



Interview with Kieran Gilbert on Sky News with Ai Group CEO, Innes Willox

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Kieran Gilbert: Let's get some reaction to yesterday's mid-year budget update. Joining me is the chief executive of the Australian Industry Group Innes Willox. Thanks for your time. You pointed out that spending as a percentage of GDP will be the highest percentage since the 80s. Why is that a problem?

Innes Willox: Well good afternoon, Kieran. Well, I think that's almost universal anxiety amongst business and amongst economists. That government spending is very much on the up and you know, we've seen in the past year 85% of the jobs that have been created in Australia have either been directly by government through hiring the public servants or government funded jobs. Healthcare, disability, childcare, those sort of sectors, you know, all of those sectors are eminently defensible. But when you cumulatively, put that together, what that's telling you is that we're starting to see a significant increase in government spending that spend is now at almost 40 year highs compared to our GDP. That starts to crowd out the private sector and it starts to really push inflation. Interest rate pressures, again that's what we've seen through the past year. So the government may like those decisions, but they also need to make choices around where they spend.

And that's the concern that we have, is that spending that government is doing federal and state is pushing against what the Reserve Bank is trying to do to get inflation and interest rates down.

Kieran Gilbert: So, has the government approach to this point been misplaced? The Treasurer would argue that, given the anaemic growth in the economy, oh, the fact that we have any growth is due to that public sector.

Innes Willox: Well, well, that is right. And that's part of the problem that our economy's being driven totally by government spend at the moment because the circumstances and conditions aren't right for private sector investment and private sector growth. In the latest GDP numbers, Kieran, the private sector has gone backwards again and if it wasn't for that government spending now, we would have been in contraction. So, you have an argument about where the focus should be on the supply side or on the demand side, and we would argue that the focus really has to shift and the Treasurer has conceded this in recent days. Moore has got to be done to help create the circumstances for the private sector to grow, to start to hire again, and to become even more competitive. We've got this huge productivity problem in the country and

spending on government services, which are pretty much non productive in the economic sense, is not going to help our productivity malaise.

Kieran Gilbert: The other issue that he points out though, that some of the, or a fair percentage of the spend the increased spend is indexation of things like pension payments, things that are inexorable or inevitable?

Innes Willox: As the government has decided to call them automatic, look, that's part of an issue that governments have to deal with and all businesses have to deal with that too, when they're working through their budgets and their bottom lines. You know, there are expectations around increases linked to CPI and the like, so government's no different to the private sector there. So that's not news. That's not something that's just happened overnight. That's that's been in the works for a very long time and been well known. And. But that's just part of the issue that we have here. The problem is is that the the bottom line for the country is now, you know is getting very, very treacherous. We're about to hit a trillion dollars in government debt in 2526. That's a lot of debt that we're going to be carrying forward. And at some point, we're going to have to find a way to start cutting into that. Getting that debt down so that we can keep our economy afloat. The problem is Kieran, that we're moving more and more towards a government supported economy rather than a private sector economy and the private sector is where you get the drive to the competition, the innovation and the growth.

Kieran Gilbert: Well, that trillion dollars in debt ever be paid off.

Innes Willox: Well, you'd hope so. Yeah, it's got to be an aspiration of government and of businesses themselves to sort of pay down debt and to run their books and to balance their books. We can't just keep accumulating debt and hope that it is inconsequential and doesn't have consequences for the economy. The problem is is that graph on screen now is just showing us is that we now have a decade of built in, baked in deficits and we have a structural deficit a problem now within the economy. And that's not going to get any easier. You know, as we think about what's happening in the Chinese economy upon which we're so reliant when it comes to commodity prices, what's going to happen, just think about the hypothetical. When Donald Trump, perhaps he comes to us as he's likely to go to NATO and say, increase your defence spending to 3% of GDP from just about 2.1 where it is now and it's actually going down next year. You put all those sort of problems together and we've got to fundamentally rethink how we formulate a budget. That Kieran is why we need to have big, big thinking process around tax reform, regulatory reform and the like. And we keep coming back to productivity. We've got to drive that too - drive our economy forward.

Kieran Gilbert: Australian Industry group chief Innes Willox. Great to chat as always. Thank you.

Innes Willox: Thanks Kieran.

Kieran Gilbert: Thank you.

Innes Willox: Have a good Christmas.

Kieran Gilbert: You too.