The new National Quality Framework (NQF) is designed to improve the quality of child care, but will also increase the cost of child care. This paper explores how increased costs will affect women’s labour force participation; the amount of child care demanded by households; household budgets; and government expenditure.

Key points

> Overall, the study finds that the NQF will have modest, negative effects on women’s labour supply and on household budgets across all of the cost scenarios analysed.

> These effects are statistically significant. Previous research, which used different measures of child care prices, has not shown a statistically significant result.

> If an increase of $13 per child per day (a mid-range price scenario) in costs of child care is assumed, which is fully passed on to the gross price of child care, married women’s labour force participation decreases by just over one-half of one percent. Hours worked decreases by 20 minutes per week on average. It is important to remember that many households will not change at all while some households may have changes much larger than the average.

> The demand for child care goes down as the price goes up. For a price increase of $13 per child per day, the study finds a decrease in formal child care demand of 25 minutes and a decrease in formal child care usage of three-quarters of one per cent.

> Household disposable income decreases by $12.50 per week and net government expenditure increases by $10.82 (this includes reduced tax revenue as well as the effect of subsidies on child care being paid out against higher gross prices.)

> The policy changes seem to be slightly more favourable to the less well-off.

> Given the expected future benefits of the NQF, the authors suggest that the findings strengthen the case for the NQF. The benefits of investing in children and the effect of quality are beyond the scope of the paper. The findings provide an important input into a fuller discussion of the costs and benefits of the NQF.

For further information

The Visioning Australia’s Future initiative is a program of work examining major challenges facing Australia. The full set of summaries, papers and a synthesis report can be found at crawford.anu.edu.au/hc-coombs/
Background

There is a broad consensus that early childhood development is critical for a wide range of social, psychological, health and economic outcomes. The Council of Australian Governments (COAG) agreed to a new National Quality Framework (NQF) in 2009. The reforms include better qualified staff and lower staff-to-child ratios, as well a new transparent rating system which will provide parents with the information to compare providers. The NQF should improve the quality of care but will also increase the cost of providing child care. To at least some degree, these costs will flow through to higher prices for child care.

The basic framework for the analysis builds upon a standard labour economics approach. This assumes that “married” women (legal and de facto) evaluate the benefits of working against the costs of working and choose whether or not to work and how many hours to work on the basis of that trade-off. (The benefits include non-pecuniary considerations such as self-worth, social connectedness.) How much and how quickly the NQF will increase costs is highly uncertain. The modelling applies a range of cost scenarios ie estimates of how much the NQF will increase costs. It is also likely that the NQF will take some time to implement in full. Therefore, two variants of each cost scenario are modelled: total impact (which refers to the full impact of the NQF if it were to be implemented immediately) and initial impact (which recognises that it may take some time to implement the NQF fully.)

The data source for the study is the Household Income and Labour Dynamics in Australia (HILDA) data.

For a fuller discussion of the economic model and assumptions used, go to crawford.anu.edu.au/hc-coombs/

Summary of findings

Impact on labour force participation

Labour supply effects are modest, but statistically significant. If the NQF were completely adopted in 2012, the study finds that married women’s labour force participation would decrease somewhere between 0.16 and 1.2 per cent depending upon the size of the price increase. Average hours worked would decrease by between five and 35 minutes per week.

If there is only partial compliance with the NQF in 2012, the study finds effects about half that size.

The study looks at the effects by sub-group of the population:

> The effects are nearly double for households with multiple children compared to those with only one child. Participation of married women decreases 0.4 per cent in multiple child households whereas in those households with only one child, participation decreases by 0.23 per cent.

> Comparing high and low wage women, the study finds slightly larger effects on households with high-wage women compared to low-wage women. This may be because higher wage women work more to begin with and are using more child care so the impact on them is greater.

> The study also split the sample by education levels of women, education levels of men, and the level of unearned income in the household. Households with higher educated husbands, higher educated wives, and which are wealthier are all affected more than their counterparts.

The policy changes, therefore, seem to be slightly more favourable to the less well-off and those with lower education levels.
Demand for child care

The study finds that demand for formal care decreases between seven and 49 minutes per week on average across the scenarios, with the initial impact half of these amounts. Again, there is a larger effect in wealthier and better educated households.

As formal child care becomes more expensive, informal care becomes a more attractive option. Use of informal care increases, but the change is not statistically different to zero.

Household income and expenditure

The model allows households to change consumption, hours worked, and child care demand. As married women's labour force participation and hours decrease, the household's income goes down. As child care prices increase, even though they are partially offset by increased government transfer payments, the costs of child care increase. The net effect is a negative one on household disposable income.

One way for the government to compensate households for this decrease in utility would be to increase Child Care Benefit (CCB) and Child Care Rebate (CCR). How this was done would affect lower income and higher income households differently.

Government income and expenditure

The NQF program affects both the revenue and expenditure sides of the government balance sheet. Tax revenues decrease as married women work less. Government expenditure increases as CCB and CCR increases in response to increased care costs.

The study finds that the overall effect is an increase in net government expenditure of between $3.63 and $18.80 per household per week.

Policy implications and avenues for future work

The Government could decide to compensate households for the extra costs and reduced household disposable income. Previous research has shown than increasing CCB tends to be more beneficial for low-income households, while increasing CCR tends to be more beneficial for higher-income households.

An analysis of the benefits of investing in children is not covered in this study, nor is an evaluation of the impact of improved quality of child care. The authors have no means of evaluating what the impact of an improvement in the quality of child care will have on child care demand or women's labour supply. The study does, however, provide an important component of a fuller analysis of the costs and benefits of the NQF.

This study would also be well complemented by a better understanding of the supply side. Why do child care centres open or close? What determines the number of places? What is the nature of competition? Quantitative work on the supply side of the child care industry is an important priority for future research.
HC Coombs Policy Forum
Crawford School of Public Policy
JG Crawford Building 132
The Australian National University
Canberra ACT 0200
Australia
T +61 2 6197 0034
F +61 2 6125 9767
W publicpolicy.anu.edu.au
General Enquiries: coombs.forum@anu.edu.au