Productivity Commission childcare report shows blind faith in market [1]

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EXCERPTS

The Productivity Commission's final report on childcare and early childhood learning has been a long time coming.

Its recommendations will now reportedly form a key part of the Abbott government's promised "families package".

So far, most of the response to the report has focused on the shift in funding models and its recommendation of a single means-tested subsidy paid directly to the childcare service. Little attention has been paid to many other recommendations that radically shift the basis of funding and types of services. It is particularly important to examine the assumptions on which its recommendations are based.

Many of the proposals derive from assumptions that the funding of these services should ensure minimal interference, with a classic, market-based model for meeting "demand". These assumptions ignore the Productivity Commission's evidence that the current market-based supply of services is not responding adequately to non-mainstream parental needs.

These concerns were clearly articulated by families as part of the reason for setting up the inquiry. Most parental submissions and parent groups claimed that there were:
• inadequate places for children under two;
• maldistributed locations of services - so some areas, for example the inner city, lacked places;
• costs were often too high in areas with fewer places;
• a lack of flexibility; and
• many good services had long waiting lists.

As the Productivity Commission's terms of reference acknowledge:

The child care and early learning system can be improved because families are struggling to find quality child care and early learning that is flexible and affordable enough to meet their needs and to participate in the workforce.

None of these issues have been addressed per se - except by adding nannies to the mix, which raises other issues. The Productivity Commission's view on these areas is that the market will provide if some parents improve their demands:

In Australia, ECEC [early childhood education and care] services are supplied under a market model, with services delivered by mostly non-government providers on a fee-for-service basis. Governments continue to have a major role in funding, regulating quality and, in some cases, providing services.

Choice is a key benefit of a market-based model. In most markets, parents have some capacity to choose between similar providers and there is competition.

Because long day care providers commonly cross-subsidise fees, parents may not realise the full cost of the services they use and the allocation of childcare places is unlikely to be efficient. Services for children two years and under tend to be under-priced, meaning that parents demand more services than they would if fees reflected the full cost of delivering services.

There is never any acknowledgement that parental "choice" is seriously inhibited by the lack of services in many areas of high need.

The final point above is a bizarre illustration of market solutions. It assumes that higher costs would reduce demand, disposing of the problem. This fails to deal with the needs of those whose parental leave expires well before children reach the three-year-old stage.

Despite statements that under-twos cost twice as much as over-threes, the proposed fee for younger children is set for under-threes and so is little more than the next age group. This may be the result - albeit unacknowledged - of the lack of data on GDP-based benefits for under-twos in care.

Similarly, the proposed withdrawal of any government funding for non-disadvantaged children, whose primary carer has no workforce needs, makes it clear that public childcare funding is available only for economic, not social, needs. If there is no increased GDP output, there is no need for care.

This exclusion of children currently entitled to support entirely removes the original social functions of local children's services as part of a community that supports families' other needs.

Another economic absurdity that ignores children's needs is the Productivity Commission's critique of parents who fail to move children to cheaper services because of needs for relationship stability, thus undermining competition.

The hardline market approach is further reinforced by the punitive proposals that non-profit services lose tax-deductible donor status and payroll and other exemptions.

The ill-founded assumption here is that because they often use these funds to "cross-subsidise" fees and upgrade services, they are ruining the commercial price signals - and presumably the profits of investors.

The above points illustrate serious flaws in the Productivity Commission's approach. This raises issues both about the market model and the wider recommendations being offered. These issues highlight the differences between a community service model and a commercial one, as well as indicating that a pure market model doesn't work.

Given that this area receives A$7 billion annually, the government should address identified market failures by devising a hybrid approach that would mix aspects of the market approach with conditional funding tied to meeting child and community needs.
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