

# Child-care rebate bad for kids [AU]<sup>[1]</sup>

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## EXCERPTS

It's a funny thing about the Rudd Government. It's terribly bright-eyed and bushy-tailed, intelligent and hardworking, anxious to make the world a better place. Except?

Except that wherever your reforming eye turns, you keep running up against the election promises it made to set the status quo in concrete. Consider the great economic rationalist experiment with the "marketisation" of child care.

The problems of the new child-care "industry" were outlined in a recent speech by Professor Deborah Brennan, of the Social Policy Research Centre at the University of NSW. In the early 1990s, the previous Labor government decided to extend public subsidies to users of private, commercial child care rather than continuing to use capital grants to expand the supply of places in not-for-profit community centres. It was argued that the demand on taxpayers had been too great and that it was discriminatory to deny fee subsidies to parents using for-profit care.

The private provision of child care has expanded rapidly since then, particularly with the advent of the now troubled ABC Learning Centres, which listed on the stock exchange in 2001. It adopted an aggressive strategy of acquisitions, taking over centres run by community groups and individual owner-operators.

There are no official figures on the proportion of long-day-care places now owned by ABC. It's commonly thought to be about 30 per cent, though it's also said to have reached 50 per cent in Queensland and Victoria.

When you turn child care into a market - particularly a market highly subsidised by the government - it shouldn't surprise you when one player starts buying up the others. There may even be sufficient potential economies of scale - in this case, at the administrative level - to make this an improvement.

This, presumably, is the reason ABC Learning Centres' takeover seemed to worry the Howard Government not one bit. But Brennan points out that this degree of concentration isn't common in other countries. Until its recent divestiture, ABC was the second largest provider in the United States market, but had only a 2 per cent share of that market. It is the largest provider in Britain, but has a share of only 2 or 3 per cent.

The economic rationalists' theory is that when you empower parents by giving them a government subsidy that they can spend with whichever supplier they choose, suppliers will compete for their business on the basis of quality and price. And, since no one cares about the good treatment of their offspring more than they do, parents can be relied upon to extract the best possible deal from suppliers, whether they be for-profit or not-for-profit. That's the theory, but does it stack up in practice?

Brennan quotes the research of economists, particularly Gordon Cleveland of the University of Toronto, which finds that some of the key assumptions on which the market theory is based don't hold in the case of child care. For markets to work in the wondrous way the rationalists expect them to, consumers must possess a high degree of knowledge about the range of prices on offer and, more particularly, about the quality of the products on offer.

But research has shown that parental assessments of the quality of child care are generally higher than those based on objective measures. All centres are required to participate in the Child Care Quality Accreditation System. In theory, this should protect parents against poor-quality care; in practice, substantial concerns have been expressed about its efficacy.

In child care, as in many other things, quality is hard to observe. In the end, what matters most for quality is the commitment of the individual carers. But that's hard to observe, and impossible for governments to regulate. Too often, parents fall back on judging quality not by the people involved but by the facilities. So, a bit of space, lots of bright colours and new toys. Advertising and branding can further cloud parents' assessments.

Cleveland says for-profit firms have an incentive to provide child care that seems of high quality but isn't. Anxious to serve their shareholders' interests, they do best by claiming to produce high-quality services, but failing to hire the expensive, trained staff necessary to provide them.

Because parents can be fooled into buying low-quality care, low-quality providers are able to charge lower prices than higher-quality producers and drive them out of business. In any case, for markets to work as the textbook assumes, parents must have choice.

And the choice they want is between for-profit providers and community providers. By definition, the market can't deliver more community providers. But it can allow for-profit providers to buy up struggling community centres. The market for child care is highly local. Parents can't patronise centres that are a long way from where they live or where they work. This makes it easy for a big provider such as ABC Learning Centres to achieve local monopolies. If the market doesn't provide competition, customers are trapped.

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When the federal government stopped providing capital grants to expand the number of community centres, it switched from subsidising supply to exclusively subsidising demand. The trouble with this - as every textbook reveals, and as we learnt to our dismay with the private health insurance tax rebate - is that it allows the supplier to share the subsidy with the customer and encourages prices to escalate. In a community system, much of this windfall from the taxpayer ends up permitting pay rises for chronically underpaid child-care workers. In a for-profit system, you can guess where it ends up (though the higher profitability should encourage an increase in the supply of for-profit places).

This was the glaring weakness in the Howard government's decision in 2004 to add a non-means-tested 30 per cent child-care tax rebate to the existing means-tested child-care benefit. It was a most inefficient way to increase the subsidy to child care. By rights, correcting this misstep would be a good place for the reforming Rudd Government to start. Except? Except it promised not only to preserve the tax rebate but to increase it to 50 per cent. Oh dear.

- reprinted from The Age

**Region:** International <sup>[2]</sup>

**Tags:** economics <sup>[3]</sup>

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