Speech

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Does Economics Have Anything to Say About Early Childhood Education Policy?

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Thank you for the opportunity to address the conference this morning. Let me start by saying, on behalf of myself and the members of the Education Forum, how pleased we are that Sue Thorne has joined the group. The need for effective representation and competing voices on education policy issues has never been more important in Wellington.

Today I will address the question of whether economics has anything to say about early childhood education policy. And I will do that with specific reference to the recent policy decision to increase the education requirements for early childhood education staff.

Before I begin, I want to note that I am an economist. I am not an expert on early childhood education. Ask my kids. I will therefore use the tools of economics to analyse these issues. And I make no apologies for that. I hope that it will become clear during my address that economic analysis does have much to contribute to current debates over the direction of early childhood education policy.

The first point I want to make is that policy matters. And good policy is a key to obtaining good outcomes – whether in education, health or elsewhere. It is clearly not all that matters, but it is important.

To be sure, policy does not influence the sector in a direct way. In that sense, it is not like a good teacher, a good centre manager or a good governing board. After all, when is the last time you saw a policy analyst reading a book to a group of three year olds?

But policy is important in a different way – it sets the overall environment within which the sector operates and sets out the rules that govern the sector as a whole. It is far more likely that the early childhood education sector will attract good teachers and top flight managers and achieve good child outcomes if it is well regulated and properly funded, than if neither of these things is present.

Good policy can help governments achieve their economic, social and educational objectives. Bad policy can frustrate the attainment of those objectives.

The second point I want to make is that there is a positive role for government in early childhood education. Economic theory suggests a number of reasons why the government might need to intervene in the early childhood sector. In many ways, these arguments are similar to those used to justify government intervention in schools, although there might be differences in detail.

A first principles assessment of the role of government in education is where any policy design process should start. Economics provides a useful framework for doing that. It provides some guidance on important questions such as *whether* government should intervene in early childhood education and if so, *what form* that intervention should take.

Typically, government intervention in early childhood is justified on the grounds that:

- good quality childcare can have benefits that accrue not only to the child and parents, but also to society. In the absence of government intervention, parents may under-invest in quality childcare, so the government might want to subsidise it;
- liquidity constraints may prevent parents from investing as much as necessary in early childhood education;
- there may be information problems in the child care market. For example, parents may lack information about the quality, cost and availability of care or may not be well placed to assess the quality of care being provided by a given provider; and'
- parents may not be good 'agents' for their children – which just means that parents may not make the 'right' child care decisions on behalf of children, who are not in a position to make those decisions themselves.

In addition, governments might want to intervene in the child care market to ensure equality of opportunity and access to good quality child care for all families, irrespective of income.[1]

So what are the implications of this analysis for the role of government in early childhood education? Let me discuss four.

First, none of the above justifications for government intervention implies that the government must necessarily be the provider of early childhood education services. For example:

- if the government wants to ensure that parents do not under-invest in early childhood education or ensure access irrespective of income, it can do this by subsidising parents. It does not need to own the centres; and
- if the problem is a lack of information, this can be addressed by providing information to parents or by providing information on the quality of early childhood providers. Again, the government does not need to own the centres.

Second, none of the justifications for government intervention implies that some types of providers should be favoured over others (say kindergartens versus for-profit providers, to take a completely hypothetical example).

If there are benefits to children, parents and society from centre-based early childhood education, why should the government care whether it is delivered in a community-owned centre, at Playcentre, a Te Kohanga Reo, a for-profit centre or a kindergarten – if it is delivered to an appropriate standard? The focus should be on realising the benefits

[1] Paulsell, Diane (2001) *The Economic Rationale for Investing in Children: A Focus on Child Care*, Final Report, Mathematica Policy Research, Princeton, pp 6-7.

from early childhood education, not the organisational form of the provider.

Third, we need to be careful about some of the justifications outlined above as, in the wrong hands, they provide significant scope for a trampling of parental freedom to choose what is best for their children. Of course some parents will make the 'wrong' decision regarding child care by choosing a centre that offers lower quality (however defined) than some other centre. Other parents may pick a centre based partly on factors such as convenience (hours, location), culture, language or religious affiliation.

But any government 'solution' to these 'problems' needs to be carefully considered. For example:

- Who is best placed to make the assessment as to whether parents have made the 'right' child care decisions?
- If parents are deemed to not be acting in the best interests of a child in terms of their choice of child care, how can we be sure that a disinterested third party would do any better? The literature is full of studies that show that parents' views on quality can be quite different to experts' views.
- What is the relevant standard that defines a 'wrong' decision by parents? What is deemed to be 'good enough' – the 'best' child care centre in the city, the region or the country? Or is it the 92d Street Y preschool in Manhattan that charges tuition of $US14,000 for a five year old and provides "attentive staff, a retractable roof on the building's upper-story playground, and lots and lots of cachet", according to one internet report?
- How do we reconcile high parental satisfaction with child care services and experts' low assessments of quality?

Finally, the Prime Minister was reported recently as having said something to the effect that 'the role of government is whatever the government says it is'. In one sense she is right, but the important question is what the role of government should be. My view is that good analysis can make a substantial contribution toward determining what that role should be.

Sustainable policy reforms must be built on a strong foundation. And that foundation must be driven off an analysis of the appropriate role of government. This is as true in your sector as in any other sector. While policy analysis is hardly certain enough to provide global postioning system-like detail in terms of policy direction, it can provide useful guidance.

To date, I have discussed general issues in regard to policy development and the role of government. Let me now discuss the government decision, set out in the government's September 2002 strategic plan, to increase the proportion of registered teachers to 50% of regulated staff by 2007, 80% of regulated staff by 2010 and 100% of regulated staff by 2012. The justification for this regulatory change is that it will lead to higher quality child care and improved child outcomes.

I have a number of concerns with the use of regulation – and this measure in particular – as a means of lifting quality in the early childhood education sector. While regulation can have benefits and can be attractive to governments – because it allows them to be seen to be doing something and comes at a relatively low direct cost to the public purse – it can also be ineffective.

In my view, the case has not yet been made that the increase in education requirements, while well-intentioned, will achieve its objective of improving child outcomes. If it does, it may very well come at a much higher cost than if alternative strategies were pursued.

A key reason for this is that regulations such as this can have unintended consequences. This is highly likely to be true in the case of increased education requirements.

While professionalisation of the sector may produce some benefits in terms of a better pool of potential teachers and better training, it is also likely to have an adverse effect on the supply of teaching staff in the sector. This is especially true at a time of reported staff shortages. The fact that these increased education requirements are not grandparented will exacerbate this, given the shorter time horizon available for people currently in the system to recoup the costs of their investment in human capital.

Equally, registration requirements of this sort may not be of much benefit anyway – they are blunt screening devices and may actually serve to eliminate some competent teachers.[2] In other words, qualifications may not equal quality.

I recognise the measure is being phased in and the government is taking steps to address teacher supply issues. But if these steps do not succeed, who will bear these costs? The government? Yeah, right.

A further concern is that it is not clear that the benefits from this regulatory change will be as large as might be expected. Indeed, the evidence of a causal link between child care quality as measured by specific child care attributes (eg. provider education, child:teacher ratios) and better child outcomes is unfortunately limited.

A range of authors, including Blau (1999), Mocan (2002), Besharov and Samari (2000) and the US Council of Economic Advisers (1997) have noted the uncertain state of the literature on this point. For example, the Council of Economic Advisers stated that, despite encouraging findings, surveys of this literature note several shortcomings:

- many studies are based on small, unrepresentative samples; and

[2] Rivkin, Steven G (2001) *Public Investment in Education: Lessons for Child Care Policy*, Appendix C in Diane Paulsell, *The Economic Rationale for Investing in Children: A Focus on Child Care*, Final Report, Mathematica Policy Research, Princeton, p 75.

- studies often do not properly control for developmental inputs received by children at home or other socio-economic factors that may affect child development and may be correlated with the quality of care. [3]

This led the Council of Economic Advisers to conclude that:

> [w]hile there is broad evidence that high quality child care is beneficial to society, better understanding of the relevance of specific inputs (or combinations of inputs), as well as the magnitude of their impact, could greatly improve the design of appropriate policy.[4]

This is echoed by researcher H Naci Mocan, who argues:

> Our knowledge about how to increase quality, on the other hand, is limited… . Although the estimates we obtained, as well as others in the literature, demonstrate the existence of a positive and statistically significant relationship between structural center characteristics… and center quality, the magnitude of that relationship is numerically small… . This result has implications for the effectiveness of regulations.[5]

A key concern is that the observed relationship between quality child care and outcomes may simply be one of correlation, rather than causation. If that is true, then the benefits of lower ratios on child outcomes might be small.

The absence of a ‘proven’ causal link between child care quality and child outcomes has important policy implications. How does the government know that such an expensive proposition will generate the sought after gains? Would other interventions provide better value for money?

A related concern is that, even if regulatory change did achieve some improvement in education outcomes for children, it might do so at a higher cost than could be achieved using other interventions. Child outcomes are influenced by a complex mix of biological and environmental factors. The quality of child care is just one of these factors, and it may not even be the most important one.

For example, Besharov and Samari point out that the NICHD Study of Early Child Care in the United States found that family characteristics had a greater impact on child outcomes than the quality of child care, although this was less true for at risk families. They concluded that:

> Thus, one of the most highly regarded studies on the impact of child care ‘quality’ on child outcomes suggests that quality… is not nearly as important as some argue – and

[3] Council of Economic Advisers (1997) *The Economics of Child Care*, http://clinton3.nara.gov/WH/EOP/CEA/html/childcare.html

[4] *Ibid.*

[5] Mocan, H Naci (2002) *The Market for Child Care*, NBER Reporter, National Bureau of Economic Research, Spring 2002, www.nber.org/reporter/spring02/mocan.html

that other factors may be much more important to child outcomes.[6]

The potential importance of non child care factors in determining child outcomes suggests that the road to better outcomes may not necessarily be paved with more spending on child care.

Rather, governments need to weigh up the potential benefits of investments in early childhood education against the benefits of interventions that focus on other factors – such as the home environment. In the end, spending on programmes such as Family Start may generate bigger gains per dollar spent than investments directed at child care.

Further, increased staff education requirements may have the unintended consequence of driving up costs to the point where some providers may leave the regulated child care market, thus reducing the supply of places. Any resulting increase in the price of child care could put regulated centre-based child care beyond the reach of many families.

They may be forced into the unregulated part of the early childhood education sector and may end up using lower-cost and potentially lower quality/less safe forms of care. It may also have adverse labour market impacts as some workers will withdraw from the labour force to mind their children. Such effects are most likely to fall on the most vulnerable of families.

And these are not just theoretical possibilities. A Rand Institute study by Joseph Hotz and Rebecca Kilburn studied the effect of state regulation on child care demand and its cost. They concluded that:

> Our evidence is that tightening minimum quality standards actually induces parents to shift away from regulated care, thus hampering rather than furthering the goal of child development advocates to raise the quality of care to children in the US. In addition, our results suggest that increases in minimum standards may disproportionately affect the child care utilization of economically disadvantaged households…our results suggest that increasing the stringency of child care regulations may deter the use of developmentally enriching care by groups for which the marginal social and private gains are high.[7]

A report in the *Financial Times*, commenting on the scarcity of childminders in nurseries in the United Kingdom, noted that "success in nurseries has been undermined by a

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[6] Besharov, Douglas J and Nazanin Samari (2000) *Quality Child Care? Assessing the Impact on Child Outcomes*, study prepared for Joint Center for Poverty Research Congressional Research Briefing: *Early Childhood Intervention Programs: What Are The Costs And Benefits?*, available at http://www.jcpr.org/conferences/oldbriefings/childhoodbriefing.html

[7] Hotz, V Joseph and M Rebecca Kilburn (1995) *Regulating Child Care: The Effects of State Regulations on Child Care Demand and its Cost*, RAND Working Paper Series 95-03, Washington DC, p 41.

decline in the number of childminders, due in part to the decision to regulate them more heavily."[8]

In this way, a regulation that aims to increase quality and improve child development might actually end up lowering it, as well as reducing access and having adverse labour market impacts.

In the end, it is not clear that increasing staff education requirements is the best way of achieving what are laudable objectives. And it is not clear that there will be net gains from the change – either globally or for specific groups such as the disadvantaged. Indeed, economic researchers suggest considerable caution in using regulation to achieve higher quality. For example:

- H. Naci Mocan argues that "tightening regulations related to observable structural characteristics is not, by itself, a promising means of improving quality";[9] and
- Steven Rivkin argues that "requirements for prospective teachers and staff, including mandatory degrees and formal examinations should be adopted with great care".[10]

These are hardly ringing endorsements of the government's policy direction.

Before concluding, I want to make a few comments on the role of for-profit provision, an issue of obvious concern to many of you in this group. Government policy in recent years has favoured certain types of providers over others – namely community-owned centres over for-profit centres.

Recent manifestations of this policy have included the exclusion of for-profit providers from receiving equity funding and the extension of pay parity to kindergarten teachers. These come on top of policies that already favoured some providers over others – for example the higher funding levels available to kindergartens. The Minister of Education made his view explicit in a recent debate in Parliament, where he stated that he did have "a preference for community-based childcare".

A recent NZCER report noted the recommendations from a Canadian research centre that proposed that, as a long-term goal, Canadian child care should be delivered through non-profit services, and suggested a number of ways this could be done, including directing new funding only to non-profit child care services, terminating licences to for-profit services and shifting responsibility for child care to a public service.[11]

[8] Bennett, Rosemary (2002) 'Plethora of childcare options fails to deliver', *Financial Times*, 20 March.
[9] *Ibid.*
[10] Rivkin, Steven G (2001) *Public Investment in Education: Lessons for Child Care Policy*, Appendix C in Diane Paulsell, *The Economic Rationale for Investing in Children: A Focus on Child Care*, Final Report, Mathematica Policy Research, Princeton, pp 76-77.
[11] Mitchell, Linda (2002) *Differences Between Community-Owned and Privately-Owned Early Childhood Education and Care Centres: A Review of Evidence*, NZCER, p 12.

While the NZCER report did not recommend any of these steps, it did discuss an option for integrating child care centres in New Zealand into the state sector, with child care centres receiving higher funding in exchange for much stricter regulation (including centralised bargaining and fee limits). In other words, the early childhood education sector should become more like the school sector.

I would caution against any moves that seek to turn the early childhood education sector into a replica of the school sector. There is no policy basis for it. If anything, school sector policy should be moving in your direction. Clearly your sector must be doing something right to have experienced enrolment growth of over 145% between 1990 and 2002. The people have spoken. One of the benefits of your sector is that it is flexible and able to meet the needs of today's diverse and changing society. The last thing a diverse and growing early childhood education sector needs is the imposition of greater centralisation and more inappropriate regulation.

The government's regulatory and funding reviews that are now underway obviously create some risk for your sector. There will doubtless be no shortage of recommendations put forward by the NZEI and its cheerleaders to impose a top-down, one-size-fits-all model on the sector. But the reviews also offer the government the opportunity to do a first-principles analysis of the funding and regulatory systems and to ensure that they are up to the task of meeting today's challenges, not those of 50 years ago.

I spoke earlier about good policy being sustainable. Two key themes of these reviews should be whether current policies and those set out in the strategic plan are sustainable and whether they contribute to the government achieving its quality, access and labour market objectives. In my view, there are big risks with recent policies on both counts.

It is hard to see how the increased qualification requirements announced in the strategic plan will contribute to the government's policy objectives. As noted, the risk is that this policy will drive up prices in the regulated sector and put child care services outside the reach of families who need them most, thus endangering all three objectives – quality, access and labour market participation. Equally, it is hard to see how policies that favour one group of providers representing less than 30% of early childhood enrolments can be sustainable.

No doubt there will be a heated battle in the sector for the hearts and minds of the government on these issues. Let's hope the forces of light prevail and the wider good triumphs over the special interests of a few.

I wish you a good conference.