

Retaliation won't cut childcare costs [AU] ^[1]

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EXCERPTS

When should governments use taxpayer-subsidised enterprises to compete with existing private and not-for-profit providers? To address market dysfunction, according to Julia Gillard. Responding to reports that childcare providers may raise fees by up to 30 per cent to take advantage of the increased childcare tax rebate, the Government has threatened to retaliate by placing taxpayer-funded centres adjacent to providers deemed to have raised their prices unreasonably.

However, opportunistic fee increases are not necessarily a reflection of market dysfunction so much as an anticipated consequence of the Government's childcare policy.

Economics 101 tells us that when you have price inelasticity - that is, when price changes have little effect on demand - and you throw more cash into the demand side of a market, you give vendors more scope to charge higher fees. This is especially true when there is a labour shortage limiting the childcare sector's ability to expand. Nor are there the claimed widespread shortages of supply, which the Government has recognised by significantly reducing the number of additional centres it is funding. So, an increased taxpayer injection was always likely to see childcare fees go up, just as the first-home owners scheme fed increased house prices.

While price opportunism is odious, some fee increases can be justified and there is nothing illegal about service providers increasing fees.

However, it is questionable public policy to use taxpayer-subsidised enterprises to bully existing services that have raised their own capital to operate.

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It is certainly not something economically conservative governments tend to support.

At Senate estimates hearings, the Government couldn't explain where, why or how these centres would be located. Setting aside the fact the Government has made provision for only 32 mainstream centres, not the 260 promised, it is now being suggested that these few extra taxpayer-funded centres are not for areas of chronic shortages but to police recalcitrant providers.

On a positive note, the decision to publish fees will provide a useful service for parents. It is a natural progression on the system improvements announced by the previous government, including the Child Care Access Hotline and a new childcare management system. However, it's about as useful a price reduction strategy as FuelWatch. Furthermore, 32 centres with 50 places each, compared with more than 4000 existing centres, represent less than 1per cent of the existing market. Even if taxpayer-funded predatory pricing were appropriate, the overall impact would be minuscule.

But how did the Government miss the warnings that increasing the rebate to 50 per cent and nearly doubling the cap could result in fee hikes? Anecdotally, parents have always suggested that each time government subsidies increased, fees increased. It was reported to be happening a year ago when the previous government increased the existing childcare benefit by 13 per cent. Jenny Macklin was aware of the risk, claiming at the time: "Families will be devastated if fee hikes completely swallowed increases in childcare subsidies ... the Government (lacks) the willpower to protect families from childcare fee hikes."

The non-government Taskforce on Care Costs, which campaigned for an increase in the rebate to 50 per cent of out-of-pocket costs, also argued that consideration be given to a price regulatory regime or schedule because it recognised the risk of rising fees. Despite accepting the core recommendation of the TOCC report to raise the rebate, Labor ignored the accompanying suggestion in the same report.

The Parliamentary Library also highlighted the risk. In its briefing book to the new parliament last January, it noted: "A danger with increasing these various forms of subsidy is the upward pressure they may put on childcare costs. It may be that some sort of price justification process may help in this regard."

Labor was challenged on this point when it announced its 50 per cent rebate policy. Melbourne's The Age reported: "Mr Rudd denied the higher rebate would encourage childcare centres to raise their fees knowing that taxpayers would pick up more of the bill."

The risk was clear. Macklin had exploited it in Opposition, the media had raised it and the TOCC, a proponent of the 50 per cent rebate policy, had clearly identified it. The Parliamentary Library confirmed it. It wasn't dealt with in the policy or in the subsequent budget measure because, in reality, there is little governments effectively can do. It's the result of high subsidies.

Using taxpayer-funded childcare centres to retaliate against existing providers, rather than addressing unmet demand, is bad childcare policy, bad economic policy and a poor use of taxpayer funds.

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Whatever you think about the new policy settings, parents, having been promised a rebate increase, should get the benefits. And they will still get a benefit, albeit less than expected.

Gillard's frustration that the rebate may be eroded is understandable - as we were frustrated when similar things happened under the previous government - but Labor has to lie in the bed of its own making. Hopefully, the Government will accept responsibility for its policy and not respond to one policy-induced market dysfunction with a worse policy dysfunction.

- reprinted from The Australian

Region: Australia and New Zealand ^[2]

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