PC logic: Let the market solve childcare market failure [1]

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childcare-draft.pdf [3]	8.1 MB

The Productivity Commission's Draft Report [4] on Childcare and Early Childhood Learning shows the serious limitations of market economics for analysing social policy. The report's 900-plus pages offer a collection of useful data, odd limited analysis and some naive defences of the status quo model of funding and control.

Many of the proposals are not even likely to meet government requirements for more user flexibility, access and affordability. The changes will make the system less likely to meet the diverse needs of children, families and communities or achieve broader goals of gender equity and social well-being.

The main headlines have been on upgrading and simplifying the parental fee subsidy system and some administrative functions. There is also relief on maintenance of quality standards, albeit somewhat weakened.

No serious options are offered for government to ensure the sector offers more flexibility, accessibility and availability of services, except by adding nannies to the mix. The government intends to continue the hands-off model that over two decades has basically commercialised what was once a major community service.

The misguided journey to 'parental choice'

The original childcare funding model involved the government as supply controller directly funding the mainly not-for-profit/community sector on the condition it offered appropriate services. The model moved gradually from direct control to just subsidising the so-called parental choice model.

This change was based on the market economics 101 concept that demand will create an appropriate level of supply, so there's no need to control location, fees or hours. Some quality controls would ensure safety, then it was over to parents to choose the services they wanted. The constant complaints from parents [5] suggest a market failure to meet their needs, so this model is not working.

The review has further problems. Proposed funding limits undermine earlier models under which funding should meet a mix of needs [6] - of children for social and other learning; and of parents to have a range of services to complement child-rearing in homes, including freeing women for other tasks, with paid work among these. This model has been gradually narrowed as services became less community and more commercially based.

Mea culpa and others: we argued for the economic benefits because this was more acceptable/fashionable, but most of us remembered the former, wider debates about better community services.

The Productivity Commission approach will entrench the more limited market model despite its multiple, serious inadequacies. The commission fails to address the model's inability to cope with many intervening factors that make market failure almost inevitable for too many "customers". These include regulating the quality of care, demand exceeding supply, confusion of price signals and subsidies, external labour demand and the social/emotional factors in shifting children to alternative providers.

The draft report articulates the criteria and limits of the market model in Chapter 10. This offers the justification that the choices parents make are the best model of service delivery.

Making the case for greater public control

The idea of a public-sector-controlled model that offers more policy control and options is discussed in Chapter 12. The report oddly puts the case for a supply-side funding model better than I can, but then dismisses it. I therefore quote at length:

> The alternative to demand-based funding is to fund some or all providers to supply ECEC services, usually to particular client groups. For the allocation of such funds governments usually set quality criteria and eligibility requirements for use of the services. In most supply-based systems families pay a fixed co-payment and the government is effectively the purchaser of the services.
>
> This is the way dedicated preschools are funded in Australia. Families using supply-based services can still have choice of provider, but choice is limited to the providers funded by government.
>
> Efficiency will depend largely on the governance arrangements to ensure quality and cost-effective supply, and in the allocation of places to services. Some submissions (such as Cox, sub. 189) argued that ECEC services are more efficiently delivered under government purchasing (or provision) arrangements. **This is not without basis as an OECD review concluded that supply-side funding mechanisms may lead to better outcomes for children and families** (my bold): 'The evidence suggests that direct public funding of services brings more effective governmental steering of early childhood services, advantages of scale, better national quality, more effective training for educators and a higher degree of equity in access compared with parent subsidy models.' (Family Day Care Australia, sub. 301, p. 6)
>
> ... the OECD conclusion could be more due to the quantum of funding than the funding mechanism, although the government role in ensuring quality in the services that it pays for clearly matters. There may also be scale advantages in public provision of services, although supply-based funded services can, and often are, delivered by private and not-for-profit providers.

> In addition, the arrangements for awarding the contract will affect the costs for both providers and government. In assessing the efficiency of any supply-based option, the costs of running and responding to a competitive tender need to be set against the improvement in efficiency arising from the competitive process.
>
> ... From a provider viewpoint, a supply-based funding model can give a more reliable cash flow as providers are usually paid for a certain number of places whether occupied or not. It also largely overcomes the problem of bad debts from parents (although making government payments directly to providers in demand-funded models can achieve the same outcome). However, supply-based funding may be more susceptible to government budget pressures.

These sections support the case for changing the system so the funder of services has some control over where they are and what they offer. This is the only place the report even mentions these options.

The paragraph below dismisses the option. The section I have bolded offers no evidence for its assertion. In fact, recent reports - for example, on flexibility [7] - have identified limited options. Yet the Productivity Commission asserts:

> A single demand-based payment mechanism is more efficient for mainstream services but some supply-based programs are still needed. **There is no compelling case to shift from a demand-based to a supply-based model for mainstream ECEC funding in Australia, notwithstanding possible productive efficiency advantages.**
>
> The current demand-based system has proved to be highly responsive to the demand for services. The diversity it offers is appreciated by families and any shift to a predominantly supply-based system would likely result in less variety in service provision, reducing the choices available. In addition, a shift to a supply-based system would be highly disruptive, even if government contracts with the private sector for the provision of services.

Blinkered view neglects social well-being

This ends any hope that children's services can be more than the market will provide. The report's limitations reflect being tasked to review children's services [8] by focusing on their capacity to increase GDP. This allowed the Productivity Commission to assume the goal was primarily to increase female workforce participation and secondarily to use the accepted value of early education to correct potential deficits in future workers.

The report offers some odd proposals. Its prescription for profitability is to raise fees to get rid of waiting lists. It sees subsidisation of higher-cost services by lower-cost ones - for example, charging similar fees for babies and four-year-olds - as a no-no because it reduces the price signals that are necessary to assess market possibilities. It also suggests that under threes do not need more than basic Certificate 3-qualified carers, despite evidence that they need skilled care [9].

The limited view is also shown in the failure to understand the differences between a community service and a commercial operation. The report claims that:

> ... targeting socioeconomic disadvantage is not a central focus of not-for-profit providers.

A not-for-profit service is seen as purely there for welfare needs, to correct disadvantage, not as a social contribution to a functioning community and general well-being. Further confirming the report's narrow focus is the suggested defunding of children who are allowed up to 24 hours of subsidised care despite their primary carer having no paid-work-related rationale. Were they at risk or disabled, or have their parent similarly defined, they could still have some care.

These changes undermine the last vestiges of the idea that good communities provide universally accessible children's services with age-appropriate activities to develop their capacities. Services are narrowly defined as remedial or work-related. The report supports continued funding for 15 hours' preschool because it has been shown to pay off in future workforce participation [10].

The focus on the need for more women in the paid workforce and some remedial services for children with special needs mixes coercion and exclusion to clearly illustrate that children's services are no longer to be seen as a general community provision for all children.

This approach ignores the social benefits and familial well-being that drove the century-old development of children's services. The report's assumptions need to be seriously questioned, as a community-based supply-side model has much to offer a more civil society.

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Related link: More coverage of the Productivity Commission's draft report [11]
Region: Australia and New Zealand [12]
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