

What's wrong with for-profit child care? ^[1]

What's the position of the federal government on for-profit child care?

Author: Cleveland, G.

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What's the position of the federal government on for-profit child care?

The fall economic statement and the federal budget made things pretty clear. The Quebec model based on not-for-profit Early Childhood Centres (CPEs) is the model to follow.

The 2021 Budget provides \$30 Billion over 5 years for the building of a "Canada-wide, community-based system of quality child care." (p. 101). A community-based system means publicly-planned and publicly-regulated not-for-profit and public services.

The budget compares this to public health care and the public school system: "Just as public school provides children with quality education in their neighbourhoods, the government's goal is to ensure that all families have access to high-quality, affordable and flexible early learning and child care no matter where they live." (p. 101).

In case those statements were not clear enough, the budget states that over the next five years, the federal government will work with provinces and territories "to support primarily not-for-profit sector child care providers to grow quality spaces across the country while ensuring that families in all licensed spaces benefit from more affordable child care." (p. 103)

The position is not ideological; it is practical. Child care systems dominated by not-for-profit and public providers operate differently than those dominated by commercial providers. Just compare co-ordinated child care systems in Norway, Sweden, Finland, Denmark and New Zealand to wild-west markets for child care in England, Australia and the United States. Or look at the **recent experience** ^[3] during COVID in for-profit long-term care homes in Ontario. In child care systems dominated by not-for-profit and public provision, low-income families are better served, the quality of services is higher and more reliable and the costs are lower.

Notice that the federal position does not say that for-profit child care will be abolished. Only that it will not be supported to grow. Many families have their children in for-profit services that will continue to get government funding. However, going forward, the federal government insists that the growth will be not-for-profit or public and that new federal money will not support the expansion of private, for-profit centre-based services. For-profit operators, and especially multinational corporate chains of child care services, will be vocal in their desire and willingness to build new services quickly. If the Government is mesmerized by this siren song and relies on for-profit child care operators for expansion, it will largely lose control over the evolution of and quality of the early learning and child care system.

What is needed are producers of child care whose primary objective is the provision of quality experiences for children, producers who are willing to make constant quality improvement their watchword. These producers need to be financially transparent and open (because government will need to monitor costs and account for expenditures). These producers need to pay staff well according to established salary grids to ensure stability and quality of services. Working conditions should include planning time and professional development. These producers need to have as a key objective making early learning and child care into a public service at good quality and affordable for all.

If existing for-profit providers are willing to accept these types of conditions on their operation, they should be welcomed to continue operation, with operational funding. However, new for-profit and corporate child care cannot be part of a new community-based system. **THE KEY PROVISION THAT ALL BILATERAL AGREEMENTS MUST HAVE IS THAT NO OPERATIONAL FUNDING SHOULD BE AVAILABLE TO NEW OR EXPANDED FOR-PROFIT PROVIDERS.**

Remember, there will be substantial downward pressures on quality as the child care sector expands rapidly, even if it is dominated by not-for-profit and public providers. There will be many new staff with little experience, there will be shortages of trained staff, and there will be inadequate numbers of experienced educators to properly mentor new staff. In this circumstance, to rely on providers whose fundamental objectives do not align well with quality promotion would be a serious mistake.

• What's wrong with for-profit child care?

- In some other industries, the profit motive is a beautiful thing, IMHO. Most of the goods and services we consume day-to-day are sold to us by private businesses, competing with each other to attract consumer dollars, each business striving to succeed in producing the most attractive useful product at the best price. Some of these businesses may get out of hand with false advertising or delivery of shoddy goods, but government regulation may be able to control these negative behaviours and leave us with mostly positive results.
- However, early learning and child care is a service where minor regulation of private profit-seeking businesses is not enough to deliver good results. Early learning and child care is a sector that has much in common with education. In general, education is much better when providers are public or not-for-profit. Primary and secondary education are delivered in public schools for free. Tertiary education is delivered by not-for-profit community colleges and universities for fees that are subsidized with public dollars.
 - We think that a primary and secondary education system that is delivered by public institutions (schools) behaves differently than it would if it were dominated by private profit-seeking businesses competing for the consumer dollar. We think that tertiary education delivered by profit-seeking businesses would be different and worse than when delivered by not-for-profit community colleges and universities. There are issues of quality, there are issues of trust in the behaviour of the provider, there are issues of equity of delivery and access. All of these make us prefer not-for-profit and public delivery of educational services.
 - The fundamental objective of for-profit institutions is to make profit for owners and shareholders. In child care, high profits come from hiring less qualified staff, paying low staff compensation, and raising fees. In economic theory, markets are supposed to control this behaviour. The "control" mechanism is supposed to be competition for consumers' dollars, enforced by the willingness of parents to leave a low-quality high-fee child care facility and move their child to another one with better quality and lower fees. But it is difficult for parents to accurately perceive and measure the quality that their children receive, so it is difficult for consumers to hold producers to account using market mechanisms. And most parents are hesitant to move their children away from known friends and caregivers into a new arrangement, unless things are really bad.
 - Further, fees will soon be more or less the same everywhere at \$10 a day, so the cost to parents will not be a big factor in parental decisions. There is overwhelming evidence from many countries that market mechanisms are completely inadequate to foster and promote good quality early learning and child

care services.

- Isn't the preference for not-for-profit child care just ideological?

No, not really. In fact, it is more true that the preference for for-profit child care is ideological. What do I mean? Well, the argument for for-profit child care is based on what we all learned in Economics 101; that the profit motive leads businesses to serve the public interest because they have to compete for consumer dollars. But it is a fiction that consumers voting with their dollars will be controlling the price, quality and accessibility of child care going forward. When parent fees drop to an average of \$10 a day by 2025-26, over 80% of the funds for children of these ages will come from government. Parents will be paying less than 20% of the full costs of providing care.

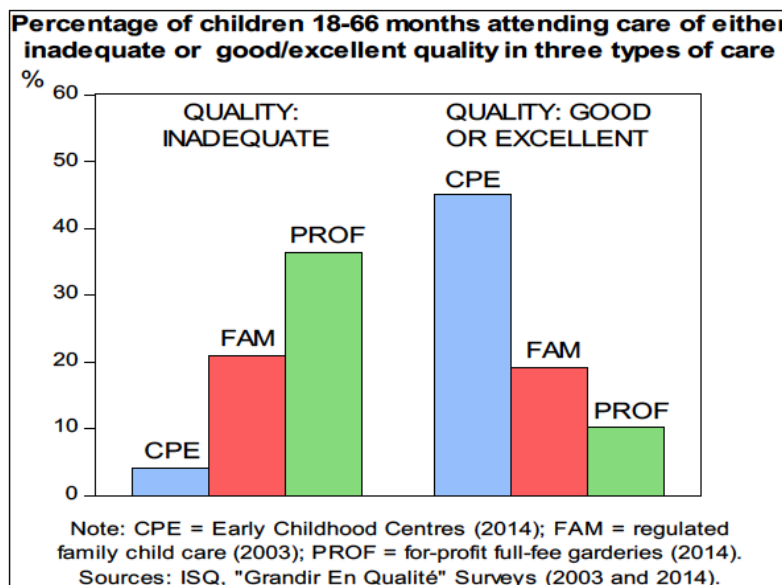
No matter how you deliver the government assistance, that means that the parent is no longer the main consumer, controlling child care providers by voting with their dollars for better quality, more services or lower fees. The main consumer, the main driver of what happens in the child care "market" will be the government, as it is in all levels of education. So, it is, more or less, a purely ideological statement to say that competitive markets will make for-profit providers be more efficient, that they will serve parent needs better, that they will provide better quality care, that they will be more responsive to what parents and children need and want.

- Doesn't for-profit child care provide more "choice" for parents?
- Not really. The "choice" that parents want and need is choice of services that are more convenient for parents in terms of location and hours and better for children in terms of availability of special needs programming, variety in programming (such as outdoor-oriented programs), support for particular cultural and language learning etc. Most of these programs are more expensive to offer than standard child care. For-profit operators are less, rather than more, likely to offer them when fees are controlled.

It is a charade to suggest that "for-profit" is a type of choice that parents need. Parents have diverse needs. As we develop the early learning and child care system going forward, we all need to plan for the provision of a variety of services that serves the tapestry of parent and child needs. The federal government has made clear its willingness to fund "flexible" and inclusive forms of child care. This should be specified in the bilateral agreements that provinces/territories sign.

- Is there any evidence that the quality of for-profit child care is worse?

Sure. There is good academic evidence ^[4] that for-profit provision tends to be of lower quality. And noted Canadian economist Professor Pierre Fortin has summarized the quality results from two Quebec studies very nicely in this chart ^[6].



[7]

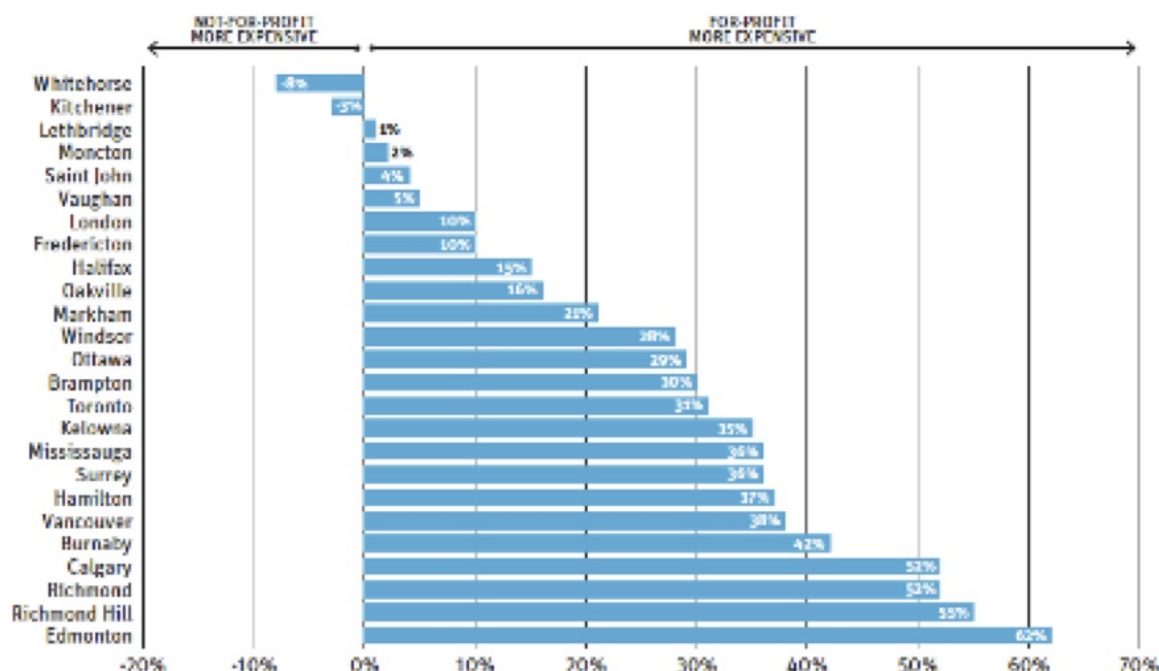
This evidence is based on lengthy and detailed on-site quality evaluations using accepted scales for the measurement of the factors important to children's development. As the chart shows us, children in not-for-profit CPEs in Quebec have

been receiving good or excellent quality child care. Many children in for-profit full-fee child care centres have been receiving child care of inadequate quality.

- But isn't it true that public and not-for-profit enterprises are inefficient and for-profit providers can produce services at lower costs?

So far, there is little evidence of this. The Canadian Centre for Policy Alternatives ^[8] recently made over 9,000 phone calls to child care facilities across Canada, inquiring about the fees they charge to parents. Their conclusion: "We found that for-profit centres generally charge more for preschool spaces than not-for-profit centres do. In 19 of the 25 cities for which we had data (76%) for-profit centres charged at least 10% more than not-for-profit centres. In the more extreme cases (Calgary, Richmond, Richmond Hill and Edmonton), for-profit centres' preschool-age fees were 50% to 60% higher than their not-for-profit counterparts." (pp. 20-21). The chart below from that publication shows that, in 15 of the 25 cities, for-profits charge on average over 20% higher parent fees.

FIGURE 4 For-profit and not-for-profit preschool-age fees in centres in 2019



Note: The cities in previous with sub-regimes were removed. Regina, Saskatoon, Lethbridge and Yellowknife have few for-profit centres and were also removed.

It is worth noting that in Australia, with child care provision dominated by for-profit operators, the **average cost**^[10] of full-time care is over \$27,000 a year for all ages of children.

- But isn't it true that for-profits can build spaces faster? We do need lots more spaces.

When it comes to growth, for-profit child care providers have structural advantages over not-for-profits. Not-for-profits are frequently unwilling to go into debt, so unless there is a program of capital grants to pay for the costs of building new facilities or repurposing existing buildings, it is hard for not-for-profits to expand. And the mission of not-for-profits is to provide good quality care that children and families need, rather than to expand.

The mission of for-profit businesses is to make a profit, so expansion is a natural fit, particularly when the government is paying over 80% of the operating costs and providing a guaranteed demand for services. Shareholders or banks are always willing to ante up when the government is willing to provide guaranteed funding for profit-making businesses.

But there are ways around these structural barriers faced by not-for-profits. Not-for-profits need two main things if they are to build new capacity quickly. First, is access to capital. Some of this should come in the form of capital grants to not-for-profits or municipalities or school boards who are willing to move quickly. Some of this can be in the form of low-interest loans. Not-for-profits are allowed to borrow money, but most banks are unwilling to lend because of perceived high risk of default. But governments can guarantee the loans, and, in general, there will be ample operating funding for child care centres to pay back the loans over time.

The second thing that not-for-profits need is a development champion – a development agency that specializes in handling all the details involved in building new capacity or renovating existing capacity. This is familiar territory for co-operative housing or not-for-profit housing developments. There are specialized agencies that handle the housing development and then turn the housing over to co-ops or not-for-profit housing agencies to manage and operate.

Neither of these barriers is particularly insurmountable, but they do require governments to facilitate surmounting them. In many cases, public agencies such as municipalities, school boards, and community colleges can help a great deal in supporting not-for-profit and public developments. And the federal government should be open to expansions of kindergarten integrated with before-and-after school care. This is particularly true in Manitoba, Saskatchewan and Alberta that currently have only half-day kindergarten for 5-year-olds.

Ontario shows that rapid expansion of not-for-profit child care services is very possible. The information is available in the **annual Ontario statistical report**^[11] on early learning and child care. Over the last 10 years to 2019-20, centre spaces increased in Ontario by 198,600. Fully 85% of the increase (168,900 spaces) was in not-for-profit child care. There are now 462,800 centre spaces in Ontario.

- On balance, what should we conclude about for-profit child care?

Some for-profit child care providers are good, some are bad. This is not really a discussion about individual operators. Particularly when small for-profit operations are run by persons knowledgeable about early childhood education, they can sometimes do quite a good job providing child care services.

The real issue is “Should the early learning and child care systems that we are building in Canada be dominated by for-profit corporate child care operators?” We know that if government policy is agnostic between for-profit and not-for-profit, and generous operating funding for over 80% of costs is made available to both, we will quickly have for-profits dominate new provision of services. You can bet that for-profits will move fast when generous profit opportunities appear. The federal and provincial/territorial governments when they are negotiating the bilateral funding agreements (which they are doing right now) have to explicitly decide to favour new not-for-profit and public providers for support. That means that new or expanded for-profit operations should not be eligible for operating funding going forward. The time to decide the future of the early learning and child care sector is now!

Region: Canada^[12]

Tags: universal child care system^[13]

for-profit child care^[14]

[1] <https://childcarecanada.org/documents/research-policy-practice/21/06/what%E2%80%99s-wrong-profit-child-care> [2] <https://childcarepolicy.net/faq-whats-wrong-with-for-profit-child-care/> [3] <https://www.policyalternatives.ca/sites/default/files/uploads/publications/Ontario%20Office/2021/05/Investing%20in%20care%20not%20profit%20report.pdf> [4] https://www.jstor.org/stable/29739028?seq=1#metadata_info_tab_contents [5] <https://inroadsjournal.ca/quebecs-childcare-program-20-2/> [6] https://www.oise.utoronto.ca/atkinson/UserFiles/File/Policy%20Commentaries/PFortin_Twelve_Flawed_Statements_of_the_Fraser_Institute.pdf [7] <https://childcarepolicy.net/wp-content/uploads/2021/06/Quality-in-Quebec-Grandir.png> [8] https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2020/03/In%20progress_Child%20care%20fees%20in%20Canada%20in%202019_march12.pdf [9] <https://childcarepolicy.net/wp-content/uploads/2021/06/Fees-in-for-profit-child-care-2019.png> [10] <https://www.pc.gov.au/research/ongoing/report-on-government-services/2021/child-care-education-and-training/early-childhood-education-and-care> [11] <http://edu.gov.on.ca/childcare/annual-report-2020.html> [12] <https://childcarecanada.org/taxonomy/term/7864> [13] <https://childcarecanada.org/category/tags/universal-child-care-system> [14] <https://childcarecanada.org/taxonomy/term/9130>