

Market failure and reform of the childcare sector


ACCC/AER Annual Regulatory Conference:
Panel on Value for Money in Human Services

3 August 2023



What is the “market failure?”

GRATTAN
Institute



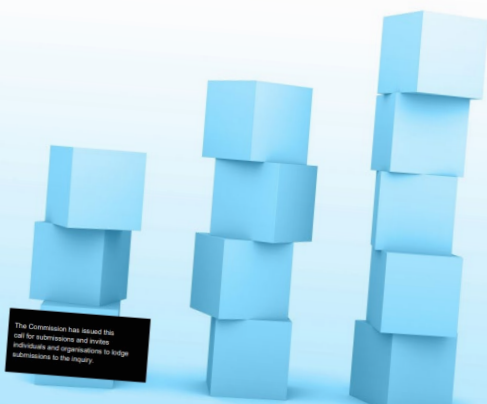
Cheaper childcare
A practical plan to boost female workforce participation
Danielle Wood, Kate Griffiths, and Owain Emslie

August 2020

Australian Government
Productivity Commission

March 2023

Early Childhood Education and Care
Call for submissions



The Commission has issued this call for submissions and invites individuals and organisations to lodge submissions to the inquiry.

Australian Government
Productivity Commission

Childcare and Early Childhood Learning

Productivity Commission Inquiry Report
Overview and Recommendations

No. 73, 31 October 2014

GRATTAN
Institute

Submission to the Productivity Commission Inquiry on
Childcare and Early Childhood Learning

John Daley and Cassie McGannon

March 2014

The Australian government has stated two objectives for the childcare subsidy:

- Promote the early learning and development of the child; and
- Increase workforce participation of caregivers.



Equal opportunity as a source of market failure



- Left to market forces, investment in early childhood education and care would depend on the willingness and ability of parents to pay.
- There is an *equal opportunity* case for ensuring that all children have access to a minimum quantity of reasonable quality education and care regardless of their circumstances.

Is there a market failure basis for promoting “workforce participation”?



- Households make make-or-buy decisions all the time – on shopping, cooking, cleaning, gardening, home maintenance, and childcare.
- Should the government subsidise these services (when provided through the market) so that households work more hours and pay someone else to provide them?

Is there a market failure basis for promoting “workforce participation”?

- What are the arguments for promoting workforce participation?



Can we rely on competition in childcare?



Figure 4: Average daily fee for centre based day care services by number of services within 2km, December quarter 2022

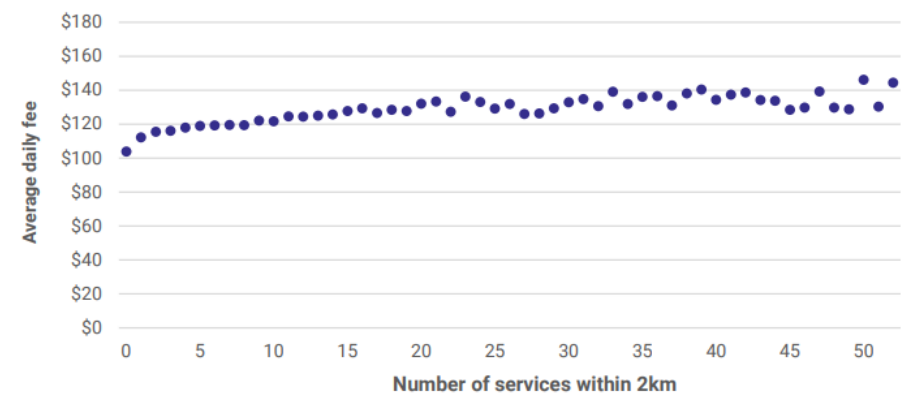
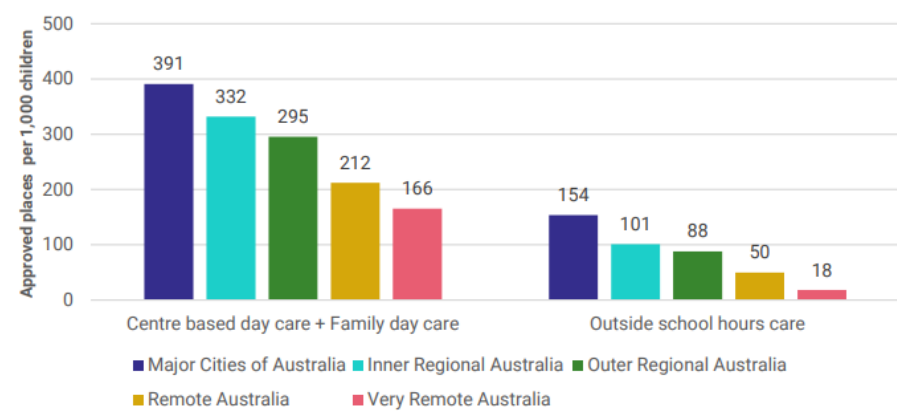


Figure 2.12: Approved childcare places per 1,000 children by remoteness, 2022



Can we rely on competition in childcare?

- Is childcare a **credence good**?
- What explains the substantial increase in fees over the last five years?
- Is one explanation an increase in quality (driven by improving enforcement of quality standards?)



Summary

- Good public policy principles are important in human services as in other sectors. We should start with identifying the market failure.
- In the case of childcare, there is a clear market failure based on an equal opportunity argument.
- Finding arguments to justify promoting workforce participation is more difficult but I have suggested a few.
- Competition is possible in childcare services, but childcare may be a “credence” good - prices may be seen as a proxy for (unobserved) quality, so competition may not drive down prices.
- The design of the childcare subsidy may need to change to be more like the funding of schools.



UK

Queens House
55-56 Lincoln's Inn Fields
London WC2A 3LJ

T. **+44 (0)20 7269 0210**

E. info@cepa.co.uk

www.cepa.co.uk



cepa-ltd



@cepald

Australia

Level 20, Tower 2 Darling Park
201 Sussex Street
Sydney NSW 2000

T. **+61 2 9006 1308**

E. info@cepa.net.au

www.cepa.net.au

