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Childcare is in chaos. Private equity and for-profit chains are swooping in [1]

As the industry consolidates, it runs the risk of putting profits ahead of kids—and setting back the movement for universal childcare.

Author: Haspel, E.
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Excerpts

The picture of American childcare is one of chaos. The sector is still down 100,000 educators from pre-pandemic levels, nearly 10 percent of the workforce. Meanwhile, staffing shortages have led to agony for parents running into waitlist after waitlist. Thousands of programs have shuttered permanently, unable to keep the lights on. Only one player in childcare is expanding: large, for-profit chains.

Together, the top 11 chains—almost all of which are backed by private equity or publicly traded, most prominent among them being Kindercare, Bright Horizons, Goddard, the Learning Experience, and Primrose—serve around 12 percent of the 7.5 million children who attend center-based care every day. Their density is higher in many urban and suburban areas. With a mixture of franchising and company-run sites, they are also growing and consolidating rapidly. While there are tens of thousands of small childcare outposts that happen to be organized as for-profits but in practice barely break even, these chains are a different breed: They ultimately answer to investors or shareholders first, parents second.

Over the course of 2020 and 2021, the largest chains grew by 8 percent, according to a market status report by Exchange Press. In September, Kindercare acquired a smaller chain with 47 sites across 14 states, while Primrose is on an acquisition “spree,” in the past several months converting nearly two dozen previously independent centers into Primrose sites. At the same time, they’re following the usual operating methods of major corporations. Tom Wyatt, Kindercare’s CEO, has a nearly $2 million annual compensation package, while in 2021 Bright Horizons issued a $400 million stock buyback.

When childcare provision increasingly rests with these large for-profit companies, it is difficult to argue childcare delivers broad social benefits and is thus deserving of robust public funding and access guarantees. The road to a universal, affordable childcare system cannot run through earnings calls and quarterly reports; no public good is designed that way. In short, mixing toddlers and the profit motive is a dangerous brew.

It would be reductive, of course, to assume that these programs are bad actors merely by dint of their financing. Many centers in the chain networks receive high quality ratings, and their educators are working as tirelessly as the ones in nonprofit programs.

But the danger of introducing a profit motive into human services is a hard-earned lesson from elder care. Huge growth in private equity–backed nursing home acquisitions has been associated with substantial declines in quality, triggering federal probes. That’s also been true in for-profit K-12 schools, which have awful reputations and results. When it comes to higher education, for-profit corporations have caused scandal after scandal to the point that courts and governments had to intervene.

There is little reason to think that early care and education would be magically exempt from these sideways influences. Canadian childcare scholar Martha Friendly—whose nation is contending with a similar trend—recently wrote, “Childcare experts can now cite copious international research to underline the pitfalls of relying on the for-profit sector, which is demonstrably less likely to deliver affordable, accessible, quality, equitable services, pay decent wages to staff, or offer affordable parent fees as profits take precedence.” U.S. data is limited, but tells a similar story.

A U.K. report earlier this year further found that private equity–backed childcare programs carry major debt loads due to complex financialization, which leaves them at higher risk of collapse. The existence of equity is, of course, the primary reason large chains are able to keep snapping up market share. This same advantage has destabilized the U.S. nursing home industry to the point that some experts have called for an outright ban on private equity ownership within that sector.

There is also a very serious political question here. While childcare educators have seen a recent uptick in their power, especially as more home childcare providers unionize [3], the chains have outsize influence as the only large corporations in the field. Many were outwardly supportive of the childcare provisions in the Build Back Better Act—after all, they would stand to benefit somewhat from increased subsidies. But since their priority is making money, not making childcare affordable or compensating educators well, they’ve been less supportive of efforts to have the government boost minimum wages or directly engage in providing childcare. That does not

bode well for policy battles to come: When push comes to shove, it is unclear whether these companies will trade lower profits for a better system.

The chains make few pretenses about their positions. Bright Horizons said in its SEC filing [4] last year, “our continued profitability depends on our ability to pass on our increased costs, such as labor and related costs, to our customers,” and changes to the system that create lower-cost options “could place downward pressure on the tuition and fees we charge, which could adversely affect our revenues.” Nor are chains focused on ensuring broad access for families. While schools and fire departments are in every community, these chains’ geographic decisions have little to do with need. As the Learning Experience’s CEO Richard Weissman said in an interview [5], that is instead “an economic question ... can we afford the cost of real estate in comparison to the tuitions we can charge?”

While U.S. lawmakers have largely ignored the growth of these chains—accepting a marriage of convenience given the precious few slots for children in the country’s weak system—other nations have begun reckoning with these questions. Canada is a prime example. As its new “$10 a Day [6]” universal childcare system comes online, funded by a permanent increase of billions in federal funding, provinces have taken different approaches to the for-profit question. British Columbia is prioritizing nonprofit and public programs when giving out the funds, while Nova Scotia is requiring for-profit programs to convert to nonprofit status if they want to participate (programs are welcome to forgo the public funding and remain for-profit).

That high levels of public funding should come with guarantees of public benefit is also apparent in reforms in Ireland and Australia. Ireland requires that programs of all types that accept public subsidies agree to cap parent fees and adopt educator wage scales to ensure all staff get at least a living wage. Australia will require all providers with more than 25 sites to publicly release financial information such as their net profit and fee structures. Such transparency will be important in the U.S., where there is little reliable data.

Now that the chains are growing with accelerating speed, the time has come to wrestle with uncomfortable questions. Should investor-backed chains be allowed unfettered growth? What are reasonable guardrails? Is there a role at all for big for-profit chains in a universal system? While transformative funding for childcare has failed at the federal level, neither the need nor the idea has gone away. As states and Congress consider the future of childcare, the future of for-profit chains looms large.

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