

# Children Before Profits:

Constraining Private Equity Profiteering  
to Advance Child Care as a Public Good

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JUNE 2024

**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 an-

nual 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

## BOX A: WHAT IS PRIVATE EQUITY?

**Private equity firms—like Kohlberg Kravis Roberts (KKR), Carlyle Group, Blackstone, or Bain Capital—oversee funds that receive money from institutions like pensions funds and from wealthy individuals, and whose purpose is to invest that money in ways that will maximize their returns.** They do this by using debt to acquire companies, restructuring these companies' operations to maximize the profits they generate for their owners (such as by selling off assets, raising prices, or cutting operating expenses), and selling them to the highest bidder within three to five years.

This is done with little regard for the long-term health of the companies in their portfolio, let alone these companies' workers, customers, creditors, or suppliers.

**This paper uses private equity as an archetype for profit-maximizing behavior since these investors structurally face more incentives to prioritize short-term profits than any other form of corporate ownership or investment.**

This implies that policies and market incentives that have been designed to guard against private equity behavior are more likely to also guard against the worst behavior of other profit-maximizing actors—and thus protect the vision for U.S. child care that centers on children and families.

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.

## BOX B: COMMON PRIVATE EQUITY TACTICS

- **Debt and Leveraged Buyouts.** The defining characteristic of private equity is their use of debt to acquire their portfolio companies. The most immediate consequence of private equity's use of debt is that portfolio companies—in this case child care providers—face a new operating expense in the form of loan and interest payments. These payments divert their spending away from other operational expenses, like staffing, and increase portfolio companies' risk of default and bankruptcy.
- **Roll-ups and Mergers.** In the past decade, private equity funds have been acquiring several companies in the same sector, rolling them up into larger companies or chains. These larger companies can then push out their smaller competitors, or create market dynamics that force others to also consolidate to survive.
- **Control Over Management and Operations.** Private equity funds, as the new owners of a company, can install new executives and managers who are ready to reorient the companies' operations to meet the funds' priorities. In many cases, new managers are empowered to do whatever it takes to maximize profits, even at the expense of the long-term health of the company and that of its employees, customers, and suppliers.
- **Property Sale and Leaseback.** Private equity funds can access the value of companies' real estate assets by forcing them to sell their properties and rent them back from their new owners. The portfolio company is now responsible for a new expense, this time paying for something that it used to own outright. This increases pressure on providers to take even more drastic measures to cut costs and raise revenues to make up this shortfall.
- **Vertical Portfolio Integration.** Private equity firms can require their portfolio companies to buy from each other rather than from external competitors. This allows the private equity firm to profit from its portfolio companies' expenses. This creates an anticompetitive dynamic in which independent competitors, suppliers, and customers must now compete with private equity-backed companies that have sources of guaranteed demand or underpriced supply.
- **Secondary Buyouts.** When it comes time for a private equity fund to exit its investment in a company, it can sell it to another private equity fund if they are the highest bidder. Both funds benefit from this transaction, since both are under pressure to either buy or sell assets according to the strict timetable that their investors expect. For the company, this second sale to a private equity fund starts all of these tactics all over again.

**As they develop a new strategy for child care, policymakers and advocates have the opportunity to build protections into the policy and institutional foundations of this industry to prevent profit incentives from overtaking the social priorities for families, communities, employers, and workers.** Such a strategy is particularly important for a sector like child care where many providers are private, for-profit enterprises. These enterprises, large and small, will play a key role in achieving a sector that guarantees universal access and affordability, high-quality care, fair compensation to providers, and diverse care options to families.

## THE RISK OF PRIVATE EQUITY PUTTING PROFITS BEFORE CHILDREN

**Private equity funds are already significant investors in the largest U.S. child care companies, and will likely be even more drawn to this industry if public funding increases.** Of the ten largest child care companies in the U.S., eight are currently owned by private equity investors; meanwhile, the only publicly-listed company, Bright Horizons, was private equity-owned until 2013. These ten companies serve between 10 to 12 percent of children receiving licensed care in the U.S., and the top three companies—KinderCare, Learning Care Group, and Bright Horizons—control an estimated 5 percent of the market. These three companies all directly supply child care through their own chain of programs, or through contracts with employers. Five of the other large companies are franchisors whose programs are classified as independent small businesses despite their financial ties to the larger franchise company.

**A well-funded child care industry will likely display many of the attributes of industries that have in the past attracted private equity investors and other corporate stakeholders.**

- The extreme fragmentation of child care markets creates the same opportunity for private equity investors to profit from roll-ups and other consolidation tactics (see Box B) that they have used elsewhere in the care economy.
- Child care is a service that is in high demand, and even without adequate public funding, certain families and employers are able to pay high profit-generating fees. Therefore, simply capturing this small functional segment of the child care market makes business sense.
- Corporate investors may try to buy up child care providers in anticipation of increased public spending, either from states or the federal government, that would expand the share of families that they could profitably pursue as customers. By expanding their presence in child care markets, corporate providers not only increase their opportunities to receive public funding when it materializes, but they can also argue that they represent the type of provider best suited to meeting the public's child care needs.

**Left unchecked, corporate child care risks threatening all five of the industry's vision goals** (see [Table A](#)).

**Underpinning all of these risks is the concern that corporate providers could capture the industry if they are allowed to control a significant share of child care markets.** Once corporate providers become the dominant players in either local or national markets, leaving families and employers with few alternative providers to choose from, then they will have more power to lobby to structure markets around their profit goals as opposed to the priorities of all the other stakeholders who depend on the industry. Private equity will thus join child care advocates in calling for more public funding for the child care sector, as that will grow the market for their portfolio companies. However, when designing guardrails and rules for the child care markets, their interests will likely diverge from those of other stakeholders.

**The private equity policy agenda for child care is likely to focus on:**

- **Maintaining control of profitable markets.** Private equity-backed companies currently make their profits from serving higher-paying families—and especially those who receive child care benefits from their employers. These companies will resist policies that will make their activities in these markets redundant—such as a universal, publicly-funded system that caps family contributions or reduces incentives for employers to offer child care benefits. They will also try to stall the transition towards a more universal system until they can gain enough local market share to argue that they cannot be removed from the sector without causing harm to families.
- **Shaping public funding.** Corporate providers will seek to convince policymakers to distribute child care funding in ways that allow them to use part of this money to main-

<b>Table A: The Risks to the Child Care Vision Goals from Private Equity in a System Without Guardrails</b>	
<b>Access</b>	Private equity investments in child care are unlikely to significantly contribute to an expansion in supply. Corporate providers may be rapidly growing, but this is often through roll-ups and other acquisitions which simply converts existing supply into supply under their direct control.
	Corporate providers may also redistribute resources towards communities that can pay the full cost of care, offsetting any new centers they create in higher-paying communities and allowing closures to happen elsewhere.
	If private equity companies draw staff and other resources away from the providers who serve lower-paying communities, corporate providers may concentrate the net supply of child care in wealthier communities or among employer-sponsored clients.
<b>Affordability</b>	Corporate providers will raise tuition prices, family co-payment, and fee rates as much as they can in order to maintain their profit margins. This means that they will pass any changes in their operating expenses directly on to families and employers.
	If public spending increases to cover providers' operating costs, then corporate providers will lobby to raise this public payment rate as high as they can, deriving their profits from taxpayers.
<b>Provider Wellbeing</b>	Corporate providers may currently pay marginally higher wages than many smaller programs, but they will resist efforts to raise the minimum wages and benefits for their staff as a condition of receiving public funding.
	To cut their operating expenses, they will likely disproportionately rely on part-time staff employed through just-in-time or algorithmic scheduling tactics.
<b>Quality</b>	Corporate providers will seek to maintain outward signs of quality, especially if they focus on wealthier communities and employers as their clients. However, their emphasis on quantitative metrics of quality and profitability—such as enrollment—may lead them to disregard the important human connections that constitute good caregiving.
	Corporate tactics that undermine caregiving job quality will, all else being equal, directly lead to inferior quality care through higher staff turnovers and more tired and stressed caregivers. For children, this churn means constantly being introduced to new caregivers and teachers, never having the chance to form bonds of trust with caregivers, and being forced into an unpredictable environment in which learning is harder.
<b>Provider Diversity</b>	Corporate growth tactics that depend on acquisitions, roll-ups, or conversions of existing providers into franchisees all contribute to the corporatization and concentration of the child care industry.
	Revenues and profits in the industry will increasingly go to (disproportionately white and male) corporate owners and investors instead of from local (racially diverse female) entrepreneurs.
	By reducing families' ability to find non-corporate providers, these companies will have more freedom to use uncompetitive tactics to prevent new entrants.

tain profits without having to invest in their operations or service quality. They will want to limit the guardrails placed on this funding, especially those mandating higher operating expenses (e.g. minimum wage requirements), capping their revenues (e.g. tuition caps), or restricting their profits (e.g. caps on dividend payments or stock buy-backs). These companies will also lobby for higher public repayment rates, without conditions on how they are to be used, to fund their profits.

- **Keeping industry standards and regulations low.** The child care industry is currently regulated in ways that allow providers to keep their operating costs as low as possible (without endangering children) because providers lack the revenues to pay higher expenses. Private equity-backed companies will want to retain this low regulatory and enforcement environment even after public funding increases so that they can pocket this money without being required to invest in their workers, facilities, or other determinants of care quality.

## A PUBLIC STRATEGY TO PUT CHILDREN BEFORE PROFITS

**It is the responsibility of policymakers to ensure that child care market incentives align with the broader child care vision. To do this, policymakers must build guardrails against profit-maximizing behaviors by large for-profit corporations that seek to exploit public funding at the expense of children, families, and workers, and they must create a system designed to advance the five vision goals.**

**First, regulators must set standard rules of the game.** The minimum standards for industry-wide business behavior must rise so that everyone who wishes to participate in child care markets is required to operate in ways that align with the child care vision. This should include:

- **Raising quality and labor standards,** including health, safety, and educational requirements; minimum wage and benefit requirements; protections of collective bargaining rights, and restrictions on how soon after acquisition a program can be re-sold.
- **Increasing mandatory disclosure requirements as part of the licensing process.** Regulators should collect and publicly disclose information about such metrics as businesses' ultimate owners, investors, debt levels, and relationships to other businesses in the child care or other related industries.
- **Providing technical support and funding to help small providers come into compliance with new operating standards.** This support can come from the Small Business Administration (SBA) and other public entities, or through support to shared-service alliances.
- **Maintaining robust enforcement systems,** including inspection systems and the ability to introduce financial penalties, or to suspend the licensing, of providers who harm children, workers, or the stability of the broader industry,
- **Empowering industry boards**—composed of diverse stakeholders including workers and their representatives, local program owners, and families—to shape the regulatory processes and hold companies and policymakers accountable to the vision for the industry.

**Second, policymakers must develop a funding strategy that ensures funding recipients behave in ways that align with the vision for the industry.** This strategy should be designed to prevent providers from collecting public money while cutting their costs or otherwise behaving in ways that undermine the child care vision priorities. Such a strategy should include:

- **Setting public payment rates high enough to cover the true cost of care.** Private providers are only able to contribute to the vision for child care if they can remain profitable as businesses. Under-funded providers have no choice but to push down their expenses, raise tuition rates, restrict their activities to the wealthiest communities, or sell out to private equity-backed companies.
- **Defining expectations of funding recipients, especially around which services and operational outcomes businesses must provide in return for public funding.** This includes their paying higher wages to their workers, recognizing their employees' collective bargaining rights and committing to union peace, maintaining predictable scheduling, and investing in their facilities and equipment.

- **Prioritizing certain providers by offering higher repayment rates or other forms of support to programs who advance the child care vision.** This includes providers who invest in raising their facilities or quality, who pay their workers higher rates, who are part of co-ops or shared-services alliances, who are worker-owned, or who serve communities facing higher barriers to accessing care.
- **Requiring disclosures from all funding recipients** about their ultimate owners, investors, debt levels, and relationships to other businesses in the child care or other related industries, tuition and co-payment rates, executive compensation rates, and their spending on programming.
- **Restricting or prohibiting antithetical behaviors** such as excessive executive compensation, high debt levels, shareholder dividends, or stock buybacks.

**Third, policymakers must build and protect fair and competitive markets.** Private equity-backed providers must not be able to accumulate excessive market power relative to their smaller non-corporate or non-profit competitors. This means that neither small programs nor families must become dependent on private equity-backed providers for their services or financing. Such measures should include:

- **Providing technical and financial support to small businesses,** ensuring that they can access financing or the benefits of economies of scale without having to sell out to a private equity-backed chain. This can be done through support to shared-services alliances, increased access to public loans and technical assistance, and robust public registries of available providers.
- **Supporting alternative buyers of small businesses,** ensuring that program owners can exit the market without having to sell their businesses to corporate chains. This support can include funding from public pension funds, SBA programs, or Community Development Finance Institutions (CDFIs), as well as public pathways to transition private programs towards worker or nonprofit ownership.
- **Ensuring robust antitrust enforcement of anticompetitive behavior.** This can limit market consolidation and disincentivize practices that make child care markets less fair to non-corporate providers. This must be supported by child care regulators trained and equipped with public

information systems who can monitor the health and concentration of local child care markets.

- **Limiting public subsidies of harmful private equity tactics,** most notably by eliminating the tax preferences that incentivize private equity's use of high levels of debt.

**Finally, child care stakeholders must increase corporate accountability by building forms of countervailing power among the stakeholder who share priorities beyond profits.** If properly empowered and mobilized, stakeholders—such as workers, families, non-corporate providers, and long-term investors—can help push back against corporate efforts to put short-term profits over priorities, including child wellbeing and the growth and long-term financial stability of the sector. This requires:

- **Increasing industry transparency,** and thus allowing stakeholders to monitor corporate behavior. This can be done by increasing the disclosure requirements tied to receiving an operating license and public funding; funding and maintaining robust public registries that present key information about available providers; and strengthening whistle-blower protections for both financial and operational misbehavior.
- **Empowering child care workers** by supporting child care worker unions and collective bargaining efforts; including and compensating workers and unions on industry committees that help craft child care regulations; raising standards around workers' wages, benefits, and working conditions; and supporting workers who wish to buy out their employers.
- **Empowering families** by including family advocacy organizations in policy discussions, and compensating families on the industry committees that help craft child care regulation.
- **Empowering non-corporate providers** by including small business advocacy organizations in policy discussions; including diverse program owners on industry committees; and providing financial and technical support to small businesses as competitors to corporate providers.
- **Empowering long-term investors,** such as public pension funds, by providing them financial alternative avenues, such as CDFIs, to invest in child care without having to depend on private equity funds.

**The child care industry is struggling, but a renewed commitment from policymakers and stakeholders from across U.S. society could enable the country to build a child care system that is the envy of the world.** The U.S. has the unique opportunity to get out ahead of the private equity investors who are now entrenched in private child care markets across

countries, and to craft a set of market rules and incentives that contribute to, rather than detract from, the vision of child care available to all families as a public good. Achieving this vision will require contributions from all stakeholders, including private providers and investors, and a commitment from all actors to put the wellbeing of children ahead of their individual profits.

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