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Innovation of funding: introducing the market

From a policy perspective there is a growing interest in child care services, for a variety of reasons:

- To increase the (female) participation rate;
- To improve the educational outcomes of children;
- To lower poverty rates and improve the inclusiveness;
- To increase the fertility rate;
- To ...

Yet, financial means may be limited.

This raises the question: how can we reach this goal in a most efficient way?

What are the theoretical models in this respect and what is the empirical evidence?



Structure of the presentation

Short introduction of different models of provision;

What are the (theoretical) arguments for introducing the market and what may be the consequences?

What is the empirical evidence of the impact of privatization on availability, prices, enrolment rates and quality in the Netherlands?

Conclusions.



Theoretical models

Throughout Europe, there is a large variety in actual financing programs (see Cleveland and Krashinsky, 2004):

- Publicly provided ECEC services, including pre-primary education and ECEC services provided by public sector bodies or non-profit agencies;
- Supply subsidies to ECEC services, for example operating and quality enhancement grants, tax deductions etc.;
- Demand subsidies for the use of ECEC services, for example vouchers for purchase of services, tax deductions;
- Others: for example public support for child rearing leaves.



Theoretical models

In the real world: 'mixed economies'.

The state, private-for-profit, and private-not-for-profit providers all play a role in the provision, funding and regulation of ECEC.

Within Europe, France and the Northern countries still put a lot of emphasis on ECEC as a public good, which justifies substantial public investment in and provision of ECEC infrastructure. In contrast, the UK and the Netherlands have introduced child care markets, with the state subsidizing the private sector.



Why introducing the market? (1)

According to text book knowledge, markets are generally more efficient (Barr, 2001):

- The better consumer information is;
- The more cheaply and efficiently information can be improved;
- The easier it is for consumers to understand available information;
- The lower the costs are if someone chooses badly, and
- The more diverse consumer tastes are.

NB: Food and clothing by and large conforms with these conditions.



Why introducing the market? (2)

In the case of ECEC, the basic idea is that the market will create a more efficient incentive structure as the market driven approach will increase competition and will force suppliers to increase internal efficiency resulting in lower prices.

In addition, the introduction of market forces may lead to a better balance between supply and demand. Consumers are expected to select the provider that offers the best price/quality ratio and the sector may adapt quicker to changing circumstances.

The introduction of market forces should therefore increase both internal and external efficiency.

NB: the model presumes well-informed consumers!



Consequences in terms of language:

When the market becomes more dominant, also the language changes: parents become consumers, or proxy consumers on behalf of their children. There is an emphasis on parental choice, on a transparent entry and exit of markets; on tailor-made contracts and on competitive prices.

There may also be a tendency to analyse ECEC services more in terms as services for parents instead of services for children...



Consequences in terms of equality of access:

Most salient question: can markets deliver equitable services?

A natural consequence of the market mechanism seems to be that centers are opened in neighbourhoods with sufficient demand and purchasing power. Low-income neighbourhoods may have no access to formal child care at all and be isolated from the larger market (Noailly and Visser 2009).

Most authors suggest an “uncomfortable relationship between child care markets providers aegis and quality” (Lloyd 2013)



Consequences in terms of quality:

The primary argument against the introduction of market forces in child care is an application of the race to the bottom hypothesis. If parents are unable to observe quality, centers have an incentive to compete only on price. So they will decrease costs (quality) to lower the prices.

The counter hypothesis states that child care centers would better adapt and fit expectations and quality preferences of the parents. Those centers that could not do so would simply go out of business due to market competition.

Both the argument for and against rely on the availability of information: parents are (not) able to observe quality and child care centers will (not) compete amongst each other.



Empirical evidence. The case of the Netherlands: Institutional Framework

The current institutional framework for child care in the Netherlands was introduced by the Child Care Act of 2005.

With the 2005 Child Care Act, all parents using child care became eligible for the same subsidy from the central government.

Parents are free to choose the location of child care centers and their expenses are subsidized regardless of their choice.

The actual price depends on household income (income prices).

NB: Dutch parents are not entitled to child care services; only dual earner families (or employed single parent families) can apply for subsidized child care services.



Institutional Framework (cont.): Quality and price regulation

Municipalities check the quality of child care centers based on the standards agreed upon.

Parents receive subsidies for all centers that meet the minimum quality standards for staff-to-child ratio and location characteristics.

The government sets a maximum hourly price for subsidies.

In addition to subsidies for formal child care centers, the law provides subsidies for home-based child care, to provide a more small scale alternative to center-based care.



Impact of introducing market forces on availability

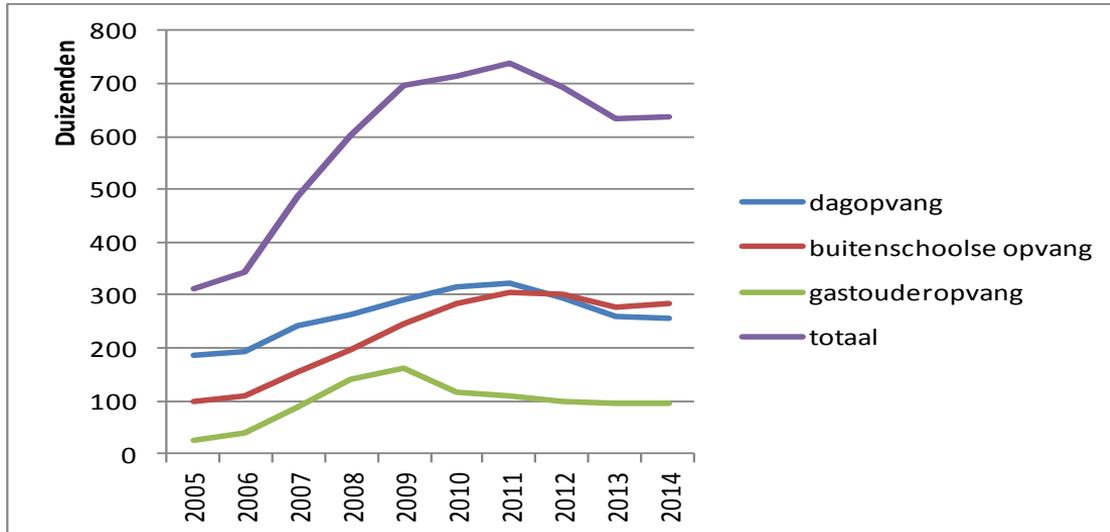
Substantial jump in the size of the sector in terms of companies and employees;

Number of children living in neighbourhoods without child care is very small;

Overall, the size of child care services has more than doubled; see figure 1.



Fig 1. Impact of introducing market forces on availability





Impact of introducing market forces on prices

Prices set by the centers are relatively stable, yet the actual prices paid by parents have changed rather greatly due to policy changes over the period 2005-2015.

Evolution of hourly prices between 2005 and 2015 indicates a slight increase because of:

- Lack of competition?
- Increasing operating costs?
- Higher real estate prices or increase in wages because of strong increase in demand?
- Lack of consumer control because parents are not likely to notice changes in the hourly prices?



Impact of introducing market forces on enrolment rate

What is the effect of the introduction of market forces on the increase of the number of children enrolled in child care centers?

The rise in demand is usually associated with the increased subsidy rates and the resulting substitution from formal to informal care.

So although child care use did not rise because of the introduction of market forces, this shift can be credited for leading to a market capable of responding to sharp increases in demand.

Yet, the enrolment rates indicate a clear difference by income level; see figure 2 and 3.

- because lower incomes rely more heavily in informal arrangements?
Or lower incomes work less hours as a result of which their demand for formal ECEC services is less?



Fig. 2 Use of formal child care by dual-earner families, by income

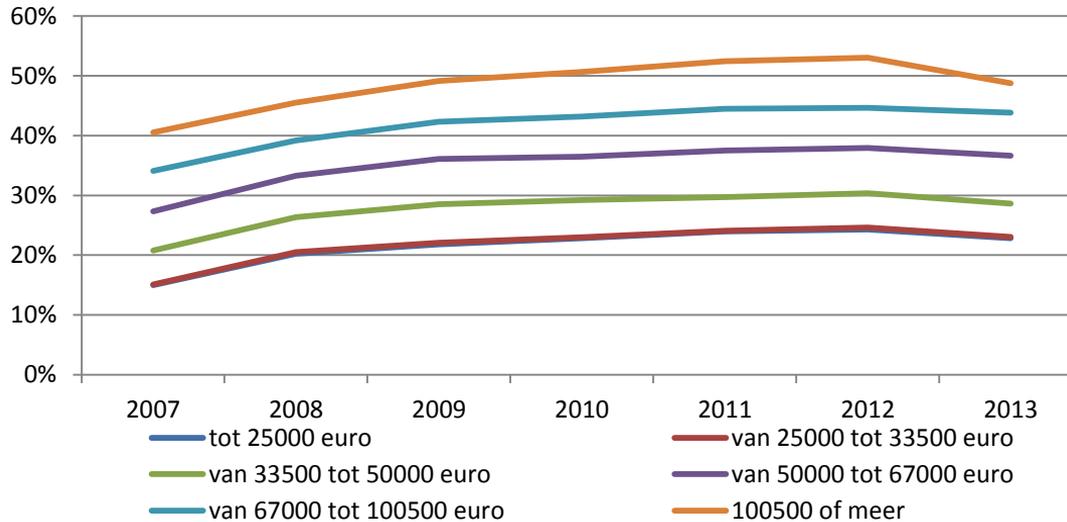
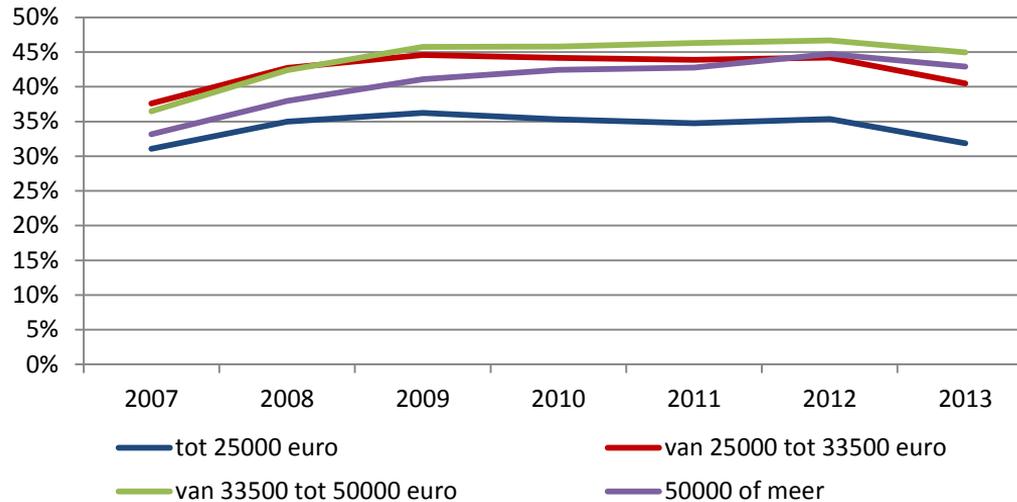




Fig 3. Use of formal child care by single-parent families, by income





Impact of introducing market forces on quality (1)

Limited information on quality indicators apart from information on structural quality indicators (such as staff-to-child ratio or caregiver qualifications)

NCKO provides information on process quality; the results of the NCKO research indicates that quality of Dutch child care services is rather low. Moreover process quality in 2008 seems to have decreased compared with findings from 2005 and 2001; yet the score for 2012 indicates an increase.

Possible explanations for the decreasing trend between 2001-2008 are the expansive growth of child care combined with shortages of qualified personnel and higher work pressure.



Impact of introducing market forces on quality (2)

While the longitudinal evidence suggests that quality has been declining (at least between 2001 – 2008), Akgündüz and Plantenga (2013) conclude on the basis of cross-sectional evidence that competition actually has a positive effect on the quality of child care centers. Apparently, child care providers – in a tight market – have an incentive to compete on quality, because they believe that parents can observe quality and will act accordingly.

NB: this effect takes place in a highly regulated market.



Conclusions

Many countries try to provide an coherent mix of leave policies and child care services, while also allowing for parental choice, within the context of tight financial constraints. Within that context, introducing market forces might enhance efficiency.

The experience in the Netherlands suggests that in a regulated environment, child care markets might do quite well in terms of meeting demand and keeping prices stable. In terms of quality, the evidence is more mixed. Competition seems to have a positive impact on quality, but it is unclear whether the market mechanism is in fact superior to public provision.



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Thank you!