

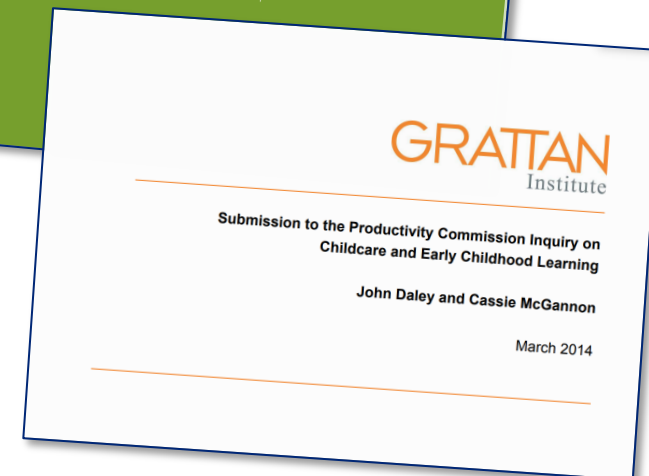
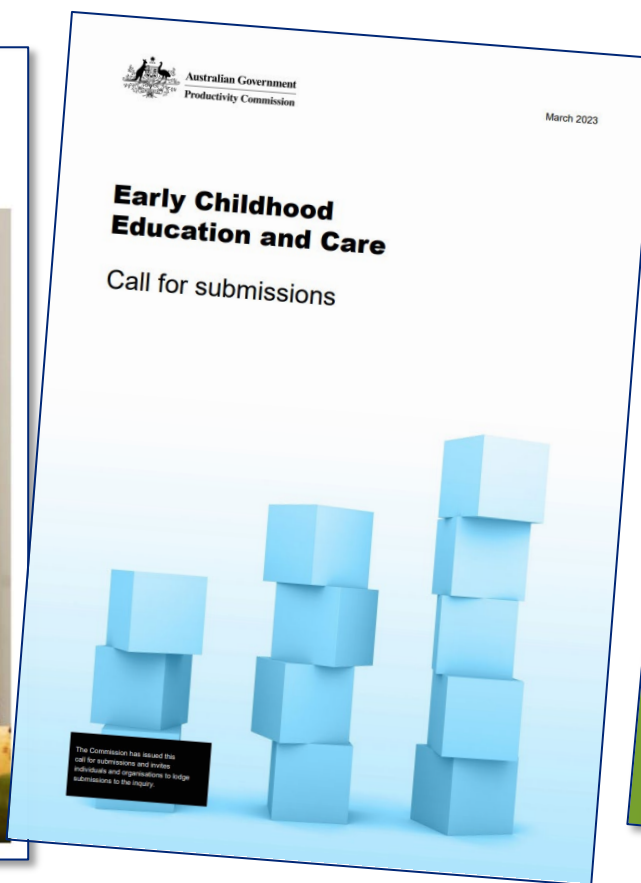
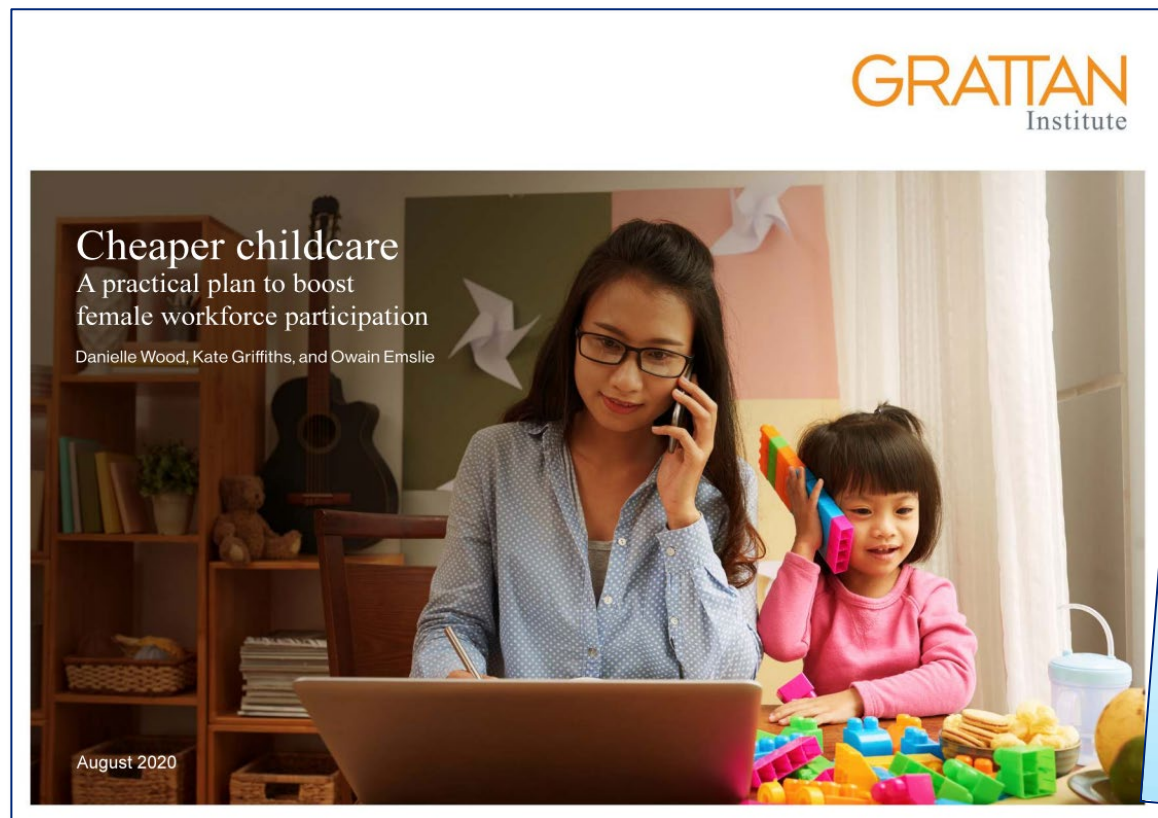
Market failure and reform of the childcare sector

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

3 August 2023



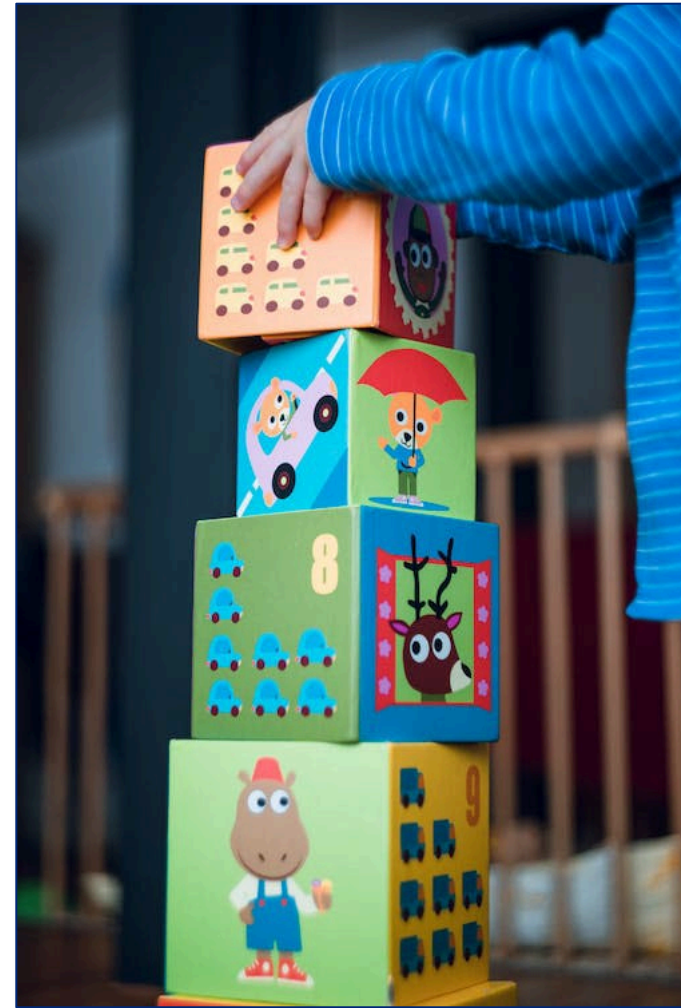
What is the “market failure?”





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?

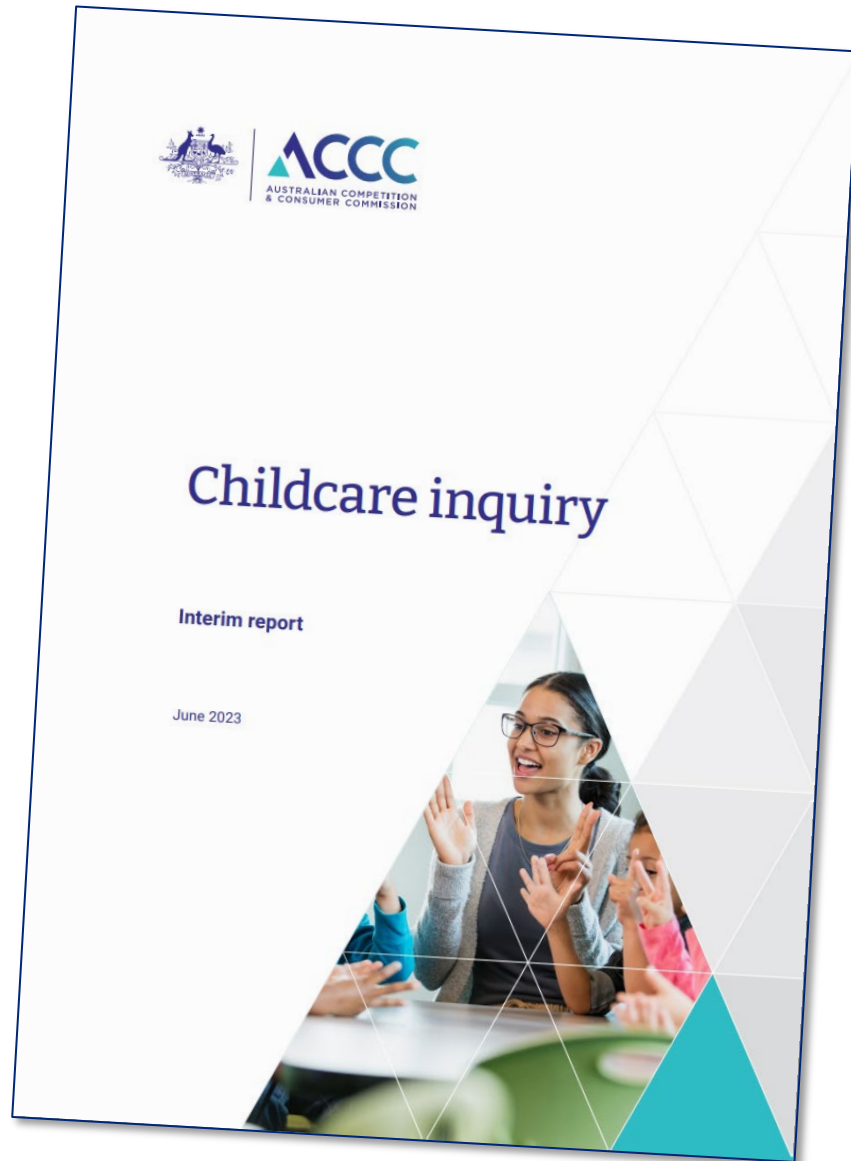


Figure 4: Average daily fee for centre based day care services by number of services within 2km, December quarter 2022

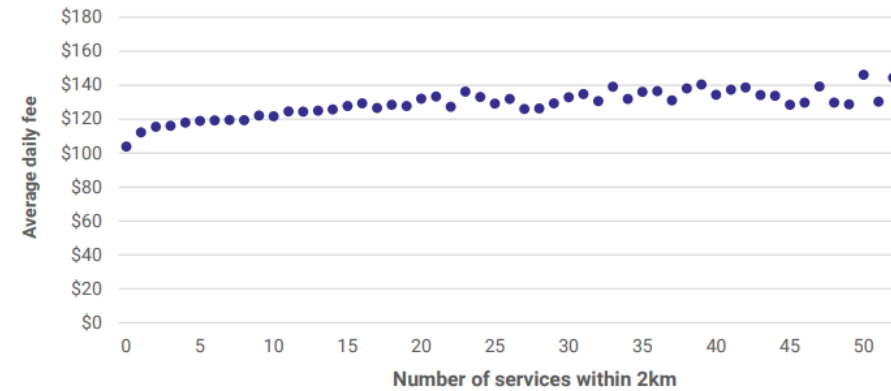
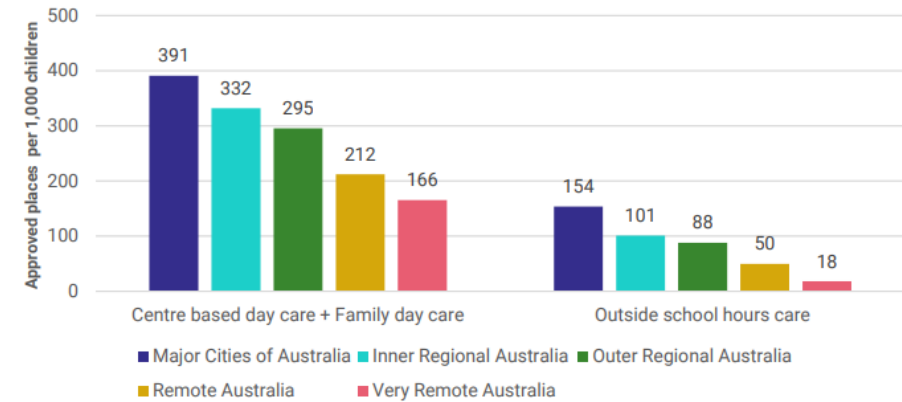


Figure 2.12: Approved childcare places per 1,000 children by remoteness, 2022



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

