



PARLIAMENT OF AUSTRALIA
DEPARTMENT OF PARLIAMENTARY SERVICES



PARLIAMENTARY LIBRARY

Issues & Insights | February 2026

Care economy markets



Confidential, Impartial, Timely

Key issues

- Australia's care economy relies heavily on government-supported market-based schemes to deliver services in sectors such as aged care, disability and early childhood. The aim of these schemes is to enable consumer choice and provider competition, with the government positioned as a funder and regulator.
- Successive inquiries and royal commissions have highlighted pervasive problems across these schemes, including variable quality of care, profit-driven behaviour and administrative complexity. These issues suggest structural weaknesses reflecting the inherent risks of using markets for care services, where profit incentives and consumer choice do not operate in the same way as in ordinary markets.
- It remains to be seen whether recent reforms across these schemes and the Australian Government's commitments to stronger market stewardship will be sufficient to meaningfully improve affordability, accessibility and quality of care.

Contents

Introduction	3
The market-based model of service delivery.....	4
Emergence of market mechanisms	4
Limitations of market-based schemes	5
Identifying and assessing structural problems	5
Overseas comparisons: Canadian case study.....	7
Future directions	8
Conclusion.....	9
Further Reading.....	9

Introduction

Australia’s approach to the design and delivery of services in the ‘care economy’ (see Box 1) plays a critical role in determining whether these systems deliver affordable and equitable access, and high quality outcomes.

Box 1: The ‘care economy’

Over recent decades, demographic and societal trends have shaped developed countries’ demand for social services and expectations of care. This includes [women’s increasing workforce participation](#), and [extended life expectancies driven by advances in public health and medicine](#).

Internationally, the [United Nations](#) and the [International Labour Organization](#) have adopted the term ‘care economy’ to describe the demand for and provision of care. While the concept’s broader [conceptualisation](#), [definition](#) and [measurement](#) are contested, the Australian Government [defines](#) the ‘care economy’ as encompassing paid care and support across the aged care, disability, veterans’ and early childhood sectors.

[According to the Department of the Prime Minister and Cabinet](#), the care economy is one of the fastest growing parts of the Australian economy, partly due to our ageing population. It accounts for 15% of Australia’s workforce and Australian Government spending in the care economy is [projected to be around \\$124bn in 2027–28](#) (p. 1).

In Australia, government involvement in the care economy has evolved unevenly. Support for veterans, established from World War I and over subsequent decades, has become increasingly complex, as [outlined by the Productivity Commission](#) (chapter 3). Support is

currently largely based around the Department of Veterans' Affairs (DVA) [paying for services](#) delivered by providers, along with [compensation](#) and [income support payments](#).

In contrast, Commonwealth support for [early childhood](#), [disability](#) (pp. 9-73), and [ageing](#) (p. 4) was relatively minimal prior to the 1980s. As demand grew, Australia progressively adopted market-based models to deliver early childhood, disability and ageing services. Under these arrangements, [the government's role is that of funder, regulator, and market steward](#), while service quality, efficiency, value-for-money and cost-containment are expected to come from the interaction between consumer choice and provider competition. However, various reviews and royal commissions in recent years have identified significant shortcomings in these market-based service delivery schemes. As demand continues to rise, and new challenges emerge, this article explores how we arrived at this point, the limitations of market-based delivery and possible future directions.

The market-based model of service delivery

As the [Productivity Commission has observed](#), Australia's care system is complex, 'involving multiple funding systems, quasi-markets and a mix of government, private and not-for-profit providers', with informal carers also contributing substantially to people's care needs (p. 7).

Direct federal government funding of consumers is central to the design of many schemes in care economy, enabling those consumers to engage service providers in the context of a market. This includes the [National Disability Insurance Scheme](#) (NDIS), [early childhood education and care](#) (ECEC), and [aged care](#) programs. Market-based arrangements have also been implemented in relation to employment services and Medicare. [Researchers have observed](#) that constitutional considerations may have partly influenced the design and development of Medicare arrangements (p. 18).

Common features of these service delivery models include:

- support is subject to relevant requirements (such as eligibility and means tests) and, in some cases, may be managed by a fund manager
- for administrative convenience, the government may pay service providers directly. If so, service providers may charge an additional 'gap' fee (the difference between the Commonwealth support and the full fee).

Emergence of market mechanisms

The shift toward market-based service delivery in Australia reflected broader international public sector reforms dating from the 1980s, when governments in the [United Kingdom, New Zealand and Australia](#) implemented market-based service delivery approaches under the concept of [New Public Management](#) (NPM). While not identical across jurisdictions, the NPM principles generally aimed to improve efficiency, effectiveness and service quality by introducing market-based mechanisms to foster competition (p. 463). This was complemented by outsourcing and privatisation, based on the expectation that private sector ownership or delivery of services would deliver efficiencies and innovation through market

competition (p. 467). Providers were expected to respond to customer needs and prioritise outcomes, rather than bureaucratic administrative processes.

In Australia, the Productivity Commission has led analysis on [why, when and how market-based competition can improve human services](#), playing a central role in the design of key market schemes, including the NDIS and Child Care Subsidy. Successive governments have reinforced market-based models by allowing private for-profit providers to operate alongside not-for-profit (NFP) providers.

Limitations of market-based schemes

The limitations of market-based schemes have been highlighted by numerous inquiries across the care sectors in recent years, including:

- [2021 Royal Commission into Aged Care Quality and Safety](#) (pp. 3, 26)
- [2023 Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability](#) (p. 153)
- [2023 House of Representatives Select Committee on Workforce Australia Employment Services report](#) (pp. xii–xiii)
- [2024 Australian Competition and Consumer Commission Childcare inquiry](#) (pp. 230–1).

Across aged care, disability services, employment services and childcare, these inquiries point to a consistent pattern of systemic problems, such as quality and safety failures; inequitable outcomes for vulnerable groups; weak regulatory oversight and stewardship; and administrative complexity. Together, they suggest that many of the challenges are related to structural design rather than specific to a particular sector.

The NDIS is a key example, with concerns over its design [raised](#) even before it was established in 2013. Since then, a [2023 Independent Review](#) of the NDIS found that ‘markets in the NDIS have not worked as originally imagined’ and that competition had not reliably delivered innovation, service diversity or quality:

Competition has not encouraged innovation or increased the diversity of services for all participants in all locations. In some cases, it has led to poor, or even no services. ... Workforce quality, training, and retention are also major issues. ... The current fee-for-service model rewards providers for the volume of supports they deliver, with little incentive to improve quality, be innovative or responsive to the needs of all participants. Price caps have become price floors (pp. 28, 29).

Identifying and assessing structural problems

Some problems are arguably inherent in market-based delivery approaches. For example, market-based models can incentivise providers, particularly for-profit ones, to increase *activity* rather than *quality*. A 2020 study supported this conclusion, [noting that](#) ‘since it is easier to measure costs than quality in public services, private providers have an incentive to cut, or to “shade”, the quality of services, at least to a minimum level’ (p. 468). In the ECEC sector, [the Productivity Commission has observed](#) that NFP providers, governments and schools have better quality ratings than for-profit providers (p. 14). A current Senate

committee inquiry into [quality and safety within Australia's ECEC system](#), due to report in March 2026, is considering, among other matters, the role of private for-profit incentives and their impact on childcare quality and safety.

Further, [academic researchers contend](#) that market-based approaches have created 'ever more complex processes of interactions between a range of different partners' (p. 43), while the 2023 [parliamentary committee observed](#) that 'insufficient consideration has been given to the inherent costs of oversighting and operating an overly competitive quasi-market system' (p. 72).

Example: Thin markets

A significant challenge is the presence of 'thin markets', particularly in regional or specialised service areas. As outlined in a [discussion paper about the NDIS](#) (pp. 3-4), 'thin markets' are characterised by service gaps due to factors such as a small number of providers for a product or service, and low and/or geographically-dispersed consumer demand. As shown in Figure 1, thin markets can result in increased costs, workforce shortages, and administrative and/or regulatory complexity.

Figure 1: Thin market challenges



Source: Parliamentary Library, adapted from Ernst & Young, [NDIS Thin Markets Project: discussion paper](#), April 2019, Figure 3

Overseas comparisons: Canadian case study

Like Australia, other countries are also grappling with how to deliver affordable, accessible and quality care amid budget pressures, complex administration and regulatory challenges. For example, in 2021, in an effort to address affordability, accessibility and workforce issues, the [Canadian Government announced](#) the [Canada-Wide Early Learning and Child Care initiative](#). Key measures included \$10-a-day average fees for all children aged 0–5 and increasing NFP and public providers.

However, [July 2025 data](#) indicates that fee-reduction implementation varies markedly across Canada’s provinces and territories, possibly reflecting ‘thin markets’ factors. [Compounding this](#), most jurisdictions still rely heavily on for-profit providers, which offer more than 50% of full-day centre spaces (p. 10). [Expansion in the ECEC sector](#) has also predominantly occurred in the for-profit category, with some provinces [reportedly](#) resisting efforts to increase NFP providers. Availability has also been affected: in October 2025, [Ontario’s Auditor General](#) found ECEC cost reductions had led to increased demand, making it more

difficult for some low-income families to access services (p. 4), exacerbated in areas lacking consolidated wait lists (p. 5).

Future directions

Despite the recognition of market-based service delivery's shortcomings and limitations, it is not practical or feasible to resurrect arrangements that existed before market-based models, which featured lower demand, less Commonwealth involvement, and less coordinated approaches to [early childhood](#), [disability](#) (pp. 9-73), and [ageing](#) (p. 4). [Constitutional considerations](#) will also shape how the Commonwealth engages in these sectors.

Within academic research and analysis, suggested approaches have ranged from [focusing on public providers](#) (p. 401), implementing '[responsive regulation](#)', and '[new public governance](#)' (pp. 43, 44) as a [new mode of public administration practice](#), with an increased focus on [market stewardship](#) (pp. 14–15).

The Productivity Commission, for example, has [attributed](#) 'poor incentives and poor outcomes' to weak market design and insufficient government oversight:

Active government stewardship is often missing, or reduced to hurried and ill-conceived interventions when 'things go wrong'. The result is often limited competition with both government and consumers paying more, and stagnant services with little innovation. (p. 4)

The [Productivity Commission therefore suggests](#) that government should recognise and actively engage in its role as a market designer and market steward, 'to help ensure service provision is effective at meeting its objective' (pp. 3-4). In the 2023 [Draft National Care and Support Economy Strategy](#), the government has recognised the need for strong and responsive market stewardship, including by addressing market deficiencies or failures and by creating incentives that shape market behaviour towards desired outcomes (p. 45). The [Australian Government has been progressing a range of reforms](#) across the care economy in recent years, along with other measures such as [trials of integrated service delivery in thin markets](#), where providers offer multiple services (e.g. health, aged care and disability support) to improve access and streamline costs (p. 17).

Recent developments in the ECEC sector suggest that the federal government is increasingly inclined to intervene in some aspects of market-based arrangements to improve affordability, access and quality. In that context, the Government's objective of a [universal system of ECEC](#) represents continuity with change – retaining the market-based paradigm while introducing reforms. These include [public ownership of ECEC centres and increasing NFP service delivery](#). In June 2024, the Productivity Commission [recommended](#) that the Commonwealth establish an ECEC Development Fund to improve access in 'persistently thin markets' (pp. 53, 76), and the Australian Government has subsequently [announced](#) a \$1 billion Building Early Education Fund to address shortages and expand ECEC access. The Federal Department of Education has [reportedly started discussions](#) with large NFP providers about building new early childhood education and care services or expanding existing services in areas of need.

Meanwhile, the [Australian National Audit Office is currently undertaking an audit](#), due to table in November 2026, assessing whether market stewardship frameworks in the care economy promote the economic, efficient, effective and ethical use of public resources. The [Productivity Commission has also recently proposed reforms](#) to strengthen connections and reduce fragmentation between care sectors. Among other matters, it recommended that the Australian Government pursue ‘greater alignment in regulating quality and safety across care sectors’, such as cross-sectoral provider registration and audits for aged care, veterans’ care and National Disability Insurance Scheme services (pp. 1–3).

Conclusion

Ultimately, the design of care delivery schemes should ensure people have equitable access to affordable, quality care and support. While market-based approaches across the care economy aim to promote choice and competition, recent reviews have highlighted systemic challenges and the need for stronger government stewardship. As reforms progress across various sectors of the care economy, it will be important to assess whether they deliver genuine improvements in quality, affordability and access.

Further Reading

- Department of the Prime Minister and Cabinet (PMC), [Draft National Strategy for the Care and Support Economy](#), (Canberra: PMC, 28 May 2023).
- Mark Considine, [The Careless State](#), (Melbourne: Melbourne University Press, 2022).
- Gabrielle Meagher, Adam Stebbing and Diana Perche, eds, [Designing Social Service Markets: Risk, Regulation and Rent-seeking](#), (Canberra: ANU Press, 2022).
- Gale Burford, John Braithwaite, Valerie Braithwaite, eds, [Restorative and Responsive Human Services](#), (New York: Routledge 2019).
- Ben Spies-Butcher, [Politics, Inequality and the Australian Welfare State After Liberalisation](#), (London: Anthem Press, 2023).

Licence

© Commonwealth of Australia



Creative Commons

With the exception of the Commonwealth Coat of Arms, and to the extent that copyright subsists in a third party, this publication, its logo and front page design are licensed under [CC BY-NC-ND 4.0 Deed | Attribution-NonCommercial-NoDerivs 4.0 International](#) licence.

In essence, you are free to copy and communicate this work in its current form for all non-commercial purposes, as long as you attribute the work to the author and abide by the other licence terms. The work cannot be adapted or modified in any way. Content from this publication should be attributed in the following way: Author(s), Title of publication, Series Name and No, Publisher, Date.

To the extent that copyright subsists in third party quotes it remains with the original owner and permission may be required to reuse the material.

Inquiries regarding the licence and any use of the publication are welcome to webmanager@aph.gov.au.

Disclaimer

This work has been prepared to support the work of the Australian Parliament using information available at the time of production. The views expressed do not reflect an official position of the Parliamentary Library, nor do they constitute professional legal opinion.

For copyright reasons some linked items are only available to members of Parliament. All links are correct at the time of publication and are not subsequently updated.

Any concerns or complaints should be directed to the Parliamentary Librarian at webmanager@aph.gov.au. Parliamentary Library staff are available to discuss the contents of publications with Senators and Members and their staff. To access this service, clients may contact the author or the Library's Central Enquiry Point for referral.


Acknowledgement of Country

We acknowledge the traditional owners and custodians of country throughout Australia and acknowledge their continuing connection to land, waters and community. We pay our respects to the people, the cultures and the elders past, present and emerging.


The Parliamentary Library of Australia was established in 1901 and serves as a trusted source of information, analysis and advice for the Australian Parliament. The Library is part of the Department of Parliamentary Services.

Our services are confidential, impartial, and offered on an equal basis to all parliamentarians, parliamentary committees, and to staff acting on their behalf.

Our published material is available to everyone at:

 aph.gov.au/library

 Australian Parliamentary Library

 @ParLibrary



Confidential, Impartial, Timely