INTERNATIONAL PERSPECTIVES ON QUALITY IN MIXED ECONOMIES OF CHILDCARE

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This paper briefly reviews international perspectives on quality in mixed economies of childcare. It explores the particular features of the childcare market and suggests that conventional economic rationales do not apply in such a market. It claims that, contrary to government predictions, competition in the private for-profit childcare sector does not lead to ‘quality’ childcare.

Keywords: Private for profit childcare; mixed economy of childcare; childcare tax credits; quality childcare

JEL Classification: J13

This paper briefly reviews international perspectives on quality in mixed economies of childcare in a number of countries; in the UK, Canada, Australia, New Zealand, the USA, the Netherlands and South Africa. In all these countries the private market is dominant; that is, the Government takes the view that childcare is best provided by private for-profit or non-profit entrepreneurs, even if part-subsidised by the state through tax credits or some other form of subsidy. This contrasts with countries like France where for-profit care is simply not permitted, and the state provides universal services through the école maternelle system.

The standard rationale for using the private sector to provide childcare is that it is more innovative, flexible and more efficient; and that competitiveness in the market drives up quality. Is this generally true, or is childcare an area where standard economic precepts of competitiveness and efficiency do not fit?

There is general concern about the for-profit childcare market, especially about how it operates in the poorest areas (Ofsted, 2008). The following quotations are news items taken over a two week period in September 2008 from the childcare practitioner magazine Nursery World (2008a).

Nurseries in Liverpool are alerting each other to parents who leave owing thousands of pounds in unpaid fees... The owner of one nursery said “for some people we seem to come somewhere below cat litter in their list of priorities...some parents have responded aggressively to requests for fee arrears by making bogus complaints to Ofsted about the nursery’s levels of care...”

...the Commission upheld a complaint at All Stars nursery that children were being force fed and given out of date food...the owner who has been banned from working with children on the premises and her partner have now exercised their right to an appeal which will be held in court. The nursery will stay open until the verdict.

A state of the art fingerprint system has been introduced to all Kids Unlimited nurseries across the UK to improve security at the chain’s settings...the security system will enable closer monitoring of the premises, no longer having to rely on staff to recognise each individual parent.

Why give away techniques and confidential information which have taken time, energy and a great deal of expense to develop? In a competitive environment this intellectual property or pool of trade secrets represents one of the most important assets a company owns...this is exactly what the Government is expecting the best nurseries to do in an effort to raise standards...Both the private and the maintained sector will be expecting to spend time sharing best practice with other nurseries even if they are competitors...this is neither fair nor reasonable.

The Bertram Group founded in 2002 is a fairly new...
entrant to the daycare market. Mr Scott, whose other commercial interests include a document processing business and a marina in the Virgin islands, believes strongly that staff should be rewarded on the basis of quality, occupancy and meeting standards. The company employs its own inspector who makes spot checks on his nurseries.

In conventional professional terms, that is from the perspective of an early years practitioner or policymaker, all these news items are disturbing. Offering places for children which are contingent on their parents’ ability to pay, not on the needs or interests of the children; regarding parents as potential cheats and tricksters; an excessive concern with safety, and minimising personal contacts in favour of some kind of computer generated recognition; a reliance on quality control methods with limited room for any kind of considered, reflective assessment; and objections to practice sharing, all contradict current rhetoric on quality (National Children’s Bureau, Quality Assurance Network, 2007). The business expertise which is required at a corporate level – and childcare in the UK is increasingly corporatised – offers sophisticated managerial and financial approaches, but requires no prior knowledge of the professional issues of childcare – can the same business principles apply equally fruitfully to a marina in the Virgin Islands and a Children’s Centre in Bradford?

The evidence base for examining the quality of childcare has been accumulating, but definitions of quality vary considerably (Mooney et al., 2003) and internationally the picture tends to vary and relies on different data sets and prior assumptions (Penn, 2008b). In the UK, quality is often interpreted to mean reaching minimal compliance with national standards. By this definition a quality setting is one with the required ratios, the required complement of trained staff, who are in receipt of recognised levels of pay and conditions of service, one which delivers the Early Years Foundation Stage (EYFS) curriculum.

**Good quality versus poor quality care?**

One fairly consistent and important finding from the large-scale NICDH (2005) study in the USA and the various cohort studies in the UK (Mathers et al., 2007; Mathers and Sylva, 2007) is that whilst good quality care – as measured by standard research instruments such as the Early Childhood Rating Scale (ECERS) – enhances children’s later educational outcomes, poor quality care may hinder it and produce adverse affects, especially for the most vulnerable children. Quality may on one level be a problematic and contested definition, but on another, in terms of very basic conditions of staffing, ratios and resources, it is relatively clear cut. Quality is important. So what does the international evidence say about the levels of quality in a mixed market economy? Are there some aspects of the market and especially of private for-profit childcare that are particularly worrying?

**Canada**

Cleveland et al. (2007), using a reanalysis of large-scale Canadian data sets, estimate the difference in quality between for-profit and non-profit care to be between 7.5–22 per cent. Quality is significantly higher in the non-profit sector, although the trends are slightly modified in thick (high demand for places) and thin markets (little demand for places, i.e. in a rural area). There are fewer incentives for entrepreneurs in thin markets to improve quality. A subsequent study (Cleveland et al., 2008), reviewing the impact of the Quebec ‘$5 a day programme’ of universal childcare, also concluded that for-profit care was of poorer quality than non-profit care.

**USA**

Using the NICDH data (the largest cohort study in the USA), Sosinsky et al. (2007) examined the relationship between childcare quality, cost and type of provision, and concluded that for-profit care, especially corporate care, was likely to have more poorly trained staff, to pay them less, and to be rated lower for quality than non-profit provision. After corporate care the next poorest group was childcare provided by religious organisations.

**Netherlands**

Noailly et al. (2007) suggest that the introduction of a free market in childcare in the Netherlands has led to a shift away from non-profit nursery provision in poorer areas to for-profit nursery provision in high-income urban areas. In 2005 the Government switched from supply-side funding to demand-led funding, and removed most regulatory controls. Crucially it permitted the use of childcare tax credits for informal care by relatives and others, with the result that demand for subsidies was double that initially predicted, and the budget for the initiative was badly overspent, although
the numbers of mothers in the labour force has not significantly increased. Quality issues remain largely unexplored. The Government has been forced to reintroduce regulation of informal care, and monitor the uptake of tax credits. New legislation will be in place by 2011 (Lloyd, 2008a).

Australia

Suminion (2006) points to ethical dilemmas raised by the expansion of corporate care in Australia. These dilemmas have been fore-grounded by the recent collapse of the ABC Nursery chain, whose market share was around 30 per cent in Australia, and whose empire of 3000 daycare nurseries and its many subsidiary firms stretched to the USA, UK and the Far East. The collapse echoes the crooked dealings of Enron in the USA, and at the time of writing Australian newspapers are full of claims and counter claims about the integrity of the company. ABC has gone into receivership, owing close to $1 billion to banks and the federal Government has appointed ‘forensic accountants’ to investigate the company’s financial affairs. The Government has also announced a $22 million package to keep the company’s 1000 centres open until the end of December. The crisis is not just that engendered by a rogue company, but an illustration of the well-known difficulties posed by large-scale companies in the field of care, who provide basic services. If the company fails or changes its interests, the service is in danger of being lost.

UK

Because of the rapid expansion of the childcare market in England, there has been a tranche of work which identifies the scope and evaluates the impact of private for-profit early years provision. Penn (2007b) traces the development of for-profit private – and increasingly corporate – care in England. Mathers et al. (2007) and Mathers and Sylva (2007), in each case using a different data set, conclude that whilst the quality of the private sector is very variable, the poorest provision is to be found in the private sector, and the most reliable in the state sector, and that poor quality provision impacts adversely on vulnerable children. England has a stringent monitoring and inspection system for early childhood education and care (ECEC), but in a privatised system this is still insufficient to ensure quality across a large section of the private sector. An Ofsted survey of 90,000 inspection visits to 84,000 providers (daycare, out-of-school clubs and childminders) over a three-year period suggested that only two thirds of those inspected were good quality, falling to about half in deprived areas. Twenty-four thousand complaints were recorded (Ofsted, 2008). The Ofsted report also found that the better provision was in the better areas; good nurseries were significantly more likely to be found in prosperous than in poor areas. A recent parliamentary answer relating to the data conceded that in poor areas, 10 per cent of provision does not even achieve minimal compliance.

South Africa

Some of my own recent work (Penn, 2008a; Penn and Maynard, 2009) has been in Southern Africa where almost all provision is in the hands of small entrepreneurs. We are extending this work, but our preliminary results show that quality is directly related to cost. In an entirely market orientated system, the more you pay the better the service you get; the poorer and more vulnerable you are, the worse the service. Although much more extreme in unequal societies like those of Southern Africa, it is a common finding that the market amplifies social stratification. South Africa has adopted supply-side funding, i.e. grants given directly to providers under very tight conditions to admit poor children, but administratively, boundary maintenance – deciding who is eligible for places and who is not, then policing it – is always difficult in targeted systems.

France

Here it may be instructive to offer a comparison with France, where the State has traditionally provided a comprehensive service. In France around 17 per cent of children attend crèches run by the Ministry of Health; about twice as many use subsidised family daycare. From two onwards around 35 per cent of children attend écoles maternelles, which are part of the education service, and from 3–5 years, the take-up rate is around 99 per cent. These écoles maternelles offer classes from 8.30am to 4.30pm and routinely include out of school care on school premises. This free 28-hour week run by fully qualified staff compares favourably with the very part-time 12½ hours per week in the UK. The French economist Maurin (Maurin and Røy, 2008) and his colleagues at CEPREMAP have a programme of studies examining the impact of crèches and écoles maternelles provision on mothers’ employment and child outcomes. One study undertaken in Grenoble demonstrated that single mothers’ employment status, and equally importantly, their well-being, was directly related to the provision of state crèches. A nationwide study of early
school entry at age two showed that there were no adverse outcomes at age 7–8 and at sixteen, as critics had predicted; and that the cost of school places was offset by the take-up in maternal employment.

As a rider, it is also worth pointing out that levels of child poverty and income inequality are significantly lower in France than in the UK (OECD, 2008).

So the international evidence does seem to suggest that, irrespective of country, the private market is less successful than has been expected in delivering childcare, and the childcare it provides tends to be of a poorer quality. Conversely, the French example suggests that the state sector can operate successfully in the field of childcare limiting interest in mixed market childcare. International comparisons of course are always problematic, and offer no conclusive proof. The idiosyncratic nature of early education and care services in each country reflects its history and political values, and cannot be easily translated from one country to another. However it does seem a noteworthy trend that, where it exists, private for-profit care offers more variable standards, provides some of the lowest quality care, and increases social stratification. Why might this be so?

Using conventional interpretations of market precepts, the issues would appear to be problematic.

**Consumers**

The consumer is a problematic concept in the mixed economy of childcare; parents are consumers on behalf of their children, but children themselves are voiceless. In many ways there are overlaps with the care sector generally, with care for old people and care for vulnerable children and adults, but with the difference that we expect the children to change and become rather different kinds of people because of the care they receive, whereas other forms of care are more custodial. For some vulnerable children, the state also has a role in selecting care. The notion of the consumer needs unpacking. Who is it who is exercising choice and on whose behalf and does it matter in a marketised system? Given that markets supposedly work best on the basis of informed choice, how does information about the childcare market work for whoever is the consumer? Given current discourses on child rights (UN Convention on the Rights of the Child, 2005) and children’s rights to provision, protection and participation, the problematic nature of consumption in childcare will have to be given more attention. Children, rather than their parents, will have to be viewed as the recipients of the service.

**Choice**

Parents as consumers are constrained in exercising choice in a number of ways. They are constrained by income, obviously, since that is the nature of the market. As several researchers have demonstrated (Vincent et al., 2007; Dean, 2007) the exercise of choice itself is socially determined. Mothers with financial viability and social capital – that is confidence – can and do make considered choices. Other mothers take what they can get, if anything. But mothers are also constrained by distance – transporting young children around is not easy.

Investors seem reluctant to invest in nurseries in poor areas, possibly because property prices are regarded as more uncertain. To encourage investment the Government has set up partnership arrangements whereby it provides the capital to build new children’s centres in poor areas. Notwithstanding this, choice in poor areas is more limited than elsewhere and childcare provision is likely to be of poorer quality (Ofsted, 2008). Choice is also limited in rural areas, where demand is not sufficient to justify competition. In these thin markets parents, especially parents with limited mobility, have little choice.

**Efficiency**

In a heavily regulated industry like childcare, the opportunity to make increased profits through more financially efficient practices is limited. Indeed the notion of efficiency is highly problematic; what constitutes more efficient care, since ratios cannot be changed, and training requirements are mandatory? Care workers cannot take on more children by working more efficiently; it does not make any real difference to profits if the care worker is very active or quite sluggish. One means of securing profits is to explore every loophole and aim at minimum compliance with regulations over training, ratios and so on, in order to pay lower wages, which are the main cost burden. Apart from minimum compliance, efficiency can only come through streamlining non-care practices – ordering furniture and consumables, computerised book-keeping, finger-print recognition security and so on. Recent evidence from surveys of providers in the UK (Nicholson et al., 2008) suggests that entrepreneurs, far from being flexible in what they offer to parents, restrict
their hours and their services, especially to vulnerable children, in order to minimise staffing requirements and maximise profits. Nevertheless Ofsted describe nearly 40 per cent of nurseries as ‘satisfactory’, and 60 per cent as good or outstanding.

The difficulty of securing profits is exemplified by the new Children’s Centres in the UK, which are located in poorer areas. In a substantial number of them the local authority is not even attempting to contract out the daycare element as the law requires. A majority of the centres are operating at a financial loss (National Audit Office, 2006). It is probably easier to make profits from a rich clientele than from a poor clientele. Yet the cost of childcare to parents in the UK is one of the highest in Europe (only Ireland is higher) because of the high profit margins commonly viewed as being reasonable for the industry (Laing and Buisson, 2007). The Government requirement that the extension of nursery education should also be contracted out to the private sector is also running into trouble, since private operators in some areas consider that the subsidies are insufficient to run the service.

**Competition**

In the care sector generally there are trends towards consolidation and corporatisation. The trend is for the more successful businesses to expand, and in the childcare sector generally in the UK, USA and Australia, this has mainly been through acquisition of smaller businesses, rather than through new projects. Small entrepreneurs set up businesses, but either because they are in difficulties, or because the owners want to capitalise their assets, they are then taken over by bigger firms, or increasingly the company is purchased by offshore equity companies whose tax burden is limited. Nursery World (2008b) has provided a 10-year overview of sector trends in the UK. It has charted the progress of those ten firms that in 1998 were the biggest providers. The field is characterised by market mobility, and only one of the chains that was operating in 1998 still has the same owners and the same management.

Although these ownership changes are significant, the market is characterised by a huge number of providers. In 2007, Nicholson et al. (2008) report that there were nearly 100,000 providers, offering nearly 2.5 million childcare and early years places. Although these places covered children of all ages, the large providers still constitute a small part of the overall market.

This contrasts with Australia where, as mentioned above, one third of the demand was met by ABC, a business whose future is now in doubt.

**Women’s labour market participation**

Childcare places in a market system are dependent on payment of fees, by the parent, who may be entitled to

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**Table 1. Changes in ownership over a 10-year period.**

<table>
<thead>
<tr>
<th>Nursery</th>
<th>1998</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kinderquest(a)</td>
<td>36</td>
<td>1965</td>
</tr>
<tr>
<td>Kids Unlimited(b)</td>
<td>30</td>
<td>1774</td>
</tr>
<tr>
<td>Asquith(a)</td>
<td>29</td>
<td>1442</td>
</tr>
<tr>
<td>Jigsaw(a)</td>
<td>14</td>
<td>1178</td>
</tr>
<tr>
<td>Nord Anglia(a)</td>
<td>27</td>
<td>1013</td>
</tr>
<tr>
<td>Busy Bees(b)</td>
<td>15</td>
<td>889</td>
</tr>
<tr>
<td>Just Learning(a)</td>
<td>11</td>
<td>840</td>
</tr>
<tr>
<td>Childbase(c)</td>
<td>15</td>
<td>816</td>
</tr>
<tr>
<td>Copperbeech(a)</td>
<td>13</td>
<td>716</td>
</tr>
<tr>
<td>Careshare(a)</td>
<td>9</td>
<td>624</td>
</tr>
</tbody>
</table>


Notes: (a) No longer exist as a company. (b) Taken over but same management. (c) Unchanged.
subsidies, or in the case of referred children, the places are paid for by the local authority. Research by Brewer and Shepherd (2004) demonstrates that childcare subsidies are claimed mainly by middle income parents and are not claimed by the poor. A more recent paper by Brewer et al. (2008) suggests options for recalibrating credits, and concludes that it is possible to be more pro-poor and redistributive but only in addition to other increases in housing benefits and tax credits.

The conventional explanation for low take-up of childcare tax credits by the poor is that the poor are either workless, or that they do not claim their benefits through ignorance. However, this explanation does not take account of the vagaries of the labour market. It is possible that many jobs, especially part-time jobs in service industries, are cash in hand, and by definition unrecorded. Mothers are constrained by their circumstances and their lack of mobility and such jobs may be the easiest to find. Even in an officially recorded job, if you are a marginal employee, your employer is less likely to be sympathetic to your childcare needs. By tying subsidies to official employment in regular workplaces, the poorest and most vulnerable working mothers may be excluded from the subsidy system. A demand-led system of childcare, i.e. giving subsidies to parents, rather than a supply-side system which gives money directly to nurseries, may discriminate against the poor.

**Demand-led or supply-led funding and quality?**

Demand-led funding (a tax credit or voucher system) means there is only an indirect link with quality. In a supply-led system grants can be tied to delivery; and the grant withdrawn if there is a problem with the nursery. In the UK if the nursery is inadequate then the cycle of inspection and monitoring by Ofsted has to take place before action can be taken and, as the press cuttings above indicate, the nursery may still operate pending appeal.

In a demand-led system, entrepreneurs capitalise on the availability of government tax credit subsidies. It is standard financial advice to investors that corporate chains that can utilise government subsidies through tax credits offer more reliable guarantees of income from share investment in nurseries (Laing and Buisson, 2007/8). Tax credits have fuelled the expansion of the corporate sector in the UK, Australia and the USA. Such a demand-led system also exploits parental income, nurseries charging the maximum parents can bear. Nicholson et al. (2008) suggest that more than two thirds of providers had substantially increased their fees in the past year. Annual surveys by the Daycare Trust and the Nicholson et al. study point to average national costs across the sector of £160 per week per child (over £300 per week in central London), a rise of over 19 per cent from 2007–8.

**Conclusions**

In terms of the outcomes of investment in childcare, the UK Government has had three basic aims: firstly to improve educational outcomes, secondly to increase women’s access to the labour force, and thirdly, through an unspecified combination of both these factors, to reduce child poverty (Lloyd, 2008b). It seems to be failing on all three targets; the lowest quality provision is in the poorest areas, where companies are least likely to invest; there is no evidence of a positive impact on women’s employment; and our levels of child poverty are a cause for international concern (UNICEF, 2007).

The problems of low quality are not those of inadequate operators failing to achieve reasonable standards or lack of adequate measuring instruments; they are not individual problems but the structural problems of a system of financing in which historical inequalities in provision persist, and quality and equality cannot be achieved. In relation to the Government’s own criteria we have a poorly functioning system of childcare in the UK, despite the money spent on it.

Better ways need to be found of harnessing the flexibility and innovation of the private sector. But it is difficult to reverse the trends and developments of the past ten years, and there may now be powerful vested interests for the status quo. There may be specific practice issues of raising standards like improving training, or making sure all premises have outside space, or refining measuring instruments etc. But there is also compelling national and international evidence for a substantial rethink on present methods of childcare funding. The childcare tax-credit system is predicated upon the existence of a private for-profit market which is flexible, sustainable and offers good quality care. If there is a market failure, then it is time for a critical re-examination of the notion of the childcare market.
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