How child care became the most broken business in America [1]

Biden has a plan to make day care more affordable for parents—if the providers don't go out of business first.

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EXCERPTS

Deanna Cohen was 20 years into a career in the music industry when she realized it wasn't going to work out. On paper she looked like a success: She'd worked her way up from college intern at a record company to vice president of music programming at a national TV network. She'd married, had a daughter, divorced, remarried. Then, in 2008, at age 44, she got pregnant with her second child.

Cohen and her family live in Portland, Ore., where the cost of caring for an infant runs as high as $2,000 a month. Preschool for her older child was cheaper, but not much, and most of the programs Cohen found ended at noon. To cover a regular workday, she'd need to tack on aftercare or a nanny. Cohen and her husband were looking at $45,000 a year or more in child-care costs—a figure they could barely afford. "I'm like, what am I going to do?" she recalls. She had a degree in education and had always loved working with children. "So I thought, 'You know what? I'll just open a child-care program myself.' "

She started small, in 2009, with one assistant and a license to care for a handful of children in her home. In the U.S., that's how most child-care providers begin. Although there are national chains—the largest, KinderCare Education, enrolls 200,000 children across the country—they collectively serve only 6% of kids. Instead the industry is overwhelmingly dominated by small businesses owned by women.

Cohen named her place Wow & Flutterville, after an audio term meant to evoke the sound of a record needle finding its groove, and designed a curriculum based on the Waldorf early education philosophy, which focuses on imaginative play. She had craft tables and outdoor gardens. Within a few years she added a second location, then a third, each in a rented home. A few years ago she consolidated them into a proper child-care center. Today she has three spaces that, when fully enrolled, serve 131 kids from 6 weeks to 5 years old. Technically, Wow & Flutterville is a day care. But it looks and operates more like a school. In the U.S., public education usually starts with kindergarten. Before that, parents are on their own. Child care has become the catch-all term for the day cares, nurseries, preschools, or any other place that looks after, and sometimes educates, young children while their parents are at work.

With expansion, Wow & Flutterville can look after more kids, which means bringing in more money. And yet even after more than a decade, it's almost impossible to make the math work. "Margins are still thin, even when things are good," Cohen says.

That's because child care doesn't work like a normal business. Looking after young children comes with a litany of regulations to ensure the programs are safe. There are square footage requirements, zoning restrictions, earthquake preparedness plans, fire safety codes, CPR certifications, nutritional guidelines, rules about parking and outdoor space, liability insurance.

The priciest regulation is a child-to-staff ratio requiring one caregiver for every three or four infants, depending on the state. That's a lot of employees, and it explains why quality care for one baby costs more than many families can afford. Cheaper options are often unlicensed and unregulated, and parents have no guarantee their kids are secure.

Because babies are so expensive, a lot of businesses simply don't accept them. Others charge less than it costs to look after them and load up on older children. According to child-care availability studies, almost 80% of spots are reserved for kids 3 years and older, because they're subject to more lenient staffing requirements, making them cheaper to care for.

Cohen accepts infants, charging just below $2,000 a month for babies younger than 2 and $1,500 for older kids. That doesn't leave her much money to pay employees. Before Covid, Wow & Flutterville assistants started off at $15 an hour, barely above Portland's minimum wage. Experienced teachers made $17. "That's not a living wage," she admits. "You really have to love children to do this. I always tell people, 'If you are deciding whether to be a barista or do this, you should be a barista.' " According to the Center for American Progress, about 60% of child-care center costs go to wages and benefits. When something comes along that upends enrollment—like, say, a pandemic—providers hemorrhage money.

Child care in the U.S. is the rare example of an almost entirely private market in which the service offered is too expensive for both consumers and the businesses that provide it. This reality is reflected in two alarming facts: In most states, putting a baby in a licensed child-care facility costs more than in-state college tuition, yet the people who provide that care make an average of about $24,000 a year, less than a fast-food worker or janitor, even though 87% of them have some form of higher education. Every year a quarter of the industry's workers leave. All this adds up to an exceptionally precarious business model; according to a recent study by the U.S. Department of the Treasury, the typical child-care center's profit margin is only 1%.

"The free market works well in many different sectors, but child care is not one of them," Treasury Secretary Janet Yellen said in September. Louise Stoney, a child-care financial consultant who works with state and local governments, puts it more bluntly: "This is an industry that literally can't generate enough money to survive."

None of this is news. Or at least, it shouldn't be. In 1960 the Department of Labor and what's now the Department of Health and Human Services concluded that a private child-care market "will never be able to meet the current national need." But there's never been enough political will to do anything about it. Sure, there are government subsidy programs, such as the Child Care and Development Fund, but they usually apply only to low-income parents and are so chronically underfunded that just 14% of families who qualify for them actually receive any money.

On top of that, subsidies only partially cover the cost of care. Businesses that accept them lose money, so many don't. "I wish I could serve parents in my own lower economic demographic," says Ashley Fleming, who runs an in-home day care in LA and doesn't take subsidies. "I'm a struggling single mom. I get it. But I can't afford to help someone like me."

Last year, Congress's various Covid relief bills allocated $52.5 billion to keep the industry afloat. It wasn't enough. Mandated shutdowns dramatically reduced enrollment. More than half of child-care businesses report they're losing money, and about a third have closed. And though billions in aid seems like a lot of money, other industries got much more. One out of every 55 working women in the U.S. works in child care or early education, yet the Cares Act gave more to Delta Air Lines Inc. than to all of those women combined.

That's drastically different from how other governments handled things. Many European countries entered the pandemic offering free public preschool and subsidized infant care. France and Germany also had expansive unemployment programs. When providers closed because of health concerns, workers got paid until they could reopen. Parents still struggled to work from home, but at least their nurseries and preschools were still there when it was safe to return.

Right now, congressional Democrats are negotiating the Build Back Better Act, a multitrillion-dollar social spending bill that includes a $390 billion plan to cut child-care costs for many U.S. families and provide free preschool for every kid in America. The current version, if fully implemented, would save American families billions and open the doors for millions of children to go to preschool. But the bill provides only a rough outline of what that relief should look like—capping costs at 7% of most families' incomes, requiring a "living wage" for child-care workers without defining what that means, and relying on states to figure out the details. That is, if a state decides to adopt it at all.

"What we're considering now is a whole lot closer to getting the problem solved than we have ever been before," says Senator Elizabeth Warren, the Massachusetts Democrat, who's twice introduced a universal child-care bill, only to see it go nowhere. "But we need a whole lot more. It's not good enough to tell the states, 'Oh yeah, do something.'"

In some ways, the bill puts providers and advocates in a bind. On the one hand, it's the first time in 50 years that the U.S. government has made a meaningful attempt at providing affordable child care for its citizens. On the other, it doesn't specify how businesses like Cohen's will stay afloat. "The focus is on the demand side of the equation, in buying down the costs for parents. Support for the supply side, the businesses, needs to happen, too," says Linda Smith, director of the Bipartisan Policy Center's Early Childhood Initiative. "If we don't do it right, we stand to actually make the problem worse."

Parents need child care because, try as they might, and they really do, it's not possible to work and take care of an infant at the same time. For centuries men solved this immutable law of space and time by relying on women to look after the kids. But that was never a great solution. Sometimes a spouse fell ill or even died. Others left their family. Men didn't always earn enough on their own to support a family. And of course, for most of U.S. history, access to a good education and a well-paying job was a privilege rarely afforded to people of color.

The first U.S. institution to offer daily care of infants, the House of Industry in Philadelphia, was a nursery attached to a workroom that employed widows whose husbands had died in the 1793 yellow fever epidemic. Jane Addams founded Hull-House in Chicago in 1889, in part because she learned that garment workers were tying their toddlers to kitchen table legs when they had no one to watch them.

The government stayed out of child care, though, out of a general wariness of anything that encouraged mothers to work. That briefly changed during World War II, when about 1.5 million women with children younger than 10 entered the workforce out of what was widely perceived as a sense of patriotic duty. It was really economic necessity: Some 85% of working moms had husbands who were fighting overseas (or had been killed) and therefore weren't sending home much, if any, money. At first these women got creative. Some dropped their kids off at the movies. Others let them roam the streets with a house key tied to their neck, hence the term "latchkey kid."

Congress ultimately passed the Lanham Act of 1940, which created 3,102 nationally run day cares, known as Lanham centers. They were federally funded but locally administered, with services and hours tailored to employees' needs. Parents paid the equivalent of what today would be $8 to $13 a day. Lanham centers were wildly successful but existed only until the end of the war, when the funds were withdrawn. To this day they remain the only time the U.S. government has offered an affordable child-care solution for working parents.

The country then spent 75 years trapped in an ideological debate: Should the government help children of working parents, or would that encourage mothers to work outside the home and therefore threaten some idealized notion of family life? In 1960 the commissioner of the Bureau of Labor Statistics laid out the facts: Women's entrance into the workforce was both growing and permanent. Unless something was done to help them, "the day-care problem can become much more serious than it is today."

Instead, conservative politicians discouraged women from working, calling any form of state intervention communism. In 1958, President

Dwight Eisenhower castigated women who “prefer a career to the active career of real motherhood.” Richard Nixon took a similar tack when he vetoed a 1971 bipartisan bill that would have created a network of federally funded child-care centers—a sort of permanent Lanham Act—claiming it was a “dangerous proposition that the state take the place of the family to raise the kids.” Fifty years later, in March, Idaho lawmakers rejected a $6 million early childhood education grant for the same reason. “Any bill that makes it easier or more convenient for mothers to come out of the home,” state Representative Charlie Shepherd said during a debate, “I don’t think that’s a good direction for us to be going.” Tennessee Republican Senator Marsha Blackburn recently tweeted, “You know who else liked universal day care,” linking to a 1974 New York Times article on subsidized care in the Soviet Union.

This posturing ignores economic reality. Today almost 70% of children under 6 in the U.S. live in a home where all available adults work. Child care is so expensive—about 13% of the typical two-parent American family’s income and 36% of a single parent’s—it affects people’s ability to make a living. For decades the U.S. has had chronically low levels of female employment, especially among women age 25 to 50, compared with places such as Canada, Germany, and the U.K., which is a drag on gross domestic product. In a 2018 study analyzing why so many American women stopped working in the middle of their career, the Federal Reserve Bank of San Francisco cited the absence of paid parental leave and a functioning child-care system. If the U.S. offered something similar to what other industrialized countries do, the study concluded, it would add 5 million people to its workforce.

Kids are missing out, too. According to the Organization for Economic Cooperation and Development, the U.S. invests fewer public dollars in early education and care as a proportion of GDP than almost all of the other 38 countries the organization tracks. As a result, while more than 90% of 3-year-olds are in preschool in France, Germany, South Korea, Spain, the U.K., and a slew of other places, in the U.S. the figure is 40%.

“There’s very robust, strong economic literature that documents the positive effects of early childhood education,” says Catherine Wolfram, a deputy assistant secretary at the U.S. Treasury, who wrote its child-care report. “Educating kids has all these benefits for the rest of society.” And yet the country has failed to act.

In the absence of a federal program, state and local governments have been left to deal with their child-care needs on their own. One of the most ambitious local solutions is being implemented in Oregon’s Multnomah County, which in November passed a measure called Preschool for All. Next year the county, which includes Portland, will begin offering free preschool to all 3- and 4-year-olds who live there, regardless of their family’s income.

It took nine complicated years for Multnomah County to arrive at Preschool for All, and it will take 10 more before it’s fully realized. The journey began in 2012, when Oregon overhauled its early education system in an effort to rectify an alarming fact: About 35% of the state’s children entered kindergarten without basic skills like knowing the alphabet or how to count to 100, largely because their parents couldn’t afford to send them to preschool. The legislature passed a law that created 16 regional early learning hubs throughout the state, each one given about $5 million to address the problem as they saw fit. When Early Learning Multnomah, one of the hubs, asked parents what they needed, the answer was clear: affordable child care.

“We’re talking about parents who have to choose between rent and child care,” says Lydia Gray-Holifield, who has two children and joined the hub’s Parent Accountability Council, or PAC. “Black and brown kids who are not receiving the same services because their parents can’t afford it.” According to surveys, 60% of families with children under 5 in the county couldn’t afford child care without assistance, but state subsidies reached only 15% of them.

Preschool, with its emphasis on education, has never been as polarizing as day care. That’s why Head Start, the 1965 program for low-income children, starts with 3-year-olds; it was conceived as a way to prepare them for elementary school. And it’s why some cities, such as New York and the District of Columbia, have successfully introduced their own subsidized preschool programs.

Gray-Holifield and the other parents who made up the PAC pushed for a preschool program that would be completely free—but to get the money to fund it, they needed voters to pass a ballot measure. In 2018 they took their idea to Jessica Vega Pederson, a county commissioner, who convened a task force of business leaders, preschool providers, and early education specialists to turn their idea into an official proposal.

They began by looking at existing programs to see what to copy—and what to avoid. They learned, for example, that when New York City started its universal preschool program in 2014 it expanded quickly, quadrupling the number of 4-year-olds who attended in only five years, without a contingency plan for the day cares that had been serving them. Stripped of the 4-year-olds who’d been offsetting infant costs, day cares lost money. Some closed. Because of universal pre-K, New York lost about 2,700 infant and toddler spots, almost all of them in poor neighborhoods. Like many places around the country, Multnomah County already had an infant-care shortage. It didn’t want to make things worse.

Then there were practical challenges. Vega Pederson assumed the program would run on school hours, but parents wanted it to include before- and aftercare, better aligning with their workdays. “If you build a preschool program but make it so that only certain families can use it, you haven’t fixed anything,” Gray-Holifield says. At one contentious meeting parents pushed for workday hours, but Vega Pederson worried that sounded too much like day care, a tough sell to voters; the whole thing seemed on the verge of collapse.

So they compromised. Preschool for All would offer free preschool, but before- and aftercare would be provided on a sliding scale, depending on a family’s ability to pay. The program would be phased in over 10 years, starting with those determined to be most in need, such as children of color, those in foster care, or those who are homeless, among others. Small, in-home providers could apply to join, which would allow them to keep their 3- and 4-year-olds enrolled and avoid repeating New York’s mistake.

Addressing the needs of child-care workers was harder. At the time, Portland preschool teachers made an average of $13.70 per hour, and child-care centers were losing a quarter of their workforce annually, even before the pandemic. Preschool for All was going to create about 580 classrooms that served an additional 12,000 children; Multnomah County needed more preschool teachers, not fewer. It had to increase wages without making it unaffordable for the small businesses that paid them.

To do this, the task force worked with Oregon's Legislative Revenue Office on a tax that would generate sufficient funds to increase the number of preschool teachers and pay them the equivalent of a kindergarten teacher's salary, or $35.73 an hour. They settled on a tiered 1.5% to 2.3% tax hike on individuals with taxable income of more than $125,000 and households with more than $200,000. Once the tax is fully in effect in 2026, it will generate about $202 million a year, $25 million of which will be set aside to raise wages for caregivers at child-care centers offering infant and toddler care. "It's a dream piece of policy," says Megan Irwin, an early education consultant who worked on Preschool for All. "We really tried to think through all the components and funding as best we could."

Preschool for All passed with 64% of the vote, but because of the pandemic, the problems it aims to fix have only gotten worse. Ninety-five percent of child-care owners and employees are women, and almost 40% are women of color, many of whom were forced to quit to stay home with their own kids during the lockdowns. Others simply didn't want to live in poverty anymore. "I couldn't afford rent. I lived with my parents. I didn't have a car," says Olivia Pace, one of the many preschool teachers in Portland who left the profession during Covid. Pace, who's 25 and has a degree in child and family studies from Portland State University, started as a teacher's assistant for $12 an hour. She worked her way up to a lead preschool teacher, making $17.25, but had no health insurance. "I always knew I'd have to leave when I turned 26 and got kicked off my parents' insurance," she says. "This isn't a job an adult can hold and support themselves, never mind a family."

Cohen, Wow & Flutterville's owner, says she'd love to participate in the program, but navigating entirely new regulations is something she can't take on right now. She says she lost 30% of her business during the pandemic, and just the other day her second-in-command, a woman who'd worked for her for eight years, quit because she couldn't find after-school care for her own kids. "I'm still struggling day to day. The pandemic isn't over," Cohen says. "The timing is awful."

The U.S. isn't completely alone in child-care hell. During the pandemic, governments awoke to the reality that their economies rely on working parents and that they needed to better support them. Canada is considering a national system modeled after Quebec's, which has been around for 20 years and currently charges parents about $8 a day. Australia made child care free for three months last year before expanding its subsidy program to cover as much as 95% of families' costs. France, long considered the gold standard of early education, didn't have to do much; its government-subsidized creche system for kids up to age 3 dates to 1844.

The U.S. doesn't have an existing program to fall back on, so it's scrambling to catch up. Build Back Better would drastically reduce child-care costs for many families and help some of the 2.2 million women who dropped out of the workforce during the depths of the pandemic return to work. But its success hinges on how it's adopted by individual states.

The act won't create an entirely new child-care system from scratch. All it would do is make money available for states to do it themselves. To receive federal funding, state plans have to meet certain criteria: a bump in worker pay, universal preschool for all 3- and 4-year-olds, and a subsidy program that makes day care completely free for low-income families, capping costs for others at no more than 7% of a family's income, given certain qualifying parameters. States can decide to take money for preschool but reject additional funds to subsidize other forms of child care. Or a state could call all this communism and do nothing.

Beyond that, there's not a lot of detail in the bill. States have no guidance on how to help child-care businesses pay higher wages, for example. Linda Smith, of the Bipartisan Policy Center, says that in some states, the bill could push the cost of infant care up from $20,000 to more than $33,000 a year—and that's for just one baby. "And then if we pull out all the 3- and 4-year-olds and put them in preschool?" Smith says. "In the short term, it might be catastrophic."

The act is better thought of as a framework for states to find their own solutions. Some have already started. Michigan recently expanded a pilot program it started in March to study whether the state, parents, and their employers can share child-care costs equally. In Oregon, county commissioner Vega Pederson has met with state officials about how to apply Preschool for All more broadly. "I want to be clear, we're just at the early, early stage of things," she says. "But the momentum we have at the national level to make huge investments across the country is unprecedented."

Even if the bill becomes law and states take the money, help won't come fast enough for many parents. We're in a nationwide child-care crisis now. Portland's toddlers will be teenagers by the time Preschool for All, a program already under way, is fully operational.

Wow & Flutterville will likely make it through the pandemic, but there were many bleak moments this year. At first, Portland forced child-care centers to close unless they served children of essential workers. Wow & Flutterville replaced most of its middle-class families, the ones who paid full price, with kids whose parents worked at a local grocery store, many of whom were on state subsidies. "They were so appreciative to get access to this kind of program," Cohen says. But Oregon's subsidies covered only half her costs. "We barely got by."

While bringing in less money, Cohen raised wages by $3 an hour to keep her employees from quitting. Then, when a longtime child-care center went out of business, she swooped in and rented its building. "Financially I wasn't really ready to do it," she says, but Portland has such strict zoning requirements for centers that few existing buildings qualify, and she knew it was her best chance to expand.

With vaccination rates climbing, Cohen assumed her centers would fill up quickly this fall. But families have been slower to return than she expected. Her new location is only a third full. To survive, Wow & Flutterville will have to raise its prices 5% more next year. "I'm conscious of the fact that this is a huge financial hit for families," Cohen says. But what choice does she have? The money has to come from somewhere.

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