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ABC of better childcare

Henry Ergas | November 11, 2008

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THE collapse of ABC Learning has prompted widespread calls for greatly increased regulation of childcare services. According to Deputy Prime Minister Julia Gillard, child care needs to be a "highly managed market", not only with regulation of service standards but also with caps on the number of places. Equally, the organisation representing independent private childcare operators, Childcare Associations Australia, has called on the Government not to allow "another childcare monopoly" to take ABC Learning's place. Central planning is in the air.

There is a compelling case for regulating the quality of childcare services, as already occurs, but a "Moscow on the Molonglo" approach to managing child care is likely to make matters worse rather than better.

The experience with aged care highlights the limits of central planning. Although it is largely supplied by private providers or charitable institutions, the Government, as well as funding the bulk of outlays, strictly limits the number and location of places through a comprehensive licensing system. The result has been persistent scarcity.

Thus, since the turn of this century, occupancy levels in residential care facilities have been in excess of 90 per cent for low-level care and of 95 per cent for high-level care and, despite recent declines, are likely to stay high as long as planning controls remain in place.

High occupancy means that there are usually very few places open in any particular locality. As a result, elderly people needing residential care often have very limited choices and suppliers have few incentives to be efficient.

Even worse, residents can find it difficult to change facilities, as places are so scarce. Providing quality service is therefore a lower priority for homes than it otherwise would be, increasing the burden of quality control that falls on regulation.

The result is a system that, despite considerable strengths, lacks the flexibility to adjust to the huge demographic, social and economic challenges it faces.

No useful purpose would be served by extending this approach to child care. Rather, what child care needs, along with effective quality regulation, is more, rather than less, competition.

Paradoxically, ABC Learning's demise could help in this respect. This is not to endorse the absurd claims that with a market share of about 25 per cent, ABC Learning has anything approaching a monopoly. But with 40 per cent of its childcare centres loss-making, the collapse signals the end of a strategy of buying market share that competitors found difficult to beat.

If market conditions are to improve, this persistently loss-making capacity must either be made commercially viable or forced to exit the market. As a result, while the Government should protect service continuity, any subsidies provided for that purpose ought to be strictly temporary.

At the same time, it is striking how small a role the public school system plays in providing childcare services.

During the past decade, Australia experienced a significant increase in labour force participation rates for mothers with young children, and even more so for single mothers. Yet public schools did little to respond to the increased demand for child care, preschool and other early learning services.

Rather, despite rapidly growing revenues, state and territory governments spent less, in real terms, on child care and preschool services in 2006-07 than they did in 2002-03.

This failure to adapt to changing needs highlights the problems of an education system over which local

communities have little control. In NSW there are fewer than 100 preschools attached to the 1650 public primary schools. Can this really be what parents would choose if they could determine the system's priorities?

The best way to inject greater responsiveness into the public school system is to allow all parents to have a real choice of school. This means making the taxpayer funding that is now captive to the public schools genuinely contestable through a voucher redeemable at any school that meets quality standards. But public schools should also be free to compete on a level playing field, including by allowing them to compete for public childcare funding.

There is no reason why commonwealth subsidies for childcare services should not be redeemable in state and territory schools. While this would require changing the subsidies' form (from reimbursement of a share of outlays to a fixed, per-child payment that would be relevant to no-fee schools), opening those subsidies to public schools would help bring new capacity into the childcare system and would also allow public schools to more fully achieve economies of scale and scope.

Of course, safeguards are needed to ensure that competition between public and private providers would occur on a fair basis, but the reality is that public schools have strengths that they can and should bring to childcare provision.

In short, it is not central planning we need but better and more effective markets. The collapse of ABC Learning creates serious short-term challenges but also offers an opportunity to take real steps in that direction. The Government says it is committed to using markets to meet social policy goals; here is the chance to prove it.

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