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Children before profits: Private equity in child care [1]

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Executive Summary

Child care is an essential building block of families' financial security, children's education and development, communities' wellbeing, and the country's economic foundations. Yet, despite its important public benefits, child care is too often perceived and funded as though it were a private luxury—a service that people can choose to pay for if they can afford it, but that is not guaranteed to all as a basic need.

It is time to reimagine child care in the United States so that it is recognized and supported as a public good. Under such a vision, the U.S. child care industry and policy system should be designed to prioritize five goals: (1) universal access to care; (2) universally affordable care; (3) thriving caregivers; (4) high-quality care; and (5) diverse choice of providers for families.

These goals do not preclude individuals or businesses from earning a profit from providing child care. However, these profits should be understood as a means to an end—that of achieving the vision for the industry—as opposed to a policy priority unto themselves.

Achieving this vision will require more sustained and robust public funding for the child care industry. This money is needed to bridge the divide between the true cost of providing child care—which is largely the product of the amount of people needed to staff child care programs so that they are safe and provide ample attention to every child—and families' ability to pay for this care. In 2023, a family would have needed an annual income of at least $165,000 (among the top ten percent of incomes) in order to consider the $11,582 average national price of child care affordable (7 percent of their income) without subsidies (Child Care Aware of America 2023).

However, the additional public funding needed to achieve the vision for child care will also attract actors, most notably private equity funds, who are more interested in extracting wealth from taxpayer dollars than in building an industry that provides quality services, creates well-paying jobs, and supports the wellbeing of families and communities across the country.

Private equity's history and practices in industries supported by public dollars should be a warning for the child care sector. The well-documented experiences from the other industries that have seen significant private equity investment—such as aging and disability care, hospice care, and physicians' practices—shows that private equity-owned businesses are more likely to push down the quality of the services they provide, the wellbeing of their customers and workers, and the competitive health of local markets (Appelbaum and Batt 2020; Appelbaum, Batt, and Curchin 2023; Ballou 2023; Batt, Appelbaum, and Nguyen 2023; Gupta et al. 2021). This serves as a warning that, if they increase their presence in child care markets, private equity funds and other corporate actors will exploit every opportunity to maximize their profits, even if their own wealth comes at the expense of the other stakeholders and objectives of the industry. Investor profits taken out of the child care industry before workers are properly paid, before supply catches up to demand, or before care is universally affordable—those profits stand in direct opposition to the needs of U.S. families and communities.

Paradoxically, the same funding that will attract greater private equity interest in the child care sector is also essential to slowing the collapse of the non-corporate providers in the industry. Without public support, small- and medium-sized providers will continue to close due to the near-impossibility of earning enough revenue to cover the true cost of care. This will leave corporate providers with an ever growing share of the market, especially in the communities and employer sponsored parts of the market where revenues are high enough to support profits, even as child care deserts expand in rural and lower income communities. If policymakers delay too long, they may have little choice but to depend on corporate providers to supply care for families, irrespective of whether this is truly in the best interest of families, workers, employers, and communities.

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