An Australian Resources Sovereign Fund: A Strategic Reform Proposal to Boost Productivity, Resilience, and Fiscal Sustainability

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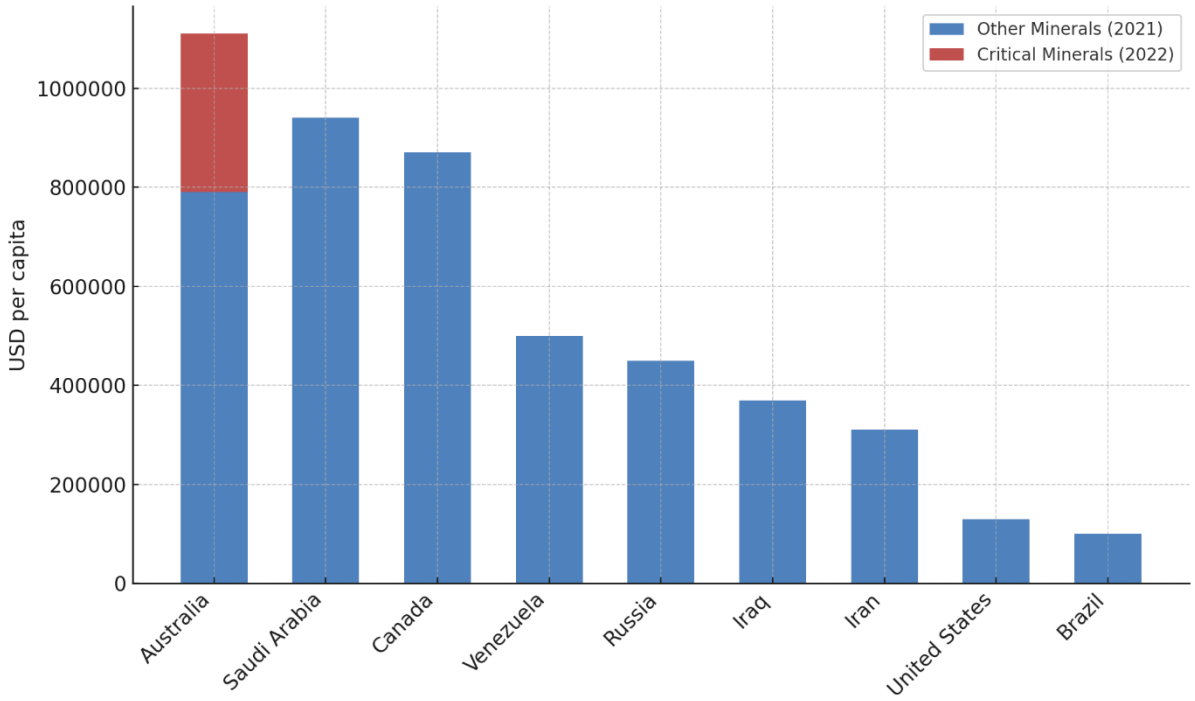
Summary: This submission proposes a national economic reform package, designed to mitigate the structural distortions arising from the "Dutch disease" in Australia. While resource booms have boosted national income, they have also weakened tradable sectors, entrenched regional inequalities, and exposed the economy to external commodity price shocks. The centrepiece of this submission is a proposal to establish an Australian Sovereign Resource Fund, inspired by the Norwegian experience, which would improve productivity, build economic resilience, and strengthen fiscal sustainability. The proposed reform package would explicitly address the exchange rate dynamics of commodity supercycles and reduce distortions to the Australian dollar, which are typical of a resource-rich small open economy.

1.Introduction

Australia has long benefited from its rich endowment of natural resources. However, multiple studies have highlighted the macroeconomic risks associated with prolonged commodity booms and busts, notably the so-called "Dutch disease." This occurs when resource-driven exchange rate appreciation and capital reallocation undermine the competitiveness of non-resource tradable sectors, particularly manufacturing, agriculture, and tourism. The result is a structurally imbalanced economy with heightened exposure to global volatility. Empirical research shows that past mining booms led to a sharp appreciation of the Australian dollar and a decline in manufacturing output and employment (Plumb, Kent and Bishop, 2013; Downes, Hanslow and Tulip, 2014). Knop and Vespignani (2014) further shows that commodity price shocks significantly boost nominal output and profits in mining and construction, but have adverse effects on manufacturing profitability and real value added. These dynamics reflect textbook Dutch disease symptoms and remain relevant as Australia grapples with navigating carbon net zero targets and Artificial Intelligence driven booms in energy consumption over the next few decades driven by global demand for critical minerals.

The clean energy transition—and the resulting surge in demand for critical minerals—presents an unprecedented economic opportunity for Australia. However, it also heightens macroeconomic risks, including the threat of Dutch disease, as prolonged commodity booms can lead to currency appreciation, loss of competitiveness in non-resource sectors, and structural imbalances. As outlined in Vespignani and Smyth (2024), Australia ranks among the top three countries in proven reserves and production in nearly every critical mineral necessary for clean energy technologies. Australia is already the world's largest producer of lithium and bauxite and a top producer of cobalt, nickel, manganese, and rare earths. The scale of this resource endowment—combined with growing geopolitical urgency to secure supply chains independent of China—positions Australia as a cornerstone in the global clean energy transition.

Figure 1: Value of Subsoil Mineral Wealth by Country (2021/2022, per capita)



Source: World Atlas, and Geoscience Australia.

As it stands today, global decarbonization will only be possible if Australia produces between USD 15–20 trillion in critical and non-critical minerals by 2040 (Smyth and Vespignani, 2022). This implies that the current generation of Australians will enjoy a disproportionately large share of the resource windfall. Figure 1 shows that, on a per capita basis, Australia has the highest combined value of critical and non-critical subsoil mineral wealth in the world, underscoring its unique role in global decarbonization. Australia's mineral

wealth (proven and unproven reserves) is worth around 1.15 million USD per capita when valued at 2022 prices.

2. An Australian Resources Sovereign Fund

Establishing a sovereign wealth fund would ensure that this once-in-a-generation surge in mineral rents contributes to long-term national capacity, while, importantly, dampening the exchange rate pressures associated with resource booms. Norway's experience provides strong support for this approach. The creation of the Norwegian sovereign wealth fund in the 1990s effectively neutralised the appreciation of the Norwegian krone during oil price booms, preserving manufacturing competitiveness and mitigating Dutch disease effects (Bjørnland and Thorsrud, 2016; van den Bremer and van der Ploeg, 2013). Taxation reform, coupled with the creation of an Australian Sovereign Resources Future Fund, would maximise the opportunity mineral wealth provides to increase industrial diversification without increasing intergenerational inequality. In Table 1 we propose a series of principles underpinning the establishment of an Australian sovereign wealth fund to maximise welfare and equality.

Table 1: General Principles of an Australian Sovereign Resources Future Fund

Core Functions of the Australian Sovereign Resources Future Fund	Implementation Priorities	Mechanism
Reform state and federal taxation from ad valorem to profit-based models	Encourage long-term investment and fiscal neutrality	Replace volume-based royalties with profit-based tax aligned to project lifecycle profitability
Contribute directly to individual superannuation (pensions)	Build retirement security and reduce future pension liabilities	Deposit a fixed share of mineral rents into individuals' superannuation accounts through sovereign redistribution mechanisms
Finance a Future Generations Education Fund	Support post-secondary education and innovation capacity in future decades	Earmark a portion of the fund's investment returns to scholarships, STEM programs, and university-industry partnerships
Stabilise macroeconomic volatility through counter-cyclical fiscal buffers	Reduce reliance on boom-bust cycles and currency shocks	Insulate the political cycle which increase inefficient government expenditure
Reinforce strategic investments in critical infrastructure and sovereign capabilities	Enable national resilience and industrial diversification	Use a dedicated tranche of fund assets to co-finance infrastructure linked to strategic industries and export corridors

Table 1 summarises how the fund would function to achieve national objectives:

1. **Tax Reform**: Shifting from ad valorem royalties to profit-based taxation would promote capital investment and ensure tax neutrality across resource cycles.
2. **Superannuation Contributions**: Dedicating a portion of resource revenue to personal pensions would enhance retirement security and reduce public pension liabilities.
3. **Education Investment**: Allocating investment returns to future education initiatives would build national capabilities and foster innovation.
4. **Macroeconomic Stabilisation**: The fund would act as a buffer, smoothing fiscal policy and limiting the volatility of boom-bust cycles.
5. **Strategic Infrastructure**: Dedicated capital would co-finance critical infrastructure linked to sovereign resilience and long-term diversification.

3. Conclusion

The increase in demand for critical minerals to support the clean energy transition and for defence, represents an unprecedented opportunity for Australia to capitalize on its considerable mineral wealth. Establishing a sovereign wealth fund, similar to Norway's Government Pension Fund Global, would help smooth fiscal outcomes across commodity cycles, support intergenerational equity, and finance strategic investments in diversification and resilience. Crucially, by sterilising excess foreign exchange inflows during resource booms, the fund would moderate exchange rate appreciation and mitigate the negative spillovers of commodity supercycles on the broader economy.

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