the Australian Financial Sector', *Economic Outlook and Policy*, 2019, retrieved 5 February 2025 from https://treasury.gov.au/sites/default/files/2019-03/Article07.pdf; Reserve Bank of Australia, 'Box C: Foreign-Owned Banks in Australia', Financial Stability Review, March 2007, retrieved 5 February 2025 from https://www.rba.gov.au/publications/fsr/2007/mar/box-c.html

vehicle for private wealth accumulation. The chosen interpretation favoured the broader systemic biases of the economy, prioritising investment in outside innovation and internal stockpiling. Superannuation funds overwhelmingly flowed into property and equities, driving up the value of assets. Instead of energising domestic investment into a collective pulling up of the bootstraps of Australian industry, superannuation became a mechanism for wealth preservation aligned with the existing order of speculation.

The rejection of *Australia Reconstructed*,[5] a 1987 report commissioned by the ACTU, epitomised the nation's aversion to change. Drawing on the lessons of European social democracies, the report was a clarion call to a sunbathing country, a cogent demand for a coordinated industrial strategy to develop advanced manufacturing, foster export-oriented industries, and invest in skills and technology. It proposed a partnership between government, business and labour to build a resilient, diversified economy capable of competing globally. Yet, this vision was dismissed as incompatible with the prevailing neoliberal orthodoxy. Policymakers rejected its proposals as wealth-regressive and interventionist, choosing instead to reinforce financialisation and resource reliance. The dismissal of *Australia Reconstructed* was another missed opportunity, a denial of how deeply entrenched our systems of economic stasis had become, another refusal to take a new path.

In the early 1990s, the 'recession we had to have', as famously described by then Treasurer Paul Keating, coincided with the rise of computers and automation, which began to systematically eliminate low- and mid-skill jobs in sectors such as manufacturing, retail and clerical work. The rapid adoption of digital technologies exposed structural inefficiencies in Australia's economy, our labour force heavily reliant on industries unable to compete with global technological advancement.

Structural unemployment surged as the workers displaced by automation struggled to find new opportunities. While productivity gains from technological adoption boosted GDP over the long term, the short-term consequences were devastating for those without the skills or mobility to transition, deepening inequality and increasing economic fragility. This recession, described as necessary for Australia's long-term economic health, also revealed the cost of the failure to anticipate or manage the social and industrial impacts of technological disruption. Had Australia not blindly deregulated but instead developed a blueprint of industrial complexity, the outcomes may have been somewhat mitigated.

[5] Australian Council of Trade Unions & Trade Development Council, *Australia Reconstructed*, Australian Government Publishing Service, 1987, retrieved 5 February 2025 from https://catalogue.nla.gov.au/catalog/1598253.

The 1990s marked the rise of securitisation as a cornerstone of Australia's financial system. Banks began bundling residential mortgages into mortgage-backed securities (discussed further in the next section) that could be sold to institutional investors. This practice, inspired by global financial trends, was legitimised domestically by the Australian Prudential Regulation Authority (APRA), which allowed these securities to qualify as collateral in its liquidity operations. The rationale was to expand credit availability while reducing risk exposure for banks. However, the outcome was the unprecedented expansion of mortgage lending, with housing finance becoming a central driver of economic growth.

By the late 1990s, housing had well and truly taken centrestage of the domestic economy. Financial deregulation, including the removal of lending restrictions and the entry of foreign banks, unleashed a flood of credit into property markets. Concessions that provided a 50 per cent capital gains discount on tax, introduced by the Howard government in 1999, supplied oxygen to asset speculation, sending prices soaring and kickstarting an era of financialisation. Property had always been the nation's idol, and now we proceeded to gild it. Rising property values created a self-perpetuating cycle, with growing equity fuelling consumption figures and GDP growth while masking background stagnation in real wages and industrial productivity. The cultural elevation of home ownership, viewed as the keystone of middle-class prosperity, aligned the interests of asset owners, financial institutions and policymakers, and resolved into a coalition impervious to reform.

The early 2000s witnessed the rise of shadow banking, driven by the growth of non-bank financial institutions. Entities such as mortgage originators operated outside APRA's regulatory oversight, leveraging securitisation to expand aggressively into housing finance. The government's First Home Owner Grant, introduced in 2000, further stimulated demand for mortgages by providing financial support to first-time buyers. While intended to improve housing affordability, this policy exacerbated property price inflation, enriching investors and financial institutions while making entry-level housing less accessible.

The simultaneous influx of international investment into housing only magnified Australian property speculation. Foreign capital, attracted by Australia's relative stability and rising property values, poured into the residential and commercial real estate markets. External demand inflated property prices, making housing increasingly inaccessible to domestic buyers while further concentrating inflationary wealth among existing asset owners. Policies designed to regulate foreign ownership, such as the establishment of the Foreign Investment Review Board, proved inadequate in addressing the systemic issues driving housing inflation. First Japan, then China, bought assets and drove speculative values up and out of the reach of Australians without the existing assets or capital to participate.

The mining boom of the 2000s, driven by China's rapid industrialisation, delivered yet another cycle of unprecedented resource wealth. The hyper-scaled extraction of iron ore, coal and natural gas became the flagship of export growth, generating record trade surpluses and buoying our domestic market through the 1997 Asian financial crisis. Yet, just as with earlier resource booms, the reinvestment of lucrative royalties and tax revenues was frivolous. The Howard government's budgets during the mining boom epitomised this repeated strategic failure. Rather than investing windfall profits in a sovereign wealth fund or value-added industries, the government prioritised tax cuts such as the baby bonus, middle-class welfare, and infrastructure tied to servicing resource extraction.

The aftershocks of the global financial crisis (GFC) in 2007–08 widened the existing cracks, intensifying the precariousness of our financialised edifice. The Rudd government's stimulus spending focused disproportionately on short-term construction projects such as school halls and on suburban infrastructure such as home insulation. Meanwhile, wealth-accumulation policies such as negative gearing and capital gains tax concessions remained in force, as superannuation funds continued to prioritise overseas investments and low-risk assets in property and equities. Cuts to TAFE in the 2010s led to skills shortages and made efforts at concerted industry policymaking even less feasible. The mining boom that followed replicated another pattern of the Australian economic story, entrenching the status quo, while monetary policy urged the expansion of money supply as the standard counter to all shocks. In totality, the response to the GFC was another nail in Australia's economic coffin, as the country squandered yet another chance to address the systemic weaknesses revealed by the crisis.

Monetary policy has become a key amplifier of our locked-in economy. Encouraged by the lessons learnt from the GFC, the COVID-19 pandemic saw record quantitative easing coupled with low interest rates. The move injected massive liquidity into the Australian market in a bid to sustain consumption. In our services-heavy economy, pandemic-related restrictions on human movement threatened critical functions and left little room for alternative solutions if these sectors came to a standstill. The shock was stabilised as the supply of money ballooned. Consequently, property prices surged. Stimulus spending, while necessary, flowed disproportionately into construction and infrastructure projects tied to housing and resource extraction, proving that even under novel conditions, old habits had become instinctual.

One key reform of the COVID period was the Job-Ready Graduates Package, commenced in 2021, that restructured university fees to encourage the uptake of science, technology, engineering and mathematics (STEM) subjects, creating a workforce aligned with global trends. However, due to the absence of a commensurate plan to initiate advanced industries, the potential is yet to be fully realised. By the end of COVID, Australia had secured a national system designed to sustain wealth hierarchies rather than create new wealth, recycling resource profits and property speculation into short-term stability while suppressing complexity, innovation and shock resilience.

Australia's history from the 1980s to today is one of a continual return to familiar choices. The Howard government's prioritisation of consumption over investment, which squandered the mining boom's potential to drive diversification; the Hawke–Keating governments' decisions to deregulate banking, privatise superannuation and open up the economy, with no overarching plan; the missed opportunities of the GFC and COVID-19 – all point to a recurring pattern: to stimulate short-term growth, forsaking the development of sovereign industry. Breaking free of this trajectory requires the sustained rejection of our existing cultural, political and economic choices. The first step is to recognise that the systems designed to preserve the past are the greatest obstacles to the future.

02

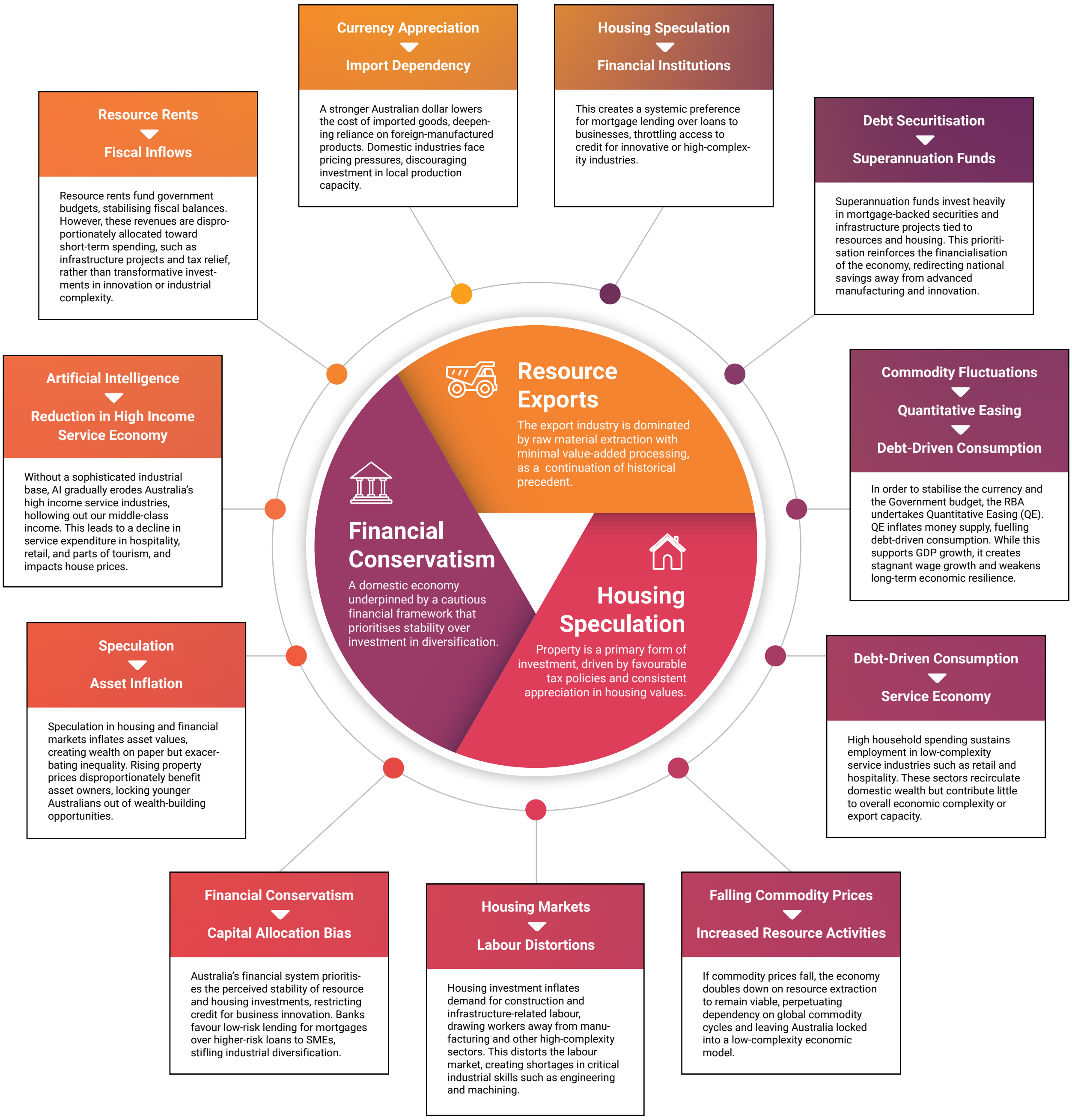
The Locked-In Economy Examined

The Locked-In Economy Examined

Australia's economy stems from an interlocking system where three activities – mining, housing and banking – form a titanic flywheel (see Figure 1), an enduring force that perpetuates our dependency on a flawed and restrictive set of options. This core structure is enclosed by auxiliary dynamics (see Appendix One), among them debt-driven consumption, a service sector built on low-complexity tasks, and the stagnation of small and medium enterprises (SMEs) whose potential for innovation is stifled by structural barriers. The result is a rigid architecture where inequality is no longer merely an outcome but an embedded feature, dividing the map into zones of extraction or consumption, and splitting generations into classes of asset owners and asset seekers.

Incremental policies designed to mitigate the symptoms of this national malady have inadvertently made them chronic. Housing policies intended to ease affordability have often increased demand pressures, further inflating prices and deepening the debt trap. Meanwhile, the resource income that sustains budget revenue is channelled to fund short-term infrastructure projects, bypassing investments in industrial complexity. Rather than alleviate wealth inequality, these dynamics perpetuate it.

Figure 1. Australia's Economic Flywheel



Resource Exports: The High-Yield Silo

Australia's reliance on exporting raw materials while importing finished goods underscores its dependence on other manufacturing nations. Commodities such as iron ore, coal and lithium are efficiently extracted at formidable scale but exported unprocessed, forfeiting the ability to add value and build domestic supply chains. We generate nearly all of our external income from mining, which in 2022–23 accounted for over two-thirds of our trade.[6] China accounts for approximately 80 per cent of iron ore exports and over 95 per cent of lithium sales.[7]Mining generates significant trade surpluses but only employs 2 per cent of the workforce. This wealth remains concentrated in a few private individuals and a handful of public companies. Mining also only accounts for 5 per cent of federal government taxes, while state governments (those of Western Australia and Queensland) collect royalties on extraction volumes.[8]

The sector's success is contingent on factors beyond national borders and control, including global demand, commodity prices and trading blocs. The result is that the international commodity cycle sets the rhythm of the Australian economy. When prices rise, resource taxes flow into government budgets, increasing the bottom line and enabling expenditure. Due to the magnitude of the sector, resource booms also inflate the Australian dollar as export surges fuel demand for our currency. However, an inflated dollar makes domestic manufacturing and other export industries uncompetitive, shrinking these sectors.

During a boom, overseas capital streams in to buy mining assets, with an increasing share of the profits diverted back overseas. The taxes paid are spent on short-term priorities, such as tax cuts, subsidies and infrastructure projects,

[6] Tania Constable, 'Mining Delivers Record $45.5 Billion in Export Revenue in FY23', Minerals Council of Australia, 4 August 2023, retrieved 5 February 2025 from https://minerals.org.au/resources/mining-delivers-record-455-billion-in-export-revenue-in-fy23

[7] Australian Government, Department of Industry, Science, Energy and Resources, 'Iron Ore', *Resources and Energy Quarterly*, September 2022, retrieved 5 February 2025 from https://www.industry.gov.au/sites/default/files/minisite/static/ba3c15bd-3747-4346-a328-6b5a43672abf/resources-and-energy-quarterly-september-2022/documents/Resources-and-Energy-Quarterly-September-2022-Iron-Ore.pdf; The Observatory of Economic Complexity, 'Iron Ore in Australia', 2023, retrieved 5 February 2025 from https://oec.world/en/profile/bilateral-product/iron-ore/reporter/aus; Statista, 'Monthly Export Value of Lithium Concentrates to China from Australia in Financial Year 2022', 21 January 2025, retrieved 5 February 2025 from https://www.statista.com/statistics/1341091/australia-monthly-exports-of-lithium-concentrates-to-china

[8] Chamber of Minerals and Energy Western Australia, 'WA's Mining and Resources Sector Drives $4.2 Billion Surplus', media release, 11 May 2023, retrieved 5 February 2025 from https://www.cmewa.com.au/media-release/articles/was-mining-and-resources-sector-drives-4-2-billion-surplus; Minerals Council of Australia, *Royalty and Company Tax Payments*, 21 May 2024, retrieved 5 February 2025 from https://minerals.org.au/wp-content/uploads/2024/05/240526-MCA-Company-Tax-and-Royalty-Payments.pdf; The Australia Institute, 'Analysis: 95% of Government Revenue Not from Mining Industry', media release, 11 September 2024, retrieved 5 February 2025 from https://australiainstitute.org.au/post/analysis-95-of-government-revenue-not-from-mining-industry

rather than investment in innovation ecosystems or sovereign wealth funds. The rise in the dollar makes imports cheaper, driving down inflation. Export booms create a general wealth effect as tax relief and government spending combined with low-cost imports translate into real wage growth across sectors, while an inflated currency allows interest rates to fall. These conditions then promote increasing housing speculation.

During resource slumps, when prices fall, the system doubles down on extraction, aiming to solve problems of demand with solutions based on supply. We repeatedly reach for the historical safety of our major export industry rather than brave the risks of innovation. This is our reflex response to patterns of economic distress created by unstable external conditions. A fall in prices increases government debt, and a falling currency drives up the cost of imports, igniting inflation and entrenching real wage stagnation. A low-value dollar also increases the cost of ʃsupply chains. Mining companies seek to cut costs and therefore respond by increasing automation to reduce wages.

Advances in technology worsen resource industry isolation. Rising automation, a fly-in fly-out workforce and the scaling of efficiency in mining have increasingly turned resource enclaves into hardened silos. A reliance on automation increases external capital expenditure, whereby resource profits flow outward to countries that are manufacturers of automation infrastructure, while domestic spending and wages decline. In addition to private capital, government spending consistently funds infrastructure to enable further extraction and exports – infrastructure investment configures for future infrastructure investment.

This dependency is by design. Modelling by The Social Policy Group (SPG) indicates that the direct and indirect effects of mining account for 30 per cent of Australia's total GDP.[9] Resource exports lock us into an unbreakable cycle of dependency on global demand and currency markets. Mining shapes conditions that ensure its own continuity, pushing all industries onto a track where resource extraction remains the primary engine of external income. By dominating fiscal revenue, skewing monetary policy and distorting currency values, raw resource extraction has stifled the development of more diverse and sophisticated export industries.

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[9] The Social Policy Group (SPG) provides economic modelling services to help governments and organisations assess the impact of market and policy changes. Through data analysis and forecasting, SPG offers insights into issues like inequality and employment trends, supporting informed policy decisions.

Housing Investment: The Gravitational Vortex

Housing dominates Australia's investments, tethering our national prosperity to the performance of a single asset class. Over the course of our history, housing has shifted from primarily serving as a place of residence to becoming a key component of wealth creation and speculative investment. Expansion in the function of the housing market has, in turn, fuelled competition over the same pool of assets, driving property price-to-income ratios higher than in almost any other advanced economy. Reinforced by high rates of investment return and favourable tax policies for property investors, housing as a speculative commodity attracts both domestic and international investors, while for many Australians, investment in housing becomes the primary mechanism for household wealth accumulation.

In Australia, infrastructure investment remains constant. During both mining booms and price declines, governments respond by financing infrastructure. Bridges, roads and railways increase property values, adding to the affordability crisis. We have enough physical dwellings to house the population, even in high-density areas, but policy incentives have led to up to 10.1 per cent of homes being unoccupied as identified in the 2021 Census.[10]

Housing markets play a dual role, functioning as both an asset market and, through bank loans, as a mechanism for money creation. When individuals or businesses acquire property using bank-issued mortgages, these loans are not funded from existing deposits but are instead generated as new money within the banking system. This process ties the housing market directly to the broader economy – rising property values increase the volume of loans, thereby contributing to the expansion of the money supply. Consequently, housing markets influence both wealth accumulation and monetary policy dynamics.

Governments rely on housing as a hidden lever for stimulus. SPG modelling shows that a housing price increase of 10 per cent produces a corresponding 1.5 per cent increase in GDP, from both the direct and indirect effects.[11] This relationship incentivises governments to maintain the growth of housing prices and effectively locks out any policies that might threaten to produce a drop in house values. In addition, Australia's ties to China through raw resource sales and overseas education have driven foreign investment in our residential housing market.

[10] Australian Housing and Urban Research Institute, 'Are There 1 Million Empty Homes and 13 Million Unused Bedrooms?', 13 September 2022, retrieved 5 February 2025 from https://www.ahuri.edu.au/analysis/brief/are-there-1-million-empty-homes-and-13-million-unused-bedrooms

[11] The Social Policy Group (SPG) provides economic modelling services to help governments and organisations assess the impact of market and policy changes. Through data analysis and forecasting, SPG offers insights into issues like inequality and employment trends, supporting informed policy decisions.

Equally, our central bank manipulates the housing market to expand the money supply. The Reserve Bank of Australia (RBA) purchases mortgage-backed securities (MBS) – financial products sold by banks that are composed of pooled residential mortgages – which injects liquidity into the financial system. When the RBA buys these securities, it provides banks and other financial institutions with money in exchange for packaged debt, increasing the overall money supply. Through market operations, the RBA currently holds around a quarter of all residential mortgages as MBS.

This expanded money supply has a ripple effect that ultimately drives up property prices and cost-of-living expenses. Turning bank liabilities into assets allows banks to borrow additional reserves from the RBA. With more liquidity in the system, banks have greater capacity to issue new loans, including mortgages. This increased borrowing capacity intensifies the demand for housing, which in turn raises prices. Higher asset prices further enhance the speculative appeal of housing as an investment and increase the wealth of home owners and investors, encouraging continued investment in the market.

While asset values grow rapidly in response to increased money supply, a delayed consequence of more money being circulated is whole-of-economy inflation, flowing through to increases to the cost of living, which disproportionately impacts low-wage workers. In addition, the absorption of labour into infrastructure and housing subverts the development of manufacturing and export industries by creating shortages of electricians, mechanical engineers, machinists and floor workers.

Our outsized cultural portrait of housing as a symbol of security and success makes it politically untouchable, with property ownership painted as both a signpost for prosperity and a social imperative. This cultural alignment ensures that the value of housing remains central to our economic system, even as it deepens inequality and exclusion. Escalating profits derived from the pressure to earn a return on investment push up the cost of living. Younger Australians are thereby left crippled by swelling personal debt that limits their opportunities for career risk-taking or entrepreneurial activities, both of which are essential to diversify or explore new industries. Our faulty economic logic is creating an intergenerational imbalance in financial resilience.

Financial Conservatism: The Funnel of Speculation

Australia's financial culture follows the path of least resistance, channelling capital into resources and housing while eschewing riskier but potentially transformative industries. The conservatism of banks, superannuation funds and regulators has turned these erstwhile pillars into a funnel of speculation.

Australian banks prioritise mortgage lending over business credit, influenced by a combination of higher collateral certainty and regulatory structures – for example, Basel risk-weightings – that treat mortgages as relatively safe. This approach is certainly profitable, but it comes at the cost of throttling SME access to capital. The result is an institutional bias that sees continual reinvestment in property rather than support for innovation or diversification in the broader economy.

Reflecting global trends, domestic banks transform mortgage debt into tradable assets like MBS. Investors, ranging from superannuation funds to foreign institutions, absorb these securities, allowing banks to offload risk and extend more home loans. Rising house prices bolster loan collateral, which emboldens further lending, culminating in persistent upward pressure on property values. This cycle firmly embeds real estate at the centre of banking profitability, and consequently real estate dominates the asset portfolios of banks and households alike. For banks, real estate lending represents a critical revenue stream. Meanwhile, rising property values increase household wealth on paper, fostering greater consumer confidence and spending. Simultaneously, they enhance the collateral value for banks, encouraging even more lending. Moreover, this increases vulnerability to market corrections, where a decline in property values could destabilise both household finances and banking systems, with dramatic effects across the economy.

Superannuation funds follow a similar approach. Managing trillions in savings, funds pursue high-risk ventures abroad while favouring low-risk assets domestically. With a reinvestment cycle that preferences established, historically high-growth investments, this practice directs national savings away from sectors like advanced local manufacturing, concentrating wealth in established sectors and reducing diversification. Through portfolio allocations that allow members to select domestic property or favourable shares, superannuation plays a significant role in upholding mining and the finance of housing. A large portion of our national savings is invested in top companies such as Rio Tinto and BHP, the Big Four banks, build-to-rent companies and property exchange-traded funds.

Australia's equity market reflects the same myopic approach to value, with the ASX200 dominated by banks and mining companies. This keeps housing and resource extraction firmly at the centre of the investment market and fuels the expansion of derivative markets. Income streams from resources and property are recycled and leveraged into speculative financial products, such as MBS or commodities futures. As these financial products gain prominence, they attract more capital, prioritising short-term returns over long-term stability. The expansion of derivatives markets reinforces the financialisaton of physical assets, further entrenching them in speculative cycles.

Speculation is not an outlier in the Australian financial culture – it is a defining feature. The economy has become increasingly reliant on the feedback between rising asset values, securitised debt and speculative capital, intensifying the structural dependence on resource extraction and property while crowding out investment in more diversified and productive sectors. It's also worth noting that global capital flows fix us in place, our reliance on foreign capital an unspoken reality. Fifty per cent of our bond market is foreign-owned. This dependence on foreign capital links Australia's housing and resource sectors more directly to global markets, rendering us susceptible to external shocks. Foreign debt and currency fluctuations from resource dependency expose us to capital flight vulnerabilities and weaken our trade leverage.

This entanglement underscores how speculative practices have become enmeshed in the structure of Australia's financial systems. Government policies such as negative gearing, capital gains tax concessions and mixed monetary policy only serve to reinforce the market arrangement. Australia's financial conservatism has led to the only innovation being financial product innovation, the only complexity being financial market complexity.

The Feedback Web: A Network of Interdependence

Australia's economic order operates through an interdependent web of feedback loops. Resource profits tie the nation to international price cycles, generating fiscal winds that propel short-term policies and lift housing prices while our banks prioritise mortgage lending over industrial diversification. Rising property values fuel investment growth, concentrating ownership and deepening intergenerational wealth disparities. Superannuation, our national savings, is used to sustain this cycle by bypassing manufacturing investments in favour of international returns or safe domestic assets, leaving Australia to fund government debt with foreign capital. This elaborate web is both a picture of our economy and a map of its logic.

03

The Two Faces of the Australian Economy

The Two Faces of the Australian Economy

The locked-in structure of the Australian economy has been consolidating for generations. The forces at work have been cumulative and insidious, difficult to recognise as they evolve, the country's attention directed toward immediacy and away from the path ahead. With the vehicle of progress stalling, and the workings of our economic engine fully exposed, it is clear that we have lost touch with what's happening beneath the hood. This is revelatory, in part because for so long we have conditioned ourselves to focus elsewhere.

At the heart of this is a discord in our understanding of how the system works. Australia's economic flywheel turns on an axis held in place by the tension inherent in a meretriciously crafted paradox. Our economy has two faces: up top, a polished façade of short-term gains, continuous growth metrics and a wealth promise to the Australian people; and below, a rougher countenance that decries long-term resilience and forestalls a sense of certainty. These faces appear contradictory, but they work in tandem, sustaining an illusion of stability even as hidden pressures intensify beneath the surface. Headline metrics like GDP, unemployment and household wealth shout prosperity, while the reality is that Australia lives pay cheque to pay cheque, propped up by debt-driven consumption, resource revenues and speculative growth.

Together, these two faces present a narrative that is both compelling and deceptive. From moment to moment, we see evidence of one face of the economy or the other. What must be reconciled is that both faces can be simultaneously valid, acting to strengthen public tolerance for stresses and maintain stable domestic financial behaviours, but without a strategy for addressing the long-term consequences of either.

Metrics That Conceal Dependency

For the last 20 years, Australia has been defined economically by the supply of raw materials to fuel the development of China's housing market and industrialisation. Unemployment has been relatively low, GDP has grown and house prices have climbed to record highs. But these success metrics are just the beginning of the story. In 2023, household debt-to-net disposable income was 216.9 per cent of GDP, ranking Australia high among the countries in the Organisation for Economic Co-operation and Development (OECD) on this measure.[12] Households leverage this debt to purchase property but also to sustain consumption, tethering growth to ever-rising levels of borrowing. This financial burden is a silent driver of inequality, as interest payments flow upward and overseas to those who own assets and lend debt, perpetuating existing wealth concentration. Mortgage repayments now consume nearly 50 per cent of median family income, leaving households with limited discretionary spending and heightened vulnerability to financial shocks.[13]

From 1968, Australia's national accounts began including some guidance allowing for the treatment of financial services; however, the degree of representation in GDP was limited. This changed in 1993 when updates introduced the concept of financial intermediation services as indirectly measured and the explicit inclusion of financial services of financial intermediaries, such as banks, in GDP. Further changes in 2008 enabled financial instruments such as derivatives to be included. This created a GDP measurement that is now heavily propped up by financialisaton activities over manufacturing – we now count most banking activity, a large proportion of returns from investment and superannuation, trading, and the payment of derivatives and even ATM fees.

SPG modelling shows that Australia's economy is shaped by a dual dynamic: value-creating sectors that generate new wealth and export income, and churn-driven sectors that circulate resources within the domestic economy without contributing significantly to productivity or trade.[14] The value-creating industries, which collectively account for 15–20 per cent of GDP, include mining (17–18 per cent direct and indirect contributions); a share of agriculture, forestry and fishing (2–3 per cent); and small segments of manufacturing (5–6 per cent)

[12] Organisation for Economic Co-operation and Development, 'Household Debt', n.d., retrieved 5 February 2025 from https://www.oecd.org/en/data/indicators/household-debt.html

[13] Real Estate Institute of Australia, 'Housing Affordability Hits Historic Low', media release, 6 December 2024, retrieved 5 February 2025 from https://reia.com.au/wp-content/uploads/2024/12/REIA-MEDIA-RELEASE_HAR-December_06122024-1.pdf

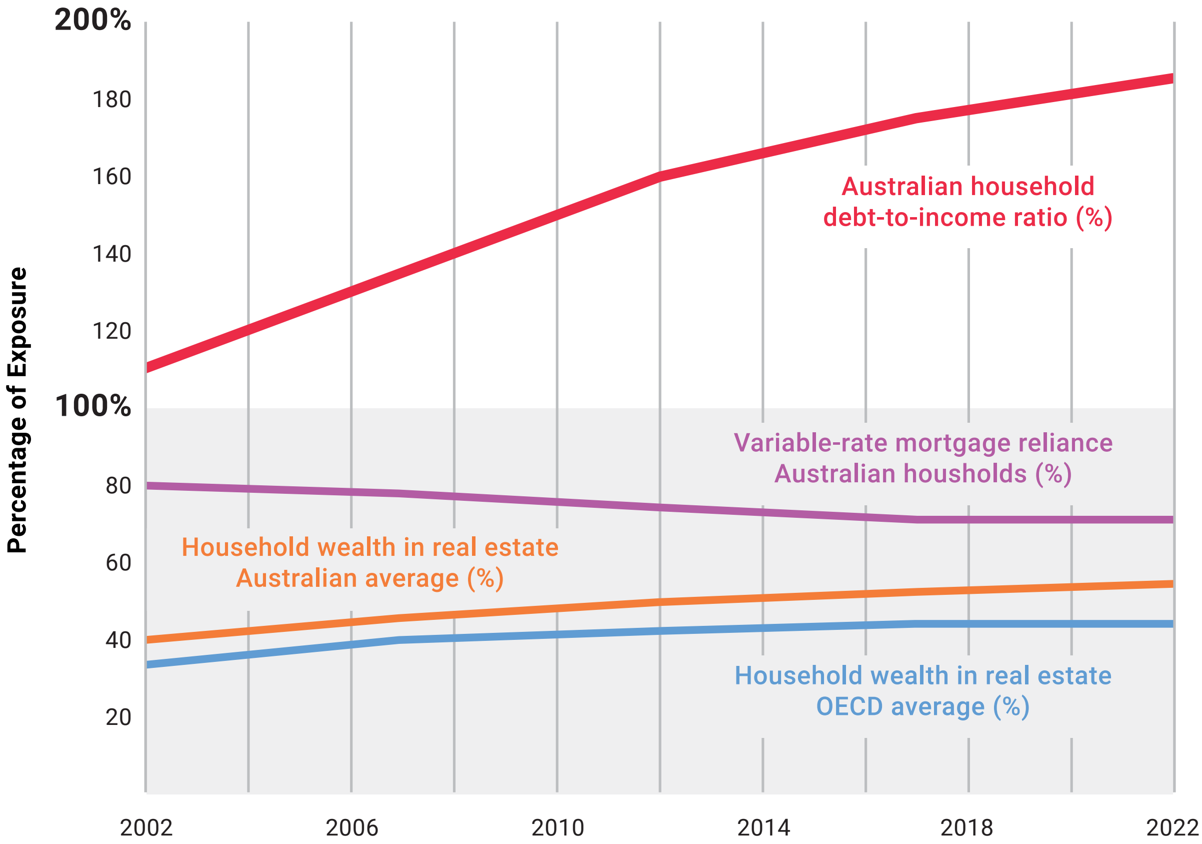
[14] The Social Policy Group (SPG) provides economic modelling services to help governments and organisations assess the impact of market and policy changes. Through data analysis and forecasting, SPG offers insights into issues like inequality and employment trends, supporting informed policy decisions.

and information technology (2–3 per cent). These industries drive exports, investment and global competitiveness, with mining serving as the dominant export engine. In contrast, churn sectors constitute 30–42per cent of GDP, including health care and social assistance (14–15 per cent), retail trade (5 per cent), public administration and safety (6–7 per cent), and domestic education (5–6 per cent). These sectors are largely supported by domestic consumption, taxation and government spending, making them dependent on redistribution rather than wealth creation. Housing (contributing 15–20 per cent of direct and indirect contributions to GDP) and financialisation (13–14 per cent) amplify the churn sectors by fuelling debt-driven consumption and reinforcing economic activity focused on asset inflation rather than productive investment. The entire composition emphasises an economy heavily reliant on cyclical domestic spending and resource exports, with structural vulnerabilities tied to housing, financialisation and limited diversification in global value creation.

Consumption becomes a product of leverage, decoupled from underlying wage growth. We borrow to spend. This is inherently unsustainable, as it locks households into rotations of debt, financing, consuming, and refinancing at higher interest levels. When conditions tighten, the fragility of this system becomes exposed – it is a system built on the precarious foundation of borrowed prosperity.

Figure 2 shows how our debt–income ratio has risen over time and in comparison to other OECD nations. High debt leaves households vulnerable to shocks, and impacts their ability to adapt to changing job markets. In turn, high individual debt confines the policy options for government spending to income relief and short-term fiscal injections, which in stabilising against shocks take precedence over long-term investments in strategic industrial policy.

Figure 2. Growth of Australian Household Debt[15]



[15] Reserve Bank of Australia, retrieved 5 February 2025 from https://www.rba.gov.au/publications/rdp/2020/2020-05/why-is-australian-household-debt-high-relative-to-history-and-other-countries.html#:~:text=The%20coefficients%20on%20income%20per,deregulation%20of%20the%20financial%20sector; Retrieved 5 February 2025 from https://www.savings.com.au/statistics/australian-debt-statistics-how-much-do-we-owe#:~:text=Average%20outstanding%20debts&text=In%202021/22%2C%20average%20household,total%20just%20under%20$2.6%20trillion.%20https://www.imf.org/-/media/Files/Publications/WP/2019/WPIEA2019076.ashx#:~:text=High%20levels%20of%20household%20debt,pose%20risks%20to%20financial%20stability

Manufacturing now only accounts for approximately 5.9 per cent of GDP and agriculture around 2 per cent.[16] Over 66 per cent of private-sector lending flows into mortgages, with less than 23 per cent going to businesses and start-ups.[17]This has created an extraordinary distortion: the housing market has transmuted into the primary mechanism of wealth accumulation in Australia. The median house price reached 8.6 times the median gross disposable household income in September 2024, making Australia's real estate market one of the most unaffordable in the world.[18]

Over the past five years, rising house prices have contributed significantly to our GDP. The combined direct and indirect effects of housing on nominal GDP now stand at between 15 and 20 per cent per year. This imbalance draws labour away from other industries and distorts our growth metrics. For example, the construction industry now accounts for 7.8 per cent of labour and 7.2 per cent of GDP.[19] Housing demand and therefore GDP are further magnified by population growth.

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[16] Australian Government, Department of Agriculture, Fisheries and Forestry, 'Snapshot of Australian Agriculture 2024', 22 July 2024, retrieved 5 February 2025 from https://www.agriculture.gov.au/abares/products/insights/snapshot-of-australian-agriculture; Reserve Bank of Australia, 'Composition of the Australian Economy: Snapshot', 13 December 2024, retrieved 5 February 2025 from https://www.rba.gov.au/education/resources/snapshots/economy-composition-snapshot

[17] Australian Bureau of Statistics, 'Lending Indicators', 1 November 2024, retrieved 5 February 2025 from https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release

[18] https://www.demographia.com/dhi.pdfANZ & CoreLogic, Housing Affordability Report, November 2024, retrieved 13 February 2025 from https://www.anz.com.au/content/dam/anzcomau/bluenotes/documents/ANZ_CoreLogic_%20Housing_Affordability%20Report_November-2024.pdf

[19] Australian Bureau of Statistics, 'Spotlight on the Australian Labour Market over the Last 30 Years', 6 December 2024, retrieved 5 February 2025 from https://www.abs.gov.au/articles/spotlight-australian-labour-market-over-last-30-years; Reserve Bank of Australia, 'Composition of the Australian Economy: Snapshot', 13 December 2024, retrieved 5 February 2025 from https://www.rba.gov.au/education/resources/snapshots/economy-composition-snapshot

The Service Economy: A Masquerade of Complexity

GDP is an indiscriminate measure, amalgamating both the circulation of money within the domestic economy and global trading income into a single growth metric. However, internally circulating currency adds little to national wealth or international monetary power. Consequently, a key part of the illusion of prosperity is our service sector, which accounts for 72 per cent of direct GDP – a sector built on recycled capital, not wealth creation. Australia's large professional services industry is supported by rising asset prices, while the retail and hospitality industries recirculate wealth extracted from household debt and service tourism. The remaining services are funded through extensive government spending.

Our smart, top-heavy services sector prolongs the masquerade of sophistication that obscures the nuanced absence of genuine industrial complexity. With high levels of education as an essential foundation, professional services utilise advanced knowledge and therefore superficially appear to be a higher order of activity. However, this form of complexity does not translate to industry, manufacturing or export. The material economy remains structurally shallow, while our knowledge sector floats aimlessly, with no industrial base to serve. Equally, our comparable higher-education levels disguise the true state of Australia in comparison to other advanced OECD countries, the majority of which have developed complex manufacturing industries that we do not have, further masking our systemic deficits.

In addition, without the means to commercialise our intellectual capital, we export our ideas. Rather than our best ideas being commercialised onshore, they have led to the creation of new products and industries abroad. The result is new industries that Australia spurns but neither owns nor earns from, and global technology ecosystems that we seeded but must import to participate in. The service sector, which accounts for over 70 per cent of employment, illuminates the simplicity of our industrial system.[20] Figures 3 and 4 show that services account for the bulk of employment but not trade revenue.

[20] Jobs and Skills Australia, 'Industries', n.d., retrieved 5 February 2025 from https://www.jobsandskills.gov.au/data/occupation-and-industry-profiles/industries

Figure 3. Employment By Industry

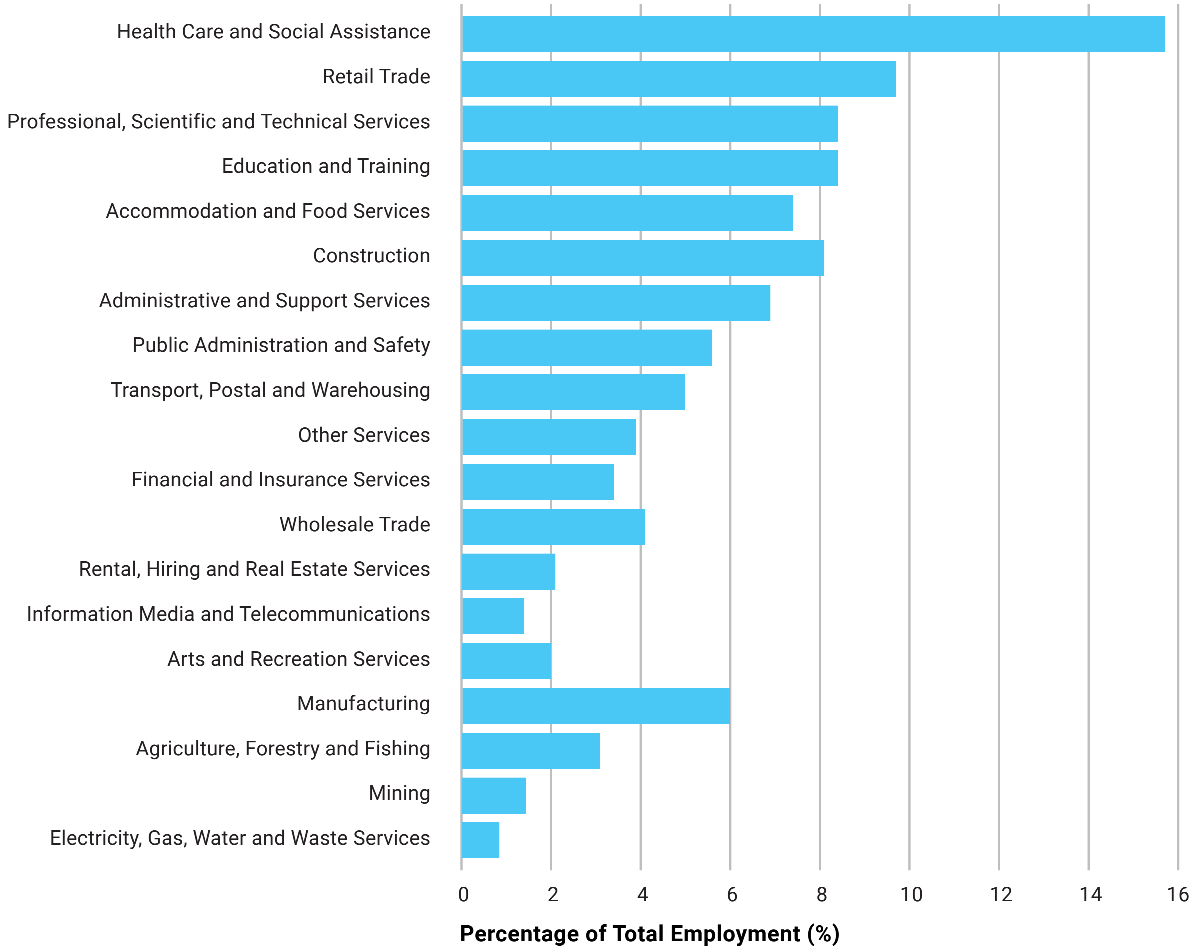
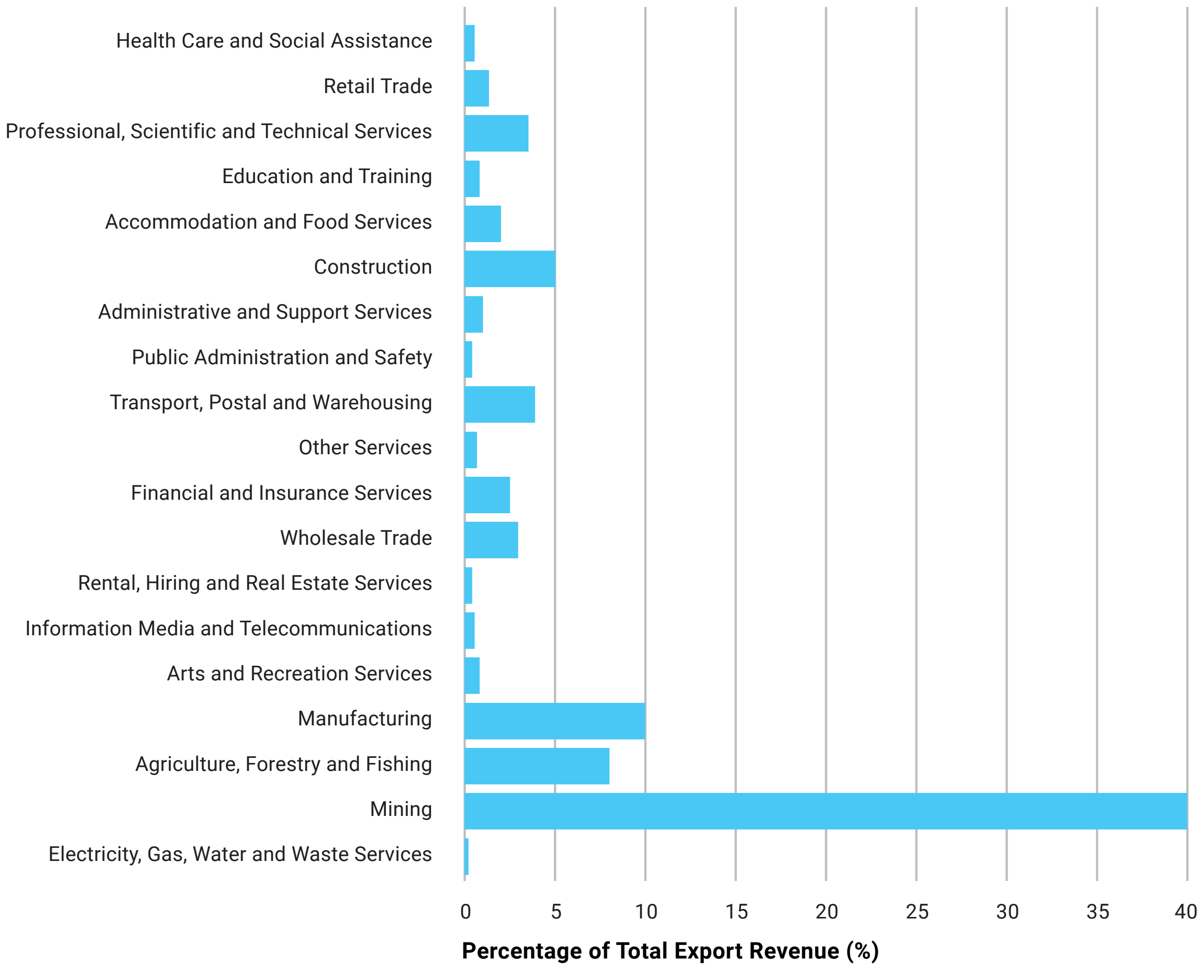


Figure 4. Export Revenue By Industry



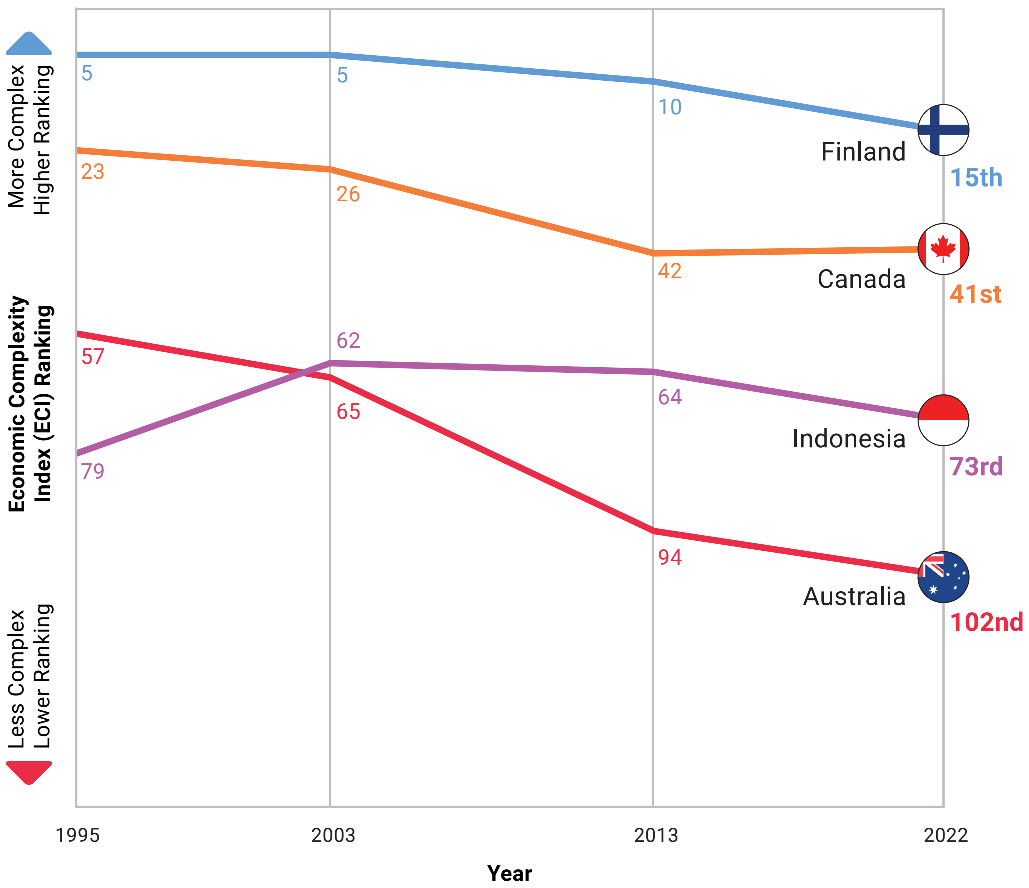
Australian SME Stagnation: The Strangled Middle

Small and medium-sized enterprises, often celebrated as the backbone of Australian industry by virtue of the very shape and size of the business segment, amplify the recurring dynamic of industrial simplicity. SMEs represent 98 per cent of all businesses but are constrained by systemic barriers that limit their ability to scale or innovate.[21] Access to capital is a significant obstacle, with no developed private equity markets and most of our national savings diverted abroad. Outside of our only large businesses in mining, banking and major retail, the few SMEs able to successfully scale typically attract foreign capital and eventually move to larger markets. Complex industry products, lacking domestic competition, are gained through import. This leaves the overwhelming majority of SMEs operating in low-complexity industries, reinforcing the dependence on speculative growth and consumption.

Figure 5 highlights Australia's declining economic complexity index ranking. (See Appendix Two for a comparison of our industrial history with overseas case studies since 1995.)

[21] Australian Bureau of Statistics, 'Counts of Australian Businesses, Including Entries and Exits', 27 August 2024, retrieved 5 February 2025 from https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/latest-release

Figure 5. Australia's Economic Complexity Index Ranking[22]



[22] Harvard Kennedy School, *Country & Product Complexity Rankings*, Atlas of Economic Complexity, n.d., retrieved February 13 February 2025 from https://atlas.hks.harvard.edu/rankings

In the Australian frame of reference, resource extraction is treated as an end point rather than as a foundation for innovation – our national wealth is locked into housing and our national savings are committed to superannuation. Neither banks nor our governments are incentivised to invest in increasing our industrial complexity. Meanwhile, China's growth is slowing and its trade preferences are changing. In the space of a few years, our biggest export client went from buying 39 per cent of our exports (2020) to purchasing just 32.5 per cent of them (2023).[23] China is forming new alliances and moving to secure its resource supply chains through diversification. As it continues to do so, the two faces of our economy will slowly merge. The structural fractures hiding behind the headline metrics will surface, and the veneer of our prosperity will crumble.

Accepting Our Reality and Embracing Change

This is a story of debt, resource dependency and the illusion of wealth. Like Schrödinger's cat, our economy exists simultaneously in states of robustness and fragility, thriving on the surface while eroding at the foundations. This duality is an engineered way of being that prioritises preservation over transformation. Australia now risks remaining trapped within this, consuming its future to sustain its present, increasingly vulnerable in a world that demands complexity, adaptability and innovation. But while our past compels our future, it does not indelibly write it. Understanding the decisions of history equips us to orchestrate change and turn the wheel of destiny. To accept the urgency of action, we must better comprehend the world in which we operate and the changes that are happening around us.

[23] Australian Government, Department of Foreign Affairs and Trade, 'Doing Business with China', n.d., retrieved 5 February 2025 from https://www.dfat.gov.au/trade/agreements/in-force/chafta/doing-business-with-china/doing-business-with-china

04

The World Moves On

The World Moves On

With the end of the Cold War, the global order presided over by American hegemony, and with which Australia aligned itself, experienced a period of unprecedented security and interconnectedness. This era saw the flourishing of global networks: trade, information, human movement, political cooperation. Compared to the first half of the 20th century, conflict was largely confined to regional skirmishes, with existential threats to democratic powers remaining distant. Meanwhile, the economic progress of many developing nations was widely seen as a step toward fulfilling the long-held promise of a world rooted in the ideals of democracy and human rights.

However, stability and optimism have steadily unravelled amid a rising tide of de-globalisation in the 21st century. Geopolitical tensions, increasing economic nationalism and the retreat of multilateralism have fractured the global order. Trade networks once celebrated for fostering interdependence have been disrupted by protectionist policies and regionalism, while political cooperation has been replaced by unilateral action and escalating rivalries. Conflicts and economic instability have further strained international systems, eroding trust and collaboration. The ideals of democracy and human rights have been overshadowed by a resurgence of authoritarianism and widening global inequalities. What was a vision of interconnected progress now arcs once again toward fragmentation.

Present-day Australia stands in the shallows at the nexus of a global shift in power, an era of the reordering of international systems in which leverage, networks and control have become the primary currencies of certainty. Allegiance to global partners defined by mere usefulness rather than critical indispensability secures a perennial back seat. In today's world, dominance over one's own shores is achieved through the ability to shape outcomes, and to orchestrate systems by wielding power over technology and industrial capacity. Australia has forfeited its place in this contest of sovereignty. Its current economic architecture is out of alignment with global dynamics.

The international economy is a cruel sea. The navigation of diplomacy entails crossing a battlefield of interdependencies deliberately constructed to entrench power. Nations are either the architects of this environment, aligning their systems to secure dominance over critical nodes of production and value creation, or they are locked into submission. Complexity of export is a strategic weapon. Tellingly, Australia exports simplicity. It extracts raw materials and imports finished products, operating as an enabler of other nations' ambitions and leadership, a contributor to empires of trade and technologies. The age of direct possession of foreign territories is being replaced by a paradigm of nominally liberated nations subjugated through tacit economic control.

Within this framework, decarbonisation is not as its optics present, which is a virtuous ecological transition. Rather, it is a covert frontier where power bases of new energy technologies vie for network supremacy. It is about control over the infrastructures of supply, be it for lithium, cobalt, rare-earth elements, solar arrays or battery systems. It is a race for sovereignty, where the ability to process, manufacture and innovate around these resources dictates geopolitical mastery. Our role as a supplier of unprocessed critical minerals flags a systemic failure. We have surrendered the pursuit of higher-value industries that wield the greatest influence in order to stabilise short-term revenue streams. In part, the practice of industrial helplessness is a geopolitical tactic, albeit a compromising one. By demonstrating a lack of motivation to compete with advanced manufacturing nations, Australia's appeal as a raw supplier is enhanced, as capital inflows do not promote the emergence of economic rivalry. The wealth of our resources weaves a self-actioning trap, funnelling our migration toward the economic south, restraining us in the role of supplier-servant to the nations that own the chain of refinement and manufacture.

AI is propelling us along this course with disruptive aggression. Never before in history has the gift of complexity been so augmented. Silicone, software and supply chains concentrate into an apex industrial complexity that, in turn, grants unrestricted power to refine and leverage knowledge gleaned from the boundless frontier of raw digital data. Nations that dominate AI ecosystems are the incontestable gatekeepers, controlling the value creation accessible through this technology, and redefining how its adoptive industries function and who benefits from them. As the current pinnacle of the technological complexity stack, AI is shaping the next absolute stratification of power, where producers dictate the terms and consumers acquiesce. To opt out is to be left behind in totality, rendering participation irrelevant, sealed into systems within which influence is merely a dream. Australia does not build these capabilities – we import our access to them.

Situated at the crude base of the global industrial ladder, Australia is strikingly disenfranchised. We are simply a hunting ground for an AI revolution that not only extracts our raw data but also displaces and devalues the highly educated segment of our services economy. AI is quickly automating complex tasks in finance, consulting and legal services, where its capacity for precision and data-driven insights surpasses the abilities of human professionals. These industries have long underpinned Australia's economic confidence, so as they lose their value to foreign-owned AI ecosystems, the domestic knowledge economy will collapse into dependency, importing capabilities it no longer produces. Structural unemployment across our knowledge sector is inevitable. The impact will cascade throughout our economy, shrinking high-income employment, eroding tax revenues and decimating consumption-driven industries, leaving us vulnerable to stagnation and binding our economy to low-complexity exports. Australia is profoundly exposed, subject to a new order that will strip us bare.

Scaled to the global stage, supply chains have become instruments of control. They are engineered to exclude, to isolate, to consolidate power within tightly owned and gated networks. As with the example of AI technologies, a globalised network of production now defines advanced manufacture, requiring an orchestrated synergy of supply encompassing materials, energy, knowledge, design, component manufacture, assembly and distribution. The nations that succeed in this environment are not just those that invest in the production of sophisticated goods, but those whose goods form critical nodes along the chain – exports that their trading partners cannot do without and to which they have limited alternative access. Today's trade infrastructure of influence comprises semiconductors, pharmaceuticals, advanced manufacturing and critical minerals processing. By functioning as critical checkpoints, nations transform their production capability into geopolitical leverage with which they maintain sovereignty and control.

Australia's dependence on exporting raw inputs and importing finished goods has written us out of these networks of influence. We are fast becoming a supplier of last resort, excluded from the alliances that prioritise integration and resilience.

As the rest of the world continues to develop networks of dependency and pyramid complexity, Australia's static economic strategy diminishes us, and exposes the hollowness of our good fortune. Vulnerability accompanies export simplicity, surrendering the future to mechanisms outside national control: global demand for ore, fluctuations in commodity prices, housing speculation, and the flow of debt and external capital. With no industries of geopolitical necessity and no network controls to leverage the evolving architectures of global influence, our fiscal stability reveals itself as an illusion, sustained only by a willingness to submit and yield tithing in a world ruled by masters abroad. In the global order, Australia is being reduced to an economic tenant. In possession of natural resources, energy, food security and an abundance of talent, we nonetheless stabilise ourselves by consuming our own potential, ceaselessly investing in the same mechanisms that prevent us from evolving.

To assert its relevance, Australia must rewrite this narrative. It must shift from being a source of raw materials to a producer whose industries are instruments of power. But change requires more than investment or singular industries. Sovereignty necessitates strength – the strength that flows from developing value chains, levering regional production ecosystems and redefining trade alliances, to secure our nation within the networks of dominance that will define the rest of this century.

Australia is falling far short of its potential, but we have everything we need to catch up and keep pace. We have cultivated a resilient culture, built up a skilled workforce and developed our national infrastructure. These are the means to re-ascend the industrial complexity ladder. The consequence of ignoring the call to adapt, of enduring strategic neglect, will be a fast-decaying economy. Inaction is geopolitical irrelevance. Nations that prosper no longer do so by accident or the bounty of nature. They have designed systems that enable them to dictate their place in the new global trading order. Australia must decide whether it, too, will set the terms of its future.

Turning points are junctures of reckoning. The global order is being redrawn, and the tools for Australia to build its place in that order are at hand. Sovereignty lies in complexity, leveraging networks, and the ability to shape systems rather than be shaped by them. The question is whether we have the courage and the conviction to achieve this.

05

Breaking the Chains

Breaking the Chains

Systems that once promised stability have hardened into constraints, binding Australia to a past that can no longer sustain us. Resource revenues, real estate speculation and financial conservatism, all extolled as the source of Australia's remarkable prosperity, also constitute the flywheel of our economic strategic inertia. The momentum of this flywheel serves to refuse ventures, suppress ambition, distend inequality and defer ownership of our future. The logical conclusion to staying this course is slow collapse, the inevitability of unravelling a question not of if but when.

Collapse is not chaos but rather the bitter dismantling of well-worn illusions. Resource returns will falter as unprocessed commodities lose their primacy. Housing, long at the centre of our identity, will buckle under rising interest rates and the exhaustion of speculative capital. Professional services, our proud cheerleader of complexity, will be hollowed out by AI, revealing an industrial structure that consumes innovation but does not create it. The end of the line is an empty future, a depleted zone of rubble, rich only in regret for opportunities missed and risks not taken.

Reform trades pain for the hope of prosperity. It demands the pulling apart of established interests, the reallocation of wealth and priorities, and the reshaping of systems long held sacrosanct. Change is not a moment for timidity or half-measures. It demands bold ambition. Australia may not have industry policy, but we have rare assets in our people. Our education and technical talent are world-class. We possess a diversity of machinists, engineers, researchers and scientists whose abilities are prized from abroad. They must be allowed to reimagine, rebuild and repurpose our economic engine.

Skill is not enough, of course. This work also requires the focus and confidence of the entire nation. Confronting change will raise doubt in ourselves. Yet, the moments of crisis in our history give answer to this, proof of our latent potential and what can be achieved when we utilise our talent, sweat and grit. Australians are tenacious and loyal when we rally together. Now is the time, as an undiscovered future awaits.

For decades, Australia has tolerated the economic fallacy that a sum of short-term superficial achievements is a strategy for future success. We need to redress this with a genuine industry plan that rewards sovereignty, builds on industries that work to our trade advantages, and secures geopolitical power (see Appendix Three). Advanced manufacturing, critical minerals processing, pharmaceuticals and biotechnology are imperative. These industrial nodes are the prime leverage in an increasingly networked world, the building blocks of resilience in the face of global uncertainty. Wealth must return to foundations in industrialisation beyond extraction and in the ingenuity value chain.

As Australians, we have defined ourselves by attributions of chance rather than choice: our natural resources, our geographical advantages, our historical fortune. Surrender to fate and comfort have lulled us into complacency, allowing us to drift on the currents of external demand and internal speculation. But luck is not a strategy. To navigate the complexities of the modern world, we must become more than fortunate. We must become the engineers of our own destiny. For this, our nation must rediscover its sense of collective purpose.

Collaboration at scale is more than an economic project. It is a social one. Systems must not concentrate wealth so as to exclude younger generations and fracture the nation geographically, socially and culturally. Every Australian's future is at stake, and every Australian must see the promise of their own future for a vision to be shared. Reform must offer the opportunity to bring all Australians together.

Our history calls to our future, telling us that the time of change has come. If we listen closely, the final line of our 1901 national anthem ends on a change of note, a poignant pivot from a simple celebration of nature's fortune and labour's harvest toward a distant horizon and a plea for something more valuable. 'With courage let us all combine' are the next-to-last and only words in the song that speak to virtue of character and reveal a higher value for the Australian people than mere toil. It is a glimmer of our redemption, a century-old summons for Australians to write a brave third verse.

To fulfil its promise, the Lucky Country must prove itself to be the Brave Country, with the courage to act as a genuinely independent nation and the dignity to renounce its colonial economic crutches. Also essential is the conviction that the worth of the Australian people lies far beyond the wealth of their land, for a modern nation that values its land above its people can never escape the constraints of its natural and historical legacy. To break free, Australia must fearlessly champion the true worth of its people and its industries on the global stage.


BANK OF AUSTRALIA

Appendices

Appendix One: The Locked-In Flywheel

Resource Rents → Fiscal Inflows

Resource rents fund government budgets, stabilising fiscal balances. However, these revenues are disproportionately allocated toward short-term spending such as infrastructure projects and tax relief, rather than transformative investments in innovation or industrial complexity.

Resource Rents → Currency Appreciation

Export surges during resource booms drive up the Australian dollar, making imports cheaper and reducing the competitiveness of domestic manufacturing and other non-resource export sectors.

Currency Appreciation → Import Dependency

A stronger Australian dollar lowers the cost of imported goods, deepening the reliance on foreign-manufactured products. Domestic industries face pricing pressures, discouraging investment in local production capacity.

Import Dependency → Housing Speculation

The affordability of imports shifts attention away from industrial productivity. Governments stimulate economic growth through policies that favour housing, such as tax concessions, grants, and infrastructure tied to residential development.

Housing Speculation → Financial Institutions

Rising property values strengthen bank balance sheets by increasing the value of collateral. This creates a systemic preference for mortgage lending over loans to businesses, throttling access to credit for innovative or high-complexity industries.

Financial Institutions → Debt Securitisation

Mortgage debt is securitised into financial products, linking Australia's housing market to global liquidity flows. This practice inflates asset values and attracts international capital, further embedding housing speculation as a central economic driver.

Debt Securitisation → Superannuation Funds

Superannuation funds invest heavily in mortgage-backed securities and infrastructure projects tied to resources and housing. This prioritisation reinforces the financialisation of the economy, redirecting national savings away from advanced manufacturing and innovation.

Commodity Fluctuations → Quantitative Easing → Debt-Driven Consumption

In order to stabilise the currency and the government budget, the RBA undertakes quantitative easing (QE). QE inflates the money supply, fuelling debt-driven consumption. While this supports GDP growth, it also masks stagnant wage growth and weakens long-term economic resilience.

Debt-Driven Consumption → Service Economy

High household spending sustains employment in low-complexity service industries such as retail and hospitality. These sectors recirculate domestic wealth but contribute little to overall economic complexity or export capacity.

Service Economy → Geographic Inequality

The concentration of wealth and economic activity in urban areas exacerbates regional disparities. Resource-dependent regions suffer from underinvestment and limited diversification, entrenching geographic inequality.

Falling Commodity Prices → Increased Resource Activities

If commodity prices fall, the economy doubles down on resource extraction to remain viable, perpetuating a dependency on global commodity cycles and leaving Australia locked into a low-complexity economic model.

Resource Rents → Infrastructure Investment

Resource rents often fund infrastructure projects designed to support further extraction rather than to diversify the economy. Ports, railways and pipelines are prioritised over renewable energy grids, advanced manufacturing hubs and local processing facilities.

Infrastructure Investment → Resource Dependency

Infrastructure tied to extraction consolidates resource industries as the core of the economy. This investment pattern reinforces the export of raw materials while neglecting opportunities to develop processing and manufacturing capabilities.

Housing Markets → Labour Distortions

Housing investment inflates demand for construction and infrastructure-related labour, drawing workers away from manufacturing and other high-complexity sectors. This distorts the labour market, creating shortages in critical industrial skills such as engineering and machining.

Labour Distortions → Industrial Stagnation

The siphoning of skilled labour toward construction and housing reinforces the stagnation of advanced industries, leaving Australia reliant on imports for complex goods.

Financial Conservatism → Capital Allocation Bias

Australia's financial system prioritises the perceived stability of resource and housing investments, restricting credit for business innovation. Banks favour low-risk lending for mortgages over higher-risk loans to SMEs, stifling industrial diversification.

Capital Allocation Bias → Superannuation Funds

Superannuation funds mirror this bias by concentrating investments in resource companies, property and financial markets. This limits the funding available to develop new industries or scale SMEs, further entrenching economic simplicity.

Speculation → Asset Inflation

Speculation in housing and financial markets inflates asset values, creating wealth on paper but exacerbating inequality. Rising property prices disproportionately benefit asset owners, locking younger Australians out of wealth-building opportunities.

Asset Inflation → Consumption Constraints

Rising rents and mortgage costs reduce disposable income for non-asset-owning households, limiting their ability to invest in education, innovation or entrepreneurial ventures. This further entrenches intergenerational inequality and stagnation.

Artificial Intelligence → Reduction in High-Income Service Economy

Without a sophisticated industrial base, AI gradually erodes Australia's high-income service industries, hollowing out our middle-class income. This leads to a decline in service expenditure in hospitality, retail and parts of tourism, and impacts house prices.

Appendix Two: Case Studies – Climbing the Ladder of Complexity

Canada: Leveraging Resources for Diversification

Canada provides a compelling example of a resource-rich economy using its wealth to foster diversification and build resilience. Unlike many resource-dependent nations, Canada has made deliberate choices to reinvest its resource revenues into long-term stability and innovation. Alberta's Heritage Savings Trust Fund, while modest compared to Norway's sovereign wealth fund, represents early recognition of the need to preserve national assets for future generations.

These funds have supported investments in public infrastructure, education and health care, reducing the volatility often associated with resource dependence. Canada's energy transition further exemplifies its approach. Quebec has become a global leader in renewable energy, particularly hydropower, which now accounts for the majority of the province's energy mix. This clean energy supports local industries and is also a critical export to the United States, reinforcing Canada's role as a green energy leader. Canada's investments in technology and innovation have further enhanced its complexity.

AI hubs such as the Vector Institute in Toronto demonstrate how government and private-sector collaboration can drive technological leadership. These initiatives have positioned Canada as a global leader in AI research and application, fostering a highly skilled workforce and spurring innovation across multiple sectors. Additionally, Canada has integrated its natural energy reserves and minerals into high-value manufacturing industries, particularly in the production of electric vehicles and batteries. Its critical mineral sector, rich in resources like nickel and cobalt, is now linked to domestic processing and manufacturing ecosystems, ensuring that resource revenues create downstream value. Canada's ability to combine mining with innovation and diversification highlights a model of resilience and adaptability that contrasts sharply with economies trapped in extraction.

Finland: From Crisis to Complexity

Finland's journey from crisis to a global leader in innovation and complexity underscores the importance of education, industrial policy and sustainability. With the collapse of the Soviet Union, Finland faced a profound challenge as one of its primary trading partners vanished almost overnight. Rather than doubling down on low-complexity industries, Finland pivoted toward technology and innovation. Nokia, once a small rubber company, became the centrepiece of this transformation, growing into a global telecommunications leader and symbolising Finland's rise in complexity.

This shift was underpinned by Finland's world-class education system, which emphasises equity, problem-solving and STEM skills. These educational priorities created a highly skilled workforce capable of driving growth in high-value industries. Finland also made a serious commitment to research and development (R&D), with over 3 per cent of the nation's total GDP allocated to R&D. Public–private partnerships between institutions such as the VTT Technical Research Centre and private companies have fostered innovation in biotechnology, renewable energy and AI. Finland's embrace of sustainability has been equally transformative.

The country has committed to becoming carbon-neutral by 2035 and has embedded the principles of the circular economy into its industrial strategy. Companies such as Fortum, which specialises in waste-to-energy technologies, exemplify Finland's ability to align growth with environmental goals. By converting itself into a knowledge-based economy, Finland has shown that even small nations can achieve global leadership by prioritising education, innovation and sustainability. Its scaling up in complexity stands as a powerful counterpoint to resource-dependent stagnation.

Indonesia: Building Complexity from the Ground Up

Indonesia offers a striking example of a nation leveraging its natural endowments to climb the ladder of complexity. Historically reliant on resource exports, Indonesia has taken bold steps to integrate its critical minerals into domestic value chains. The government's 2020 ban on raw nickel exports forced global companies to invest in domestic processing and smelting facilities, turning Indonesia into a critical hub for the electric vehicle supply chain. These policies have attracted billions of dollars in foreign investment from companies like Tesla and CATL (Contemporary Amperex Technology Co., Limited), laying the groundwork for Indonesia to become a leader in battery manufacturing.

Indonesia's focus on infrastructure development has accelerated its transition. Through its *National Medium-Term Development Plan*, the country is investing in ports, railways and industrial parks designed to support manufacturing and connect rural regions to global markets. These investments are creating the physical foundation for long-term growth and diversification. Indonesia's embrace of digital innovation is equally impressive. As South-East Asia's largest digital economy, it is home to tech giants such as Gojek and Tokopedia, which have grown into regional powerhouses.

These companies, supported by government initiatives like *Making Indonesia 4.0*, exemplify the nation's shift toward high-value industries. Indonesia's renewable energy potential further enhances its prospects. With vast geothermal, solar and hydropower resources, the country is investing in green energy to reduce its dependence on coal while positioning itself as a regional leader in sustainable energy exports. These strategies are enabling Indonesia to transition from a middle-income economy to one poised for high-income status. Its ability to integrate resources, infrastructure and innovation highlights the potential for resource-rich nations to achieve complexity and resilience.

Norway: Collective Wealth for Future Resilience

Norway stands as a global exemplar of how resource wealth can be used to secure long-term economic and social resilience. At the heart of Norway's approach is its sovereign wealth fund, the Government Pension Fund Global, which has become the largest in the world, valued at over US$1.7 trillion in November 2024. Norway's decision to reinvest its oil and gas revenues into this fund reflects a long-term commitment to intergenerational equity, ensuring that future generations benefit from today's extraction. Norway's economy has also, to a limited degree, integrated mining into domestic value chains.

The country has invested heavily in advanced industries such as offshore engineering, shipbuilding and renewable energy. Companies like Equinor, originally a state-owned oil business, have diversified into wind and solar power, leading Norway's push toward carbon neutrality. Norway's focus on innovation and sustainability is equally noteworthy. Through partnerships between government, academia and industry, the country has fostered cutting-edge research in sectors such as biotechnology and AI. Its commitment to education and skills training ensures that its workforce is equipped to participate in high-complexity industries. Norway's policies demonstrate that national assets can be a foundation for long-term adaptability, resilience and global leadership.

Lessons for Australia

The experiences of Canada, Finland, Indonesia and Norway offer three critical lessons for Australia:

First, resource wealth must be reinvested strategically to build industries of complexity rather than perpetuate a dependence on extraction. Norway's sovereign wealth fund and Indonesia's nickel industrialisation policies show how resource rents can drive long-term economic reinvigoration.

Second, education and innovation are the cornerstones of resilience. Finland's world-class education system and Canada's AI hubs illustrate the power of equipping a workforce with the skills needed for emerging industries.

Third, infrastructure and policy coherence are essential for integrating resources into value-added supply chains. Indonesia's investment in domestic manufacturing and Norway's renewable energy expertise highlight the importance of aligning infrastructure with future growth opportunities.

These examples underline the need for deliberate and forward thinking, to escape the trap of simplicity and build an economy fit for a complex, adaptive global order.

Appendix Three: Sketching an Industry Plan for Australia

The objectives below outline the economic foundations required to support Australia as a leader in critical industries, ensuring long-term national resilience and relevance in a rapidly shifting global economy.

Strategic Objectives

1. Maximise resource value: Transition from exporting raw materials to developing domestic capabilities in processing and advanced manufacturing.
2. Focus investment: Direct capital into sectors that build economic complexity and reduce the reliance on external supply chains.
3. Build industrial systems: Establish the infrastructure and networks needed to integrate industries into global value chains.
4. Strengthen regional economies: Develop industry hubs outside urban centres to diversify industrial activity and secure broad-based growth.

Policy Actions: Laying the Foundations for Advanced Manufacturing

Reconfigure Resource Industries to Support Industrial Growth

Transform Australia's resource wealth into the backbone of an advanced manufacturing economy. Establish a Critical Minerals Processing and Integration Initiative that prioritises domestic refinement and links processed materials to high-value industries, such as battery manufacturing and clean energy technologies. Redirect infrastructure planning from ports and exports to industrial hubs, ensuring that processed resources are channelled into local production ecosystems. Develop policies that incentivise resource companies to collaborate with manufacturing firms, creating symbiotic relationships that embed advanced manufacturing in the resource value chain.

Build a Strategic Framework for Advanced Manufacturing

Create a *National Advanced Manufacturing Strategy* that focuses on high-complexity sectors such as precision engineering, medical technology, robotics and clean energy systems. Establish a sovereign Manufacturing Transition Fund to support SMEs and larger firms in adopting advanced technologies, scaling production and integrating into global value chains. Partner with universities and TAFEs to deliver tailored skills programs, ensuring Australia's workforce is prepared for the technical demands of these industries. Offer long-term tax incentives for businesses investing in R&D and the localisation of high-value production capabilities.

Develop Infrastructure for Manufacturing-Led Growth

Shift national infrastructure priorities to support manufacturing rather than extraction and export. Launch a *Manufacturing Corridors Plan* that builds renewable-powered industrial hubs in strategically chosen regions, integrating energy, transport and digital networks tailored to the needs of advanced industries. Establish specialised logistics centres and facilities for prototyping and small-batch production, enabling businesses to innovate and scale domestically. Focus on creating closed-loop supply chains that minimise any reliance on imports and embed resilience in Australia's manufacturing capacity.

Anchor Economic Development in Regional Industrial Ecosystems

Develop regional centres of excellence in manufacturing and technology. Identify regions with existing strengths, such as access to critical minerals or emerging renewable energy projects, and establish Regional Advanced Industry Hubs. Provide targeted funding for infrastructure, skills development and business incentives to build integrated local economies around manufacturing. Ensure these hubs are connected to domestic markets and global supply chains, allowing them to act as anchors for national economic growth while reducing geographic inequality.

Align Policy Settings to Drive Complexity and Innovation

Embed industrial complexity and resilience as guiding principles in economic policy. Reform fiscal policies to shift resource rents and government revenues into funding advanced industry initiatives. Introduce export frameworks that prioritise products with domestic value-adding, incentivising industries to move up the value chain. Strengthen Australia's trade position by developing agreements that secure market access for high-value exports, while protecting nascent manufacturing sectors. Expand government procurement policies to prioritise locally made advanced products, using public spending to stimulate demand and scale production.

Expected Outcomes

Resource industries: Domestic processing capabilities established for key exports, securing higher economic returns and reducing the reliance on volatile global markets.

Economic complexity: Expansion of high-value industries, increasing Australia's ability to participate in global supply chains for advanced goods and technologies.

Regional growth: Development of industry hubs outside major cities, reducing geographic inequalities and securing regional economies.

Resilience: Strengthened supply chains and reduced vulnerability to global disruptions.

Possible Funding

This plan could be partially financed by aligning the Future Fund with Australia's industrial priorities, using its resources to de-risk and co-invest in critical projects. The Future Fund will act as a guarantor, offering a baseline return for superannuation funds that invest in targeted industries such as critical minerals processing, renewable energy production and advanced manufacturing. By providing a stable return floor, this mechanism will incentivise superannuation funds to voluntarily allocate a portion of their capital to strategic industries, ensuring long-term national benefits while maintaining financial security for fund members. This approach uses existing capital more effectively, amplifying investment capacity without imposing additional fiscal strain, and aligns Australia's savings with its economic future.

Appendix Four: The Theoretical Foundations of Australia's Economic Lock-In

The analysis presented in this document is deeply rooted in a variety of established economic theories, each contributing unique insights into the systemic challenges that define Australia's economic track. By building on and synthesising these frameworks, the analysis moves beyond a descriptive critique to provide a comprehensive understanding of the mechanisms perpetuating lock-in. This appendix outlines the foundational theories, the contributions of key authors, and how these theories have been applied to illuminate our structural vulnerabilities.

Dependency Theory

Dependency theory, first articulated by Raúl Prebisch and later expanded by Fernando Henrique Cardoso and Enzo Faletto, explores the systemic disadvantages faced by resource-dependent economies in global value chains. Prebisch argued that resource-exporting nations often suffer declining terms of trade, as the value of raw materials fails to keep pace with the rising cost of imported manufactured goods.[24] Cardoso and Faletto emphasised the social and political dimensions of dependency, highlighting how entrenched elites benefit from maintaining a system of low-complexity exports.[25]

In the context of Australia, dependency theory explains the nation's structural reliance on exporting raw materials such as iron ore, coal and lithium, while importing high-value finished goods and technologies. This dependency locks the country into a low-complexity role within the global hierarchy, limiting opportunities for diversification and industrial sophistication. The theory also sheds light on the political economy of our resource sectors, where rent-seeking behaviour by corporate and political elites perpetuates the status quo.

[24] R Prebisch, *The Economic Development of Latin America and Its Principal Problems*, United Nations, 1950.

[25] FH Cardoso and E Faletto, *Dependency and Development in Latin America*, University of California Press, 1979.

The Resource Curse and Dutch Disease

The resource curse, popularised by Jeffrey Sachs and Andrew Warner, describes the paradox wherein countries with abundant natural resources often experience slower growth, weaker institutions and greater inequality.[26] W Max Corden and J Peter Neary expanded this framework with their analysis of Dutch disease, a phenomenon whereby resource booms lead to currency appreciation, making other tradable sectors such as manufacturing uncompetitive.[27]

Australia's economic ills show the classic symptoms of the resource curse. Resource rents from mining sectors have been channelled into politically expedient policies, such as tax cuts and infrastructure tied to extraction, rather than into innovation or diversification. Dutch disease is evident in the appreciation of the Australian dollar during resource booms, which undermines the competitiveness of advanced manufacturing and export-oriented industries. This dynamic reinforces the reliance on resource exports and perpetuates its fragility.

Endogenous Growth Theory

Endogenous growth theory, developed by Paul Romer and Robert Lucas, emphasises the roles of knowledge, innovation and human capital in driving long-term growth. Unlike exogenous models that attribute growth to external factors, this theory highlights how deliberate investment in education, R&D and technological advancement can sustain dynamism.[28]

In the Australian context, endogenous growth theory underscores the missed opportunities to leverage resource wealth for strategic investments. History shows us that, despite significant resource rents, we have systematically underinvested in innovation ecosystems, advanced industries and skills development. This failure to align with endogenous growth principles has left our economy reliant on resource rents and speculative housing markets, suppressing productivity and long-term resilience.

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[26] JD Sachs and AM Warner, *Natural Resource Abundance and Economic Growth*. NBER working paper, 1995.

[27] WM Corden and JP Neary, '*Booming Sector and De-Industrialisation in a Small Open Economy*', The Economic Journal, 1982.

[28] RE Lucas, 'On the Mechanics of Economic Development', *Journal of Monetary Economics*, 1988; PM Romer, 'Increasing Returns and Long-Run Growth', Journal of Political Economy, 1986.

Systems Theory and Feedback Loops

Systems theory, pioneered by Jay Forrester and later applied to economics by John Sterman, examines how interconnected elements within a system create reinforcing feedback loops that can either sustain growth or entrench stagnation. In economic systems, feedback loops can amplify the effects of policy decisions, resource allocations and market dynamics.[29]

The concept of the locked-in flywheel in this document builds directly on systems theory, illustrating how our structure perpetuates itself through interlocking feedback loops. Resource rents fuel fiscal surpluses that are directed into housing markets, creating speculative growth that anchors financial institutions and debt cycles. These feedback loops suppress innovation and industrial diversification, locking the economy into a state of stagnation. Systems theory provides the analytical tools to understand these dynamics and to propose pathways for breaking free.

Political Economy and Rent-Seeking

Anne Krueger's concept of rent-seeking, and Daron Acemoglu and James A Robinson's work on institutional economics, provide critical insights into how political and economic systems shape outcomes. Rent-seeking occurs when individuals or entities extract value without contributing to productivity, often through lobbying, tax policies or regulatory advantages.[30]

Rent-seeking behaviour is evident in policies such as negative gearing and capital gains tax concessions, which disproportionately benefit property investors and speculative markets. These policies align with entrenched institutional interests, perpetuating inertia and concentrating wealth in unproductive sectors. The framework explains how these dynamics inhibit structural change and reinforce inequality.

[29] JW Forrester, Industrial Dynamic, MIT Press, 1961; JD Sterman, *Business Dynamics: Systems Thinking and Modeling for a Complex World*, McGraw Hill, 2000.

[30] D Acemoglu and JA Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Crown Publishers, 2012; AO Krueger, The Political Economy of the Rent-Seeking Society, The American Economic Review, 1974.

Comparative Economic Complexity

The concept of economic complexity, developed by Ricardo Hausmann and César Hidalgo, measures the diversity and sophistication of a nation's productive capabilities. Countries with high complexity tend to be more resilient and innovative, while low-complexity economies remain vulnerable to external shocks and competition.[31]

Australia's adoption of a resource-dependent economic structure places it low on the global Economic Complexity Index, ranking it behind many advanced economies. This simplicity is a direct consequence of our reliance on unprocessed resource exports and the lack of integration into high-value global supply chains. The framework highlights the need for deliberate investment in advanced manufacturing, technology and value-added industries to increase resilience and global competitiveness.

Mixed Monetary Policy

The concept of mixed monetary policy (MMP) combines conventional inflation-targeting with unconventional tools such as quantitative easing. Studies by Ben Bernanke and colleagues illustrate how QE can stabilise economies during crises, but its uneven effects can exacerbate inequality and distort asset markets.[32]

Australia's reliance on monetary policy to stabilise its economy, particularly through its housing markets, exemplifies the limitations of MMP. The disproportionate benefits to asset owners and the amplification of speculative housing markets reveal the systemic inequalities embedded in our policy framework. MMP provides a lens for understanding the distortions caused by fiscal and monetary stabilisers in an economy dominated by speculation and resource dependency.

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[31] R Hausmann et al., *The Atlas of Economic Complexity,* Harvard University Press, 2014; CA Hidalgo and R Hausmann, 'The Building Blocks of Economic Complexity', PNAS, 2009.

[32] BS Bernanke and VR Reinhart, 'Conducting Monetary Policy at Very Low Short-Term Interest Rates', *The American Economic Review*, 2004; JE Gagnon et al., 'Large-Scale Asset Purchases By the Federal Reserve: Did They Work?', Economic Policy Review, 2011.

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