COVID-19 EXACERBATES A LOOMING CRISIS IN CHILD CARE

As the coronavirus decimates the child care sector, what comes next? Do we have to accept low wages, expanding child care deserts, and control by a handful of national chains as inevitable consequences? Drawing on lessons learned from the Great Recession, we present employee-owned centers as an innovative solution—one that provides child care in low-income communities, improves the quality of child care jobs, and creates opportunities for increasing worker wealth.

An Industry Already on the Edge

Well before the coronavirus entered our vocabulary, many child care centers were operating on the brink of closure. Despite providing a critical social service, most centers sustained themselves with the limited resources of a typical small business. In a 2015 financial analysis of over 200 child care businesses in Pennsylvania, the average center had cash on hand to cover only one month of expenses, and operated on a 1% post-depreciation profit margin.[i]

Before the pandemic, child care workers reported high rates of food insecurity and relied on public safety net programs at twice the rate of workers in other industries.[ii]

Before the pandemic, single policy changes or comparatively small economic fluctuations could wipe out dozens of centers. In one illustrative example, when former Illinois Governor Rauner dramatically cut child care subsidy funding in 2015, more than 100 child care businesses shut their doors in Chicago's Cook County before funding was partly restored six months later.[iii]

With centers ordered to close in several states and more closures to come, our reliance on this underfunded, vulnerable sector is now impossible to ignore.

The Backbone of Our Economy

For our country to recover, Americans will need to return to work. And they'll need to have child care centers standing ready to care for their children—with clean, licensed facilities and their qualified staff in place—on their first day back. Yet, in a recent national survey conducted by the National Association for the Education of Young Children (NAEYC), thirty percent of child care businesses report, "they would not survive a closure of more than two weeks without significant public investment and support that would allow them to compensate and retain staff, pay rent or mortgages, and cover other fixed costs."[iv]

If child care centers are forced to close, they may never reopen, and they certainly will not reopen quickly, which will hamper the well-being of children and families and slow economic recovery across industries.

When child care businesses close, families suffer from instability and can lose jobs. Parents, mostly women, stay home to care for their children, incurring hidden, lifelong penalties to wealth and wages.[v] Limited access to child care is correlated with low female workforce participation, creating a perpetuating cycle of underemployment, informal, potentially low-quality caregiving, slowed economic growth, and generational poverty.[vi]

Inequity Expanded

Closures will not impact the sector equally. The diversity of the child care sector is one of its strengths, with a workforce that comes close to reflecting the racial and linguistic diversity of America's young children.[vii] Yet child care businesses in communities of color face unique challenges. The child care industry has the third highest rate of minority business ownership, representing 60 percent of firms, but only 35 percent of sales.[viii] These minority-owned businesses will likely be more vulnerable to closure. In 94 percent of majority Black communities and 89 of majority Hispanic communities, the majority of small businesses have a 14-day cash buffer or less—roughly half the buffer of the average small business in the U.S.[ix]

Alternatively, some businesses will be well positioned to ride out this storm. During the Great Recession, as hundreds of local centers closed or cut hours, national and regional chains and franchises grew modestly but strategically.[xxi] Since 2009, they have increased their share of industry revenues by 30 percent.[xii] Since 2015, industry insiders have been bullish about the domestic and international private equity pouring into the sector, and claim the big players are now better positioned to not only weather a recession, but benefit from the buyers' market.[xiii]

While many chains provide high quality care to children and families, they rarely serve working poor and subsidized communities due to low margins and the unpredictability of this market segment. Fundamentally, they are beholden to their shareholders, not community needs.

An Unprecedented Industry Bailout

Early economic indicators suggest the impact of this pandemic may dwarf the Great Recession and other industry upheavals to an almost unimaginable degree.[xivxv] Preserving our child care businesses will require enormous interventions including direct grants to business owners to cover operating costs or emergency loans that are forgiven if centers use the funding to maintain their facilities and workforce and stay prepared to care for children. The sector's slim margins and critical need for stability make even low-interest loans an inadequate solution.

It will also take increased funding for families to access child care subsidies as they rebuild their financial futures, and incentives for child care workers to remain in the sector and not search for more lucrative jobs.

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Succession: A Hidden Crisis

Even large-scale direct payment programs will not address one concern that lies at the center of ICA's work: the impending succession crisis.

It is likely that a significant number of center owners will not reopen their businesses at the end of this pandemic. Child care center owners are aging, and owner retirements made a significant impact on the national decline of licensed child care centers over the last five years.[xvi] If the response to this crisis follows the pattern of the Great Recession, we anticipate retirements for child care business owners to quadruple over the next year.[xvii] During a time of such uncertainty, with fewer options to successfully sell or pass on businesses, business closures will be the likely outcome.

A Stronger, Worker-Centered Sector

It is the owners on the verge of retirement, and often facing health challenges, financial strain, and emotional burnout, that ICA stands uniquely ready to support. ICA can help retiring owners transition ownership of their businesses to their workers, a process that preserves care in communities, builds assets for workers, and ensures owners a fair return. Our loan fund's flexible loan terms, unbound from workers' creditworthiness, create a powerful pathway for business continuity, especially in low-income communities most at risk for exploitation and gentrification following this crisis.

Opportunities for ownership provide workers with a seat at the table, giving them a stake in the revival of their centers and the broader child care sector. Innovative incentives are needed to bring staff back into this low-paid, frontline industry already suffering from a severe staffing shortage.[xviii] Across industries, employee-owned firms report higher rates of workforce satisfaction and engagement, and they invest more in workforce training.[xix] They are more likely to survive economic recessions and are half as likely to lay staff off during downturns.[xx] The employee-owned Childspace in Philadelphia reports half the staff turnover of traditional child care centers.

We do not know how long the pandemic will last or its exact impact on the child care sector. But it is already clear that it will have a profound one. ICA is committed to rebuilding and strengthening the sector with employee-owned businesses that center the voice, wealth, and power of the child care workforce.

What We Can Do

If you own or know of a child care business that may not reopen, reach out to the ICA Group. We are committed to partnering with owners who are interested in transferring or rebuilding their business through employee ownership.

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