

# Pursue productivity in order to slash the costs

[Economics & Deregulation](#), [Deregulation Unit](#) and [Energy](#) | [Alan Moran](#)  
*Herald Sun* 11th November, 2011

 [Bookmark](#)

Because businesses increasingly compete with international rivals, relatively small cost increases can force radical decisions.

To survive against overseas competition, firms must pursue productivity improvements and cut out excessive costs.

This also leaves the economy in general ever more vulnerable to cost burdens resulting from government regulations.

Yet we are seeing the Gillard Government introduce an avalanche of regulatory impositions.

This week, Parliament passed the carbon tax. Upcoming is the new minerals tax.

And we are seeing the Fair Work Australia Act re-arming union militancy, notwithstanding Julia Gillard's rhetoric about ensuring we have a "tough cop on the beat". Days lost from industrial disputes are threefold higher than last year.

After two years' incubation, Labor's industrial relations regime is now generating a glut of union demands that would impede management's ability to improve productivity. The Qantas dispute is the highest profile example of unions seeking to control a business. If the unions successfully force Qantas to forego productivity improvements, they will condemn the firm to gradual decline. But few existing Qantas employees will suffer as their terms and conditions are guaranteed.

Qantas is only one of a growing list of companies pressured by government policies.

Sydney-based firm ResMed is a home-grown world leader in technologies that combat breathing disorders during sleep. Most production is exported in a trade worth over \$750 million a year.

Cost impositions from the carbon tax and workplace inflexibilities stemming from Fair Work Australia, are leading ResMed to shift its production to Singapore, which offers more certain electricity prices and superior industrial relations laws.

Coogee Chemicals faces a similar outcome. Because of the carbon tax, the firm has abandoned plans for a \$1 billion new plant in country Victoria and is reviewing the viability of its existing Laverton facility.

Government ministers, in inflicting costly regulations on business, are unaware of the role of profits, in driving efficiency. As the leftovers after all costs are paid and the reward to owners, profits dominate business decisions, including location choices.

ResMed's decision illustrates the effects of this. If electricity comprises as little as 3 per cent of the firm's costs, a carbon tax that doubles its energy price can be crucial. Doubling of ResMed's energy price means an annual cost increase of \$20 million on the firm's \$750 million output.

That \$20 million cost comes straight off the bottom line and with ResMed's profit at \$50 million this represents a cut of 40 per cent.

As the company's chairman Peter Farrell said, "ResMed, like other global companies, can and will

vote with its feet."

The company's board of directors cannot remain in a high cost location for sentimental reasons. Indeed, to opt for higher costs than necessary would eventually threaten ResMed's existence.

Only governments can command the resources to pay for superfluous costs but it is the private, not the government, sector that creates wealth.

Private-sector employers must win customers in the marketplace and competition forces them into the cost savings.

These cost savings drive the productivity gains that enable higher living standards. But regulatory impositions that discourage investment or push firms overseas mean lower living standards.

[Back to news page](#)



[Become a member of IPA today](#)

## Archived news

### [2014](#)

- > [August](#)
- > [July](#)
- > [June](#)
- > [May](#)
- > [April](#)
- > [March](#)
- > [February](#)
- > [January](#)

### [2013](#)

- > [December](#)
- > [November](#)
- > [October](#)
- > [September](#)
- > [August](#)
- > [July](#)
- > [June](#)
- > [May](#)
- > [April](#)
- > [March](#)
- > [February](#)
- > [January](#)

### [2012](#)

- > [December](#)
- > [November](#)
- > [October](#)
- > [September](#)
- > [August](#)
- > [July](#)

- > [June](#)
- > [May](#)
- > [April](#)
- > [March](#)
- > [February](#)
- > [January](#)

- [2011](#)
- [2010](#)
- [2009](#)
- [2008](#)
- [2007](#)
- [2006](#)
- [2005](#)
- [2004](#)
- [2003](#)
- [2002](#)
- [2001](#)
- [2000](#)
- [1999](#)
- [1998](#)
- [1997](#)
- [1996](#)

---

## [IPA](#)

- [Home](#)
- [About](#)
- [Key Sectors](#)
- [News](#)
- [Events](#)
- [Publications](#)
- [IPA People](#)
- [Contact us](#)
- [Site Help](#)
- [Payment](#)

## [News](#)

### Useful links

- [Top of page](#):: [Site help](#)
- :: [Site map](#)
- :: [Privacy](#)
- :: [Copyright](#)
- :: [Subscribe to IPA email updates](#)
- :: [Unsubscribe](#)