2 The policy context

Canada follows a child care market model

Peter Moss, one of the most influential thinkers in the global movement for early childhood education and care, has written about the "story of markets" in child care, which he describes as "about commodification, competition and (individual) choice" (2014: 5). A child care market model is characterized by low levels of public funding with heavy reliance on parent fees, demand-side public funding (vouchers/cheques/tax measures/individual parent fee subsidies), and limited public management and planning. In a market model, child care is treated as a commodity, not a right or entitlement, is not systematically planned and is not treated as a public good or part of the social infrastructure.

Gallagher, examining the growth of child care markets, described the neoliberal view of such markets:

> The particular neoliberal imaginary of the childcare market has …influenced debates over the last decade. This …is a significant departure from the notion of childcare as a public good… The market is purported to be the most 'efficient' means of meeting the changing needs of parents in dynamic working environments. In this form of the market, the private sector takes on a more prominent role. Increasing its involvement allows for new investment, particularly with regard to the cost of infrastructure, and is anticipated to offset reliance on a financially lean state. Under this arrangement parents are 'empowered' to exercise their consumer choice in seeking out the service that best fits their

> needs. Moreover, strengthening the ability for parents to choose and move between services is thought to generate competitive pressures amongst providers, which will increase quality and reduce costs (Gallagher, 2018: 707).

Child care researchers, and many others, have made the argument that "the market does not work" for child care, depending, of course, on how "what works" is defined, as this paper will discuss[3]. Economists Warner & Gradus (2011) have described child care as being a public, as well as a private, good. They examined voucher experiments that have led to growth and dominance of for-profit services in several countries, noting the complexity of "public goods" like child care. They conclude: "Parental choice in a market is not sufficient to ensure an adequate supply response in less profitable markets, or to ensure quality...The invisible hand of the disaggregated market does not coordinate effectively to deliver public goods such as access or quality" (Warner & Gradus, 2011: 572).

Child care ownership influences how well other key structural policy elements — universal, equitable provision, public financing, well paid early childhood-educated staff and democratic participation — function to ensure high quality and equitable access, as well as meeting key social and economic goals.

Today the market shapes just about every aspect of Canadian child care. Government's role to date has been relatively narrow – primarily limited to setting and monitoring regulations establishing legal, facility, programmatic and health and safety requirements and to providing some funding for some families or services. For-profit child care is only one component of a child care market (Friendly, 2019), and whether child care is for-profit,

3 See, for example, Cleveland & Krashinsky, 2004; Mitchell, 2019; White & Friendly, 2012; Yerkes & Javornik, 2018; and the collection of international papers in Lloyd & Penn (2012), especially the paper by Fairholm & Davis, who wrote about how child care staff labour shortages in Canada are generated by market failure.

non-profit or public is not the only policy variable that determines whether children and families have equitable access to high quality early childhood services. But child care ownership is a fundamental element that influences how well other key structural policy elements—universal, equitable provision, public financing, a planned approach, well paid early childhood-educated staff treated as professionals, a sound pedagogical approach, democratic participation, and ongoing quality assurance—function to ensure high quality and equitable access for families and children, as well as meeting key social and economic goals.

Practically, relying on a market model for child care in Canada means:

- Most of the cost of paying for most child care is carried by parents, not publicly funded;
- Much of the public funding that is available is delivered to, or paid on behalf of, individual parent-consumers in the form of payments to (or for) individuals such as parent fee subsidies and tax breaks. These include the federal Child Care Expense Deduction, Ontario's and Quebec's tax credits reimbursing family's child care fees, and the individual fee subsidies paid to services on behalf of parent fees in almost all provinces/territories;
- Only some child care is required to be regulated, as a number of kinds of child care arrangements and programs are excluded;
- Regulation follows a privatized "license to operate" model;
- Where, when, and for whom, child care services start-up or close-down are mostly private decisions, as there is little medium or long term planning based on need or demand (see Friendly, Beach, et al., 2020);

- Managing and sustaining child care services is a private responsibility, with volunteer boards of directors or entrepreneurs carrying the responsibility for financing and decision making;
- Many families rely on ultra-privatized unregulated child care arrangements such as unlicensed or approved family child care or nanny care, in which there is a limited public role, with public intervention or oversight occurring only upon complaint or a crisis situation;
- Twenty-eight percent of regulated child care centre spaces were operated by for-profit entities in 2019, with much bigger for-profit sectors in some provinces/territories. The for-profit child care sector grew from 20% in 2004 to 28% in 2019, with more and bigger chains expanding to make up the for-profit and non-profit sectors (Childcare Resource and Research Unit, 2020; Flanagan et al., 2013).

Three categories of concern about for-profit child care

As this discussion of child care markets points out, both non-profit and for-profit child care are private entities. However, within private child care delivery, it has been identified that private for-profit delivery brings significant risks and concerns — when compared both to public and non-profit programs. Prentice (1997) originally identified three main categories of concern characteristic of a profit-making approach to child care. The first concern is about erosion of quality by the drive to make profits. Second is the concern that diversion of public funds to private profits rather than using them for affordable, equitable, high quality child care is an inefficient way to use public funds. The third concern is that gaining profits from care services that are considered by many to be human rights is not ethical. Of final relevance is a linked issue

of concern that has become relevant to child care – the rise of the financialization of child care. Concern about financialization also arises in other human and care services — health care, education, disability services, prisons and – most recently in Canada – long-term care. This set of concerns are discussed in more detail in the next sections.

Is for-profit operation associated with poorer child care quality?

Research and analysis in Canada and elsewhere consistently show that no matter how quality is assessed, quality differences between for-profit and non-profit child care emerge again and again. Research shows differences in structural characteristics and process quality (see the section reviewing this literature in this paper). This statement is not intended to suggest either that all public or non-profit child care is high quality or that all for-profit services are low quality. Rather, it observes that research and analysis consistently reveal a strong relationship between quality and ownership type.

As the literature review discusses in more detail later on in this paper, research shows that ownership type is a factor — often a significant factor — associated directly and indirectly with multiple factors linked to program quality including wages, working conditions, ECE training, staff turnover and morale, compliance with regulations, staff harshness/sensitivity, staff/child ratios and group size, as well as with parent fees. Staffing elements of child care programs – wages and benefits, working conditions, ratios, staff who are educated for the job — make up most of the expense in centre budgets, so deriving even a modest profit from child care tends to mean cutting back on these “expensive” program features. Thus, Canadian research shows for-profit centres are more likely to pay poorer wages and have fewer ECE trained staff, more non-compliance with legislated staff/child ratios and poorer process quality scores. Canadian research also shows that they are more likely to close down and to charge higher fees than non-profit pro-

grams. (See Cleveland & Krashinsky, 2004; Cleveland et al., 2007; Cleveland, 2008; Doherty et al., 2002; Drouin et al., 2004; Forer, 2018; Friesen, 1992; Japel et al., 2004, 2005; Kershaw et al., 2004; Macdonald & Friendly, 2021; Richardson, 2017). International research shows similar results in other countries as well (Mitchell, 2019; Soskinsky et al., 2007, 2012).

Economists Cleveland & Krashinsky have concluded:

> the overall conclusions…are that non-profit status makes an important independent contribution to quality in child care centres. In fact, non-profits differ from commercial centres in a number of important respects, including the ability to attract financial resources, the characteristics of children served and the inputs chosen by the centre to influence the quality of care provided. Each of these sets of factors does, in fact, affect the quality of care provided, classroom by classroom. However, non-profit status continues to have an independent effect as well. The difference between commercial and non-profit centres is the sum of all these effects (2004: 20).

Is funding for-profit child care an efficient and effective use of public funds?

The issue of "efficiency" is used here to refer to diversion of public child care funds as shareholders or owners take out portions of public funds for private use rather than ensuring that all funds are used for high quality, accessible, affordable child care.

Gallagher has described how government child care funds are used to fund private real estate acquisition in New Zealand, Australia and the U.K. as these countries saw the development of a "government-funded childcare market over the last twenty years, which has led to a boom in parental demand for childcare services and

an exponential growth in private for-profit providers during this time" (2020: 2). Thus, an important efficiency question is: Is public spending on for-profit child care a good use of public funds? A second, related question is: Is it an effective way of delivering on societal goals?

Political scientist Deborah Brennan (2008a) has cited governments' expectations that encouraging for-profit child care would lead to reduced parent fees, increased diversity of provision, increased quality, and reduced government expenditures (that is, more "efficiency"). However, the opposite has been shown to be the case when for-profit child care dominates, as Brennan (2008b) and others have documented. When changes in child care funding in Australia facilitated ABC Learning Center's exponential growth from one centre to a global giant, diversity of provision decreased, parent fees skyrocketed, the workforce was exploited, quality was weak and the corporation lobbied government to keep standards low. Notably, a "significant proportion of ABC revenue came from taxpayer-funds" (OECD, 2006: 120). Lambert wrote in Forbes Magazine that public dollars funded 25% of corporate profits, noting "the honey pot is a growing stream of government money" (Lambert, 2007). Finally, when the child care conglomerate collapsed and was taken into receivership, the Australian federal government was forced to spend $22 million to keep needed centres functioning so parents could go to work. This case illustrating the inefficiency of publicly funding for-profit child care is especially well-documented but it is far from the only instance.

For-profit centres have also been shown to deliver "less bang for the buck" by being less likely to meet government's stated goals. This has been documented in the Netherlands, where substantial growth in for-profit centres crowded out public and non-profit provision following a shift to less regulation and demand-side funding. Noailly et al. (2007) linked the reforms—intended to stimulate market forces to provide more "parental choice"— to more unequal provision. Noailly et al's research showed how the expanded Dutch

for-profit child care sector came to offer less, rather than more, choice for disadvantaged families (2007).

Yerkes & Javornik (2019) compared the effects of public child care spending in three "market" countries (Australia, the Netherlands and the UK) and three "public" countries (Sweden, Iceland and Slovenia). They examined dimensions of child care including accessibility, affordability, quality and flexibility, concluding "direct public service provision offers parents across socio-economic groups the best opportunities to arrange for child care in ways they have reason to value because it provides real choices" (Yerkes & Javornik, 2019: 533).

White & Friendly (2012) considered whether reliance on for-profit services is effective for meeting stated early childhood goals. They noted the disjuncture between stated goals and actual outcomes in early learning and child care in liberal-democratic countries (the U.S., the U.K. and Australia) using highly marketized approaches dominated by for-profit child care services. Using country case studies, they concluded that "governments may commit considerable public dollars to ECEC but will likely fail to achieve the high quality programs needed to deliver results" (White & Friendly, 2012: 306). Looking specifically at whether public spending is linked to affordability, a Canada-wide survey of parent fees found that – while non-profit and for-profit centres are funded equivalently in almost all provinces – parent fees were higher (sometimes considerably higher) in for-profit centres in almost every one of the 37 cities included (Macdonald & Friendly, 2021).

A specific efficiency concern about for-profit operations small and large is about acquisition of real estate, whereby public dollars are used to purchase private property instead of supporting services. Small-scale private acquisition of child care facilities with public funds is certainly inefficient as a public child care expenditure but there are larger, more systemic concerns when it comes to corporate and chain child care real estate acquisition. As Hall &

Stephens (2010) have described, funds from child care facility leasing and sales have fueled acquisition of more centres, with chains growing exponentially in the U.K. The lucrative real estate aspect of child care markets has been documented in Australia by Brennan (2007) and Gallagher has described how "an emergent property investment and sales market was identified as a significant factor shaping the changing frontier of childcare delivery" in New Zealand (2020: 5).

A final, related "efficiency" consideration is associated with the difference between disposition of the assets bought with public funds (grants or portions of operating funds) which could include real estate, buildings or equipment when for-profit and not-for-profit child care entities cease operation. In that instance, organizations incorporated as for-profits are not legally required, as non-profits are, to dispose of their assets according to rules for non-profits, for example, by donating them to another non-profit. Instead, owners may retain them or they may be distributed to share holders. Thus, disposal of assets is a private decision, as there are no rules about the disposal of assets bought with public funds that pertain to for-profit child care.

Is it ethical to treat child care as an opportunity for profit-making?

Health care, disability services, child welfare, in-home support services and long-term care– like early learning and child care – have long seen debates about whether profit-making in care sectors is ethical. These values-based debates include ideas about individual "choice" discourses, on the one hand, and conceptions about the "public good", human rights and democratic participation on the other. British early childhood education and care expert Helen Penn, contrasting a neoliberal, market view of child care with a more robust state role, has observed: "Prioritizing profit over the needs of vulnerable individuals such as young children or old and

frail people, is viewed as morally repugnant and undermining of basic communal solidarity, citizenship and caring" (Penn, 2012: 19). Linda Mitchell has argued that decisions affecting early childhood education should be made through processes of democratic participation: "When the direction of the centre is determined by owners, and making a profit becomes a dominant purpose, the need for financial returns for business owners and shareholders minimises or overrides educational purposes that are centrally important" (2019: 82).

Sumsion, writing about the Australian experience with ABC Learning, used Ball & Vincent's "ethical audit" to assess and discuss it:

> Central to the notion of an ethical audit is the premise that considerations of the public interest should be viewed through an ethical lens that tries to find a way of balancing often competing interests, perspectives and goals, rather than simply focusing on primarily economic considerations (Sumsion, 2012: 213).

Ethical considerations are related to the idea that early learning and child care is a human right for children (Coalition on the Rights of the Child, 2018); the United Nations Convention on the Rights of the Child (CRC) is a main vehicle for considering child care as a child rights issue. The CRC's Article 18, which establishes an obligation for countries to take all appropriate measures to ensure that children of working parents have the right to benefit from child care is the most specific of a number of articles of the CRC pertinent to early learning and child care (Friendly, 2006); General Article 7, which addresses young children as rights bearers, is also important. Canada has typically addressed, and been reprimanded for, its child care provision as part of its regular reviews before the United Nations on this Convention. Early childhood education and care also figures in other important United Nations conventions and agreements particularly the Convention on the Elimination

of All Forms of Discrimination against Women (CEDAW), as well as the Convention on Economic, Social and Cultural Rights, Education for All (EFA) and the Convention on the Rights of Persons with Disabilities.

Moss & Roberts-Holmes (2021), writing about how neoliberalism has profoundly permeated ideas about early childhood education and care over the past thirty years have appealed to values-based, ethical considerations in challenging the neoliberal paradigm:

> We need to reimagine early childhood education and care as a public good, a collective endeavour and a right of citizenship. We need to declare new images and new forms of governance that embody values of cooperation, solidarity, trust and democracy (2021: 1).

The financialization of child care

The idea of the financialization of child care is related to issues associated with child care market models and child care ownership by large corporations, going beyond these to the effects of particular financial practices. Financialization is generally used to mean that financial institutions have increased in size and influence relative to the overall economy, gaining strength as industrial capitalism has declined in relative importance in many countries. Krippner has used the term financialization to describe "patterns of accumulation in which profit accrues primarily through financial channels rather than through trade and commodity production" (2005: 174). Financialization is an augmentation of marketization as we have written about it in this paper and is related to the idea of the "commodification of everything" with regard to education, the environment, media, and culture in a 40-year era of neoliberalism that many commentators have challenged (see, for example, Sandel, 2012).

The term has been used to describe developments in a wide range of social and public policy areas including urban space, housing, food security, health care, long-term care and others but less so with regard to child care, although a number of studies and reports have documented the antecedents of the financialization of child care. For example, Farris & Marchetti (2017) have written about relatively recent developments in Europe showing that for-profit firms of different sizes, including large global companies, are increasingly seeking investments in care services including child care. They argue that this recent trend is linked not only to marketization but to more complex "corporatization". Specifically regarding child care, there has been relatively little comment on it to date. For example, in a comparative study of child care in market and non-market child care countries, Brennan et al. (2012) discussed how the diversion of revenue from child care purposes through financial manipulation by large financialized companies has led to poorer access for vulnerable families and poor wages and working conditions for staff (Brennan et al., 2012).

In financialization, an asset is anything that makes a profit, be it shoes, artworks, tourism, pesticides, or child care, rather than something that has intrinsic value for its own worth.

Financialization of child care is linked to what has typically been referred to as corporate, or "big box" child care. Corporate child care, as Penn and Mezzadri describe (2021), has been evolving from child care owned by large chains or firms that specialize in operating child care, to ownership of child care by large, often multinational companies that acquire, or bankroll, "assets" defined by their profitability, not their type. Thus, private equity and venture capital firms are involved, as well as firms specializing in profitable acquisition of "assets." In this model, an asset is anything that makes a profit, be it shoes, artworks, tourism, pesticides, or child care, rather than something that has intrinsic value or interest for its own worth (Penn and Mezzadri, 2021).

Interestingly, the pandemic, which exposed the sustainability crisis for child care centres in Canada and other marketized child care countries such as the U.K., the U.S. and Australia, also provided particularly good opportunities for acquisition of child care "assets", as non-profits and smaller for-profits alike were forced out of the market in some countries. *Nursery World*, a British child care sector periodical — reporting on the child care market during the pandemic's third wave — quoted one investor from a firm specializing in acquisitions:

> The childcare market remains robust, says the sales and marketing director at Redwoods Dowling Kerr (RDK[4]), especially when compared with other sectors. He noted "Private-equity firms who might be exiting hospitality are looking at child care saying 'this is a pretty Covid-resistant area' " (Goddard, 2021).

The financialization of child care has been examined in depth by a recent mixed-method research project at University College London's Social Research Institute. The project has been conducting one of the few in-depth analyses of child care financialization by the large corporate firms that now dominate British child care provision. The project researchers are examining "private sector childcare in England, investigating the fiscal, planning and other regulatory frameworks that govern the market, and exploring the nature and type of information, including fiscal information which is open to public scrutiny" (Project website: 2021).

This large research analysis had four workstreams:

Workstream 1 - Market reach, social impact and accountability
Workstream 2 - Financial analysis
Workstream 3 - Location and deprivation
Workstream 4 - Accounts of frontline managers

4 RDK is called the UK's "Leading healthcare and child care broker".

Using case study analysis, the project examined how medium to large for-profit child care companies operate compared to not-for-profit organizations with regard to how they gain and use their income (both public funding and parent fee income) and how accountable and transparent they are for these income sources. Forensic financial analysis of major nursery chains and their subsidiaries was used to examine specific financial questions, for example, how much is spent on staffing compared to forms of not-for-profit provision. The research also examined questions such as "Is there a fair and even distribution of private-for-profit provision?" "To what extent do these centres promote the participation of staff and parents/staff in nursery policy making?" "To what extent is access for vulnerable families facilitated?" and "What are the aims of the private sector and to what extent does the sector recognise questions of social impact and accountability?"(Simon et al, 2021, forthcoming).

The research report details how mechanisms such as acquisitions, mergers, borrowing and indebtedness used by the private sector owners of child care companies included in the study obscured detailed financial analysis. This, together with the absence of adequate data through sources such as Ofsted, the official agency that rates quality in educational settings across the U.K., ensures the prevailing lack of transparency. The research report also describes the content analysis carried out to examine the aims of the for-profit firms: It "looked for items on social impact; access for vulnerable and marginalised groups; concepts of fairness and issues of participation and accountability" but "found little evidence across the sector to indicate that these topics were of any sustained interest in the present child care market" (Simon et al, 2021, forthcoming: 34).

The report concluded that:

> ...the medium-large for-profits are expanding through acquisitions but not necessarily creating new child care places. Additionally, many are in debt and making huge

> losses. This raises important questions about how public money is used and the wider sustainability of the child care sector (Simon et al., forthcoming: 57).

Helen Penn, one of the principal researchers on this project has written about this elsewhere, with Alessandra Mezzadri:

> The thrust of nursery provision is overwhelmingly in terms of business capacity and survival, profit and loss. Nurseries measure their success above all by whether they are financially viable. At the top end of nursery provision, where large nursery chains have become profitable enterprises, the actual nature of the business is almost an irrelevance; it is its capacity to make money that is of interest, whether through direct profits, that is fees from parents, or whether through a kind of asset management, bigging up the business so that it can be sold on later at a profit. In the U.K., big nursery companies, involved in a continual acquisitions and mergers cycle, backed by private investment banks, now dominate the child care market and are responsible for more than 50% of all child care places (Penn & Mezzadri, 2021).

Penn & Mezzadri (2021) describe one child care company engaged in "acquisitions, merger and debt" and backed by "loans from a quick turnaround investment company called Triple Point", which the child care companies' press release describes as "a lender that was able to move quickly on acquisition opportunities" (Penn & Mezzadri, 2021).

Child care financialization has to date been more developed in countries other than Canada and Canadian child care has not specifically been the focus of financialization analysis. However, 123 Busy Beavers and its evolution to today's BrightPath form an instructive Canadian case. Following its establishment in 2007 in

Canada by parent company ABC Learning, 123 Busy Beavers had financial backing from Australian, US and Canadian venture capital interests, big banks and real estate firms to set it on its way to becoming a publicly traded Canadian company (Canadian Union of Public Employees, 2007). The publicly traded company, renamed Edleun, then BrightPath, was acquired by U.K. child care giant Busy Bees[5] in 2011. Busy Bees 2021 strategy includes massive new financial backing through "£585 million-equivalent loan refinancing via joint global coordinators and physical bookrunners BNP Paribas and J.P. Morgan" (Flitman & Cox, 2021). This very much fits the financialization paradigm.

Another analysis of the phenomena that are part of the rubric of financialization of care is by Gallagher (2020), who has examined the "relationship between the privatization of child care services and the growth of the child care property market" in New Zealand. The author, a human geographer, observed that New Zealand's urban child care financialization was facilitated by public policy. Her study shows how investor interest is linked to the possibility of deriving value "not from providing childcare, but from rentiership[6] of the assets of the sector" (2020: 2). Gallagher noted that the conditions for this were set within urban child care markets by a combination of market-oriented public policy, high land values and limited options for relocation, which allowed assetization to occur. Gallagher also noted that:

> The assetization of childcare property also has wider societal implications as it is a means of deriving new forms of wealth from the crisis of care more generally... The state ultimately plays a complicit role in this as it funds, but ultimately devolves responsibility and

5 Busy Bees Holdings Ltd., which was – like 123 Busy Beavers – an offshoot of ABC Learning Centres was bought by international investment firm Ontario Teachers' Pension Fund in 2008, which is still its biggest shareholder.

6 Rentiership has been defined as "the extraction of income from the ownership, possession or control of assets that are scarce or artificially made scarce".

> accountability to the burgeoning for-profit sector to operate "efficiently" in the market (2020: 14).

Economists Tse & Warner (2020) have written about the use of social impact bonds to finance child care in the United States, as social programs such as child care have lacked public financial support. They have identified the many caveats about the pitfalls of social impact bonds ("reliance on performance-based management induces gamesmanship" and "may overly skew their focus toward meeting a quantifiable result"). But they note that "the most insidious cost of SIBs is their potential to financialize social services by marketizing the 'public finance value' of their vulnerable clientele" because they must produce a return for private investors based on quantifiable "success" (2020: 861). The authors describe how considering children as "investable" and child care as an "investable" service paves the way to financialization of the sector in a neoliberal reframing of the purposes and goals of early childhood education and care (Tse & Warner, 2020).

This section has described a framework for organizing concerns issues associated with for-profit ownership of child care, then discussed financialization as an emerging fear especially relevant to future developments in Canada as governments begin to build a quality early learning and child care system.