INTRODUCTION

As the COVID-19 crisis has made clear, much of our economy hinges on care work. Across the country, millions of parents, if lucky enough to have jobs, have been forced to balance work obligations with the full-time needs of their children. And even as the pandemic has highlighted the critical role that care work plays in our social and economic lives, it has threatened it: In the last year, as many as 20,000 child-care providers have closed permanently (Kitchener 2021; North 2021).

The COVID-19 pandemic made the challenges in the care economy more visible, but it did not create them. For most of the 20th and 21st centuries, families have been left to find childcare through the private market. Even before the pandemic, many American communities were childcare deserts (Malik et al. 2018)—areas with an insufficient supply of childcare—and the high cost made childcare out of reach for many families. White supremacy and patriarchy have and still do shape the childcare market, resulting in the fragmented, largely private, and wholly insufficient system we have today.

Building back better from the pandemic and the longer-term crises it exacerbated will ultimately require an investment in the entire childcare system that corrects for the twin injustices of white supremacy and patriarchy, and that brings down costs for families while raising wages for severely underpaid childcare workers. Proposals currently being considered by Congress, including measures in the Biden administration’s American Families Plan (AFP) to address childcare affordability as well as the $25 billion proposed investment in the American Jobs Plan (AJP) to upgrade and increase the supply of childcare programs in areas where supply is short (known as the Child Care Growth and Innovation Fund), are important first steps toward building the childcare system we need.

This issue brief proposes policy interventions to guide these investments in childcare facilities. Specifically, we propose a structure for the Child Care Growth and Innovation Fund (the Biden administration’s proposed vehicle for direct federal investment in
building and renovating childcare centers) (Gangitano 2021) or similar supply-side investments currently being considered by Congress. Our proposed structure attends to power within the industry—as it stands today and as it could develop following this significant investment in public resources—by promoting democratic decision-making authority, guaranteeing that public resources support public goals, and mitigating wealth and racial inequality.

The policy proposals offered here build on a range of work from the Roosevelt Institute exploring the 21st century labor market, wealth and racial inequality, the role of public provisioning in checking extractive private capital, and the childcare industry itself. In August 2020, we published *A True New Deal: Building an Inclusive Economy in the COVID-19 Era*, which, among other proposals, called for a public option for childcare, recalling the World War II—era investment in public childcare through the Lanham Act in communities with defense industries. Earlier Roosevelt Institute work—for example, *Left Behind: Snapshots of the 21st Century Labor Market* (Mabud and Forden 2018)—examined the challenges facing the childcare workforce as a result of our contemporary legal frameworks. Our proposals are also informed by the Roosevelt Institute’s work on the role of public provisioning and public power as an alternative to the previous era’s approach to market-based provision of essential public services, for example in *New Rules for the 21st Century: Corporate Power, Public Power, and the Future of the American Economy* (Abernathy, Hamilton, and Margetta Morgan 2019).

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In addition, our recommendations are premised on the understanding that shifting power requires public spending that is both at a scale and structured in a way that actively mitigates inequality and guards against the concentration of power across multiple dimensions. When we fail to prioritize these goals, too often public spending ends up exacerbating existing inequalities. Structuring public spending such that it mitigates wealth, race, and gender inequality requires attention to who has decision-
making authority over resource distribution. As our country prepares to finally invest in childcare at a scale that has long been needed, we must use all the policy tools available to limit the power of firms to extract wealth for those at the top at the expense of children, workers, the community, and productive economic investments.

THE CHILDCARE SYSTEM TODAY

As we described in *A True New Deal*, many of the structural flaws in the US childcare system are long-standing and rooted in white supremacist and patriarchal traditions. For centuries, women’s forced, free, and underpaid labor has provided Americans with childcare. Women of color in particular have borne the brunt of this exploitative system in which childcare is offered by a mix of private nonprofit and for-profit childcare centers, home-based childcare providers, informal friends and family providers, and a few government programs like Head Start. By treating childcare largely as a private problem for families to solve and the government to stay out of, the US’s existing childcare policy has created what we described in *A True New Deal* as “a counterintuitive situation in which the US as a whole underpays for childcare—among OECD countries, we are third from the bottom in terms of spending on childcare as a percent of GDP (OECD 2019)—but individual families still cannot afford their limited options.”

The few federal childcare programs that do exist specifically for low-income families—most notably, the Child Care Development Fund—are consistently underfunded. As a result, many of the children who are technically eligible for these programs—which, for the most part, take the form of subsidies to low-income families—are often excluded due to lack of space and funds. According to the Office of the Assistant Secretary for Planning and Evaluation at the United States Department of Health and Human Services, as reported by the Government Accountability Office (GAO), 8.7 million children were eligible for subsidies under state rules in Fiscal Year 2017, but only 1.9 million children—just 22 percent of those eligible under state rules—received those subsidies (GAO 2021).

Even parents who can afford care without aid often lack accessible childcare options because the market-based system has failed to meet demand. And even at prices parents struggle to pay, many childcare providers still have trouble making the financials of the business work. Eighty-three percent of parents with children under five reported that finding quality, affordable care was a serious problem where they lived. The Center for American Progress found that over half of US families live in census tracts that could be described as childcare deserts. Lack of options is an especially acute problem for families who need care during non-traditional hours (Malik et al. 2018). Forty percent of
Americans now work non-traditional hours, but the 2015 National Survey of Early Care and Education found that only 6 percent of childcare programs offer overnight care and only 3 percent offer weekend care.

Those childcare providers that do make their business model work generally do so by keeping wages low. In 2020 the median hourly wage for childcare workers was $12.24 (US Bureau of Labor Statistics 2021). Roughly half of childcare workers (disproportionately women of color) earn so little that they must rely on government assistance—food stamps, Medicaid, or other subsidies (Whitebook, McLean, and Austin 2016).

The American Families Plan and other proposals in Congress would create a substantial investment in childcare that should help parents and providers, primarily through a consumer-side payment structured to bring down costs for families while increasing pay for workers. Alongside this investment, the supply-side investments being considered by Congress and the White House mark an important departure from policymakers’ almost exclusive focus on consumer-side interventions over the last few decades. As we explain below, an increased direct federal investment in the supply of childcare can help ensure the success of increased consumer subsidies.

The policy recommendations we offer here seek to ensure that a new supply-side investment can work to prevent large investments in childcare from recreating the problems that have arisen in other areas when the government has used consumer subsidies to broaden access to public goods. Too often, these subsidies have created the opportunity for highly financialized firms, private equity firms, and franchisors to extract funds from government programs for personal enrichment. Importantly, while throughout this brief we focus on the Child Care Growth and Innovation Fund, as contemplated by the American Jobs Plan, our recommendations could be usefully adapted to any investment the federal government makes directly into childcare programs.

PUBLIC SPENDING AND EXTRACTION IN OTHER INDUSTRIES

As policymakers consider how best to structure the substantial and much-needed increase in investments in the childcare sector, it is instructive to draw lessons—both good and bad—from the structure of investments made in other sectors.

The policy approach taken over the past several decades in higher education offers a cautionary tale as policymakers contemplate substantial new investments in the childcare system. Since the 1960s, higher education policy has centered on providing subsidies in the form of grants and loans to students, with little attention to price
containment or to outcomes. Initially, Pell Grants largely covered the costs of college, resulting in expanded access to higher education. Over time, however, rather than holding down costs to allow for universal access, colleges—both public and private, nonprofit and for-profit—raised prices (Kahn, Middelstadt, and Levenstein 2020). The costs to students increased dramatically, subsidized by easily accessed government loans.

In *New Rules for the 21st Century*, Abernathy et al. (2019) explain how the structure of higher education subsidies has intersected with market power to produce perverse results:

The profit motive [in higher education] gives the private companies in our higher education system an incentive to find ways to extract as much as possible from both the government and from students, and that motive cannot be regulated away. First, this makes it exceedingly difficult to create rules that incentivize positive results. Second, the wealth generated from federal subsidies and contracts builds power that the companies can then cash in for political influence, which can be leveraged to avoid consequences, no matter how strong the accountability rules are. Further, the marketized nature of federal funding for higher education means that the government constantly struggles—often ineffectively—to correct or account for the ways that the whims of the market affect access and affordability.

Unless explicit attention is paid to this market power dynamic, policies like these are too often inadvertently undermined by the market structures they unwittingly create.

Another similar example comes from the affordable housing industry. Housing subsidies in the form of tax credits to encourage the construction of new low-income housing have enriched many developers. Indeed, taking advantage of these subsidies has allowed many developers to ultimately earn enough money to move away from affordable housing and transition to luxury development. Meanwhile, the United States continues to face a housing crisis from a severe lack of affordable units and the people who staff these buildings often bring home poverty wages that leave them struggling to find a place to live (Aurand et al. 2021).

Each of these examples is problematic for its own sake, because each creates opportunities for larger firms to squeeze smaller ones, as well as other economic stakeholders. These examples are also problematic as a matter of democratic policy design. The increased power a firm obtains as a result of its government subsidies is in turn used to evade accountability when the government makes attempts to regulate it.
It is important to note that the childcare industry, as currently comprised, is far from concentrated or highly financialized. The diverse and chronically underfunded industry we described above has not been a ripe target for large corporations to establish dominance in the market and become extractive—quite the opposite, in fact. According to 2018 census data, the vast majority of the nearly 80,000 childcare establishments in the United States are businesses with fewer than 50 employees. At the same time, childcare providers working in larger corporate childcare settings have the lowest average hourly wage among childcare providers, especially when compared to those working in community- or school-based settings (Whitebook et al. 2018).

Nevertheless, lessons from the sectors cited above suggest that a large increase in public resources could alter this landscape. Most notably, there has been and continues to be interest from franchisors—large, highly financialized firms—and private equity firms in the childcare sector. For example, one franchise system with more than 350 childcare centers nationwide is owned by the same private equity firm that owns dozens of fast food franchises (including Jimmy John’s and several other fast food chains), and is widely noted for its anti-competitive labor agreements.

**POLICY MODELS TO MEET COLLECTIVE NEEDS**

Over the last half century, US policymakers have, with varying degrees of success, attempted to structure public policies to meet our collective needs in some industries without being dependent on markets to structure them. In particular, the mid-20th century health care programs that ultimately sat alongside Medicare and Medicaid to help ensure an accessible and affordable supply of public health care providers offer models (although certainly not perfect ones) for structuring a direct federal investment in new childcare programs.

In the wake of World War II, President Harry Truman turned to the unfinished business of the New Deal: health care. Truman outlined five goals for a national health care program, including solving the nation’s hospital and doctor shortage and creating a national health insurance program (Henning Schumann 2016). In an effort to take action on health care without allowing a national health insurance plan to move forward, Republican congressmen embraced a hospital construction bill, known as the Hill-Burton Act. The Act provided federal funds to states to survey hospital facilities and public health centers and then gave grants to communities who could demonstrate...
the need for and viability of new facilities based on a target number of hospital beds per person. Significantly, the Act explicitly allowed funding to go to the development of segregated hospitals. The Act also allowed the Surgeon General to make a condition of approval of federal funding assurance that the hospital would offer people unable to pay “a reasonable volume of services” (Hoffman 2012).

By 1975, Hill-Burton had supported the construction of almost one-third of hospitals in the United States (Henning Schumann 2016). It had done so through a process that required states to create advisory councils, including hospital consumer representatives, to inform the siting of public and nonprofit health care facilities built with Hill-Burton Act funding (Hoffman 2012).

Also by 1975, Hill-Burton hospitals sat alongside the country’s new Medicare and Medicaid systems of health insurance for the elderly and the poor, a step toward Truman’s original vision of building both a national hospital system and a national health insurance system. The hospitals complemented the new insurance systems because they were required to accept patients using Medicare or Medicaid, when other doctors might refuse because of the cost limits the new insurance systems imposed. Moreover, the uncompensated care requirements offered an essential further safety net (Henning Schumann 2016). Both of these requirements continue to this day at the 140 remaining Hill-Burton health care facilities (HRSA 2021).

In the 1960s, Hill-Burton hospitals were joined by a new network of public health providers: Community Health Centers (CHCs), funded by the Great Society’s Office of Economic Opportunity. These centers offered comprehensive care, as well as medical employment training to residents of high poverty areas. Federal funding for their construction was intended to be augmented by federal payments for services provided to Medicare and Medicaid patients. In addition, centers had to be open to all and created a sliding scale system for patient fees (Bailey and Goodman-Bacon 2015). Today, the Health Resources and Services Administration (HRSA) funds nearly 1,400 health centers operating nearly 13,000 service delivery sites across the country (HRSA 2020). Like Hill-Burton facilities, they provide an essential safety net for the safety net.

To this day, Community Health Centers’ governance structures reflect their Great Society origin. CHCs are required to be governed by boards with at least a majority of members being health center patients. Furthermore, they offer wraparound services that help promote health such as education, translation, and transportation (NACHC 2019).

While it is foolish to argue that the public hospitals built through the Hill-Burton Act and the publicly funded CHCs have prevented extractive practices in the health care
industry, they nonetheless can provide useful models for policymakers considering how to expand the supply of childcare in ways that meet collective need and provide some check on the extractive practices that can result from a system built entirely on private profit motive.

POLICY RECOMMENDATIONS FOR SUPPLY-SIDE CHILDCARE INVESTMENTS

To address the challenges in the childcare industry, meet families’ and workers’ needs, and learn lessons from other sectors, we must pay careful attention to how we structure the Child Care Growth and Innovation Fund or similar investments in childcare establishments. In the policies we propose below, we center three key principles:

• Communities should be given explicit control and decision-making authority over resources. Such measures are especially important in Black and brown communities due to the legacy of racist disinvestment and extraction from these communities.

• Public resources must be structured so that firms’ abilities—now or in the future—to concentrate, replicate, and build extractive power are limited.

• Resources should be deployed in ways that are visible and tangible to promote democratic accountability.

CREATE A DEMOCRATIC, REPRESENTATIVE PROCESS FOR DETERMINING WHERE THE CHILD CARE GROWTH AND INNOVATION FUND SHOULD PROVIDE RESOURCES

As described above, markets alone have left us with childcare deserts. One of the benefits of robust federal investment is the possibility of giving local community stakeholders—namely, parents and workers—control over decisions about where and in what communities to site new establishments.

To do this, state or local childcare commissions made up of parents, childcare providers, organizations representing childcare workers, and employers should conduct an initial survey to identify where new childcare establishments are needed and during what hours. Commissions should target both a desired ratio of childcare spots to children and the particular needs of parents in the local labor market. This is loosely built on the process laid out under the Hill-Burton Act, which provided resources for local community surveys that ultimately drove subsequent siting decisions. It also helps to strengthen local

1 This would also be similar to the community assessment prospective Head Start programs must submit.
community participation in the process, a key component of any effort to build long-term support for the program (Hertel-Fernandez 2020).

**DEPLOY CHILD CARE GROWTH AND INNOVATION FUND RESOURCES TOWARD ENTITIES WITH OWNERSHIP STRUCTURES THAT SUPPORT PUBLIC ENDS**

The system of Community Health Centers in place today has several useful elements to draw from in structuring the Child Care Growth and Innovation Fund. Most notably, Section 330 of the Public Health Service Act, which authorizes funding to plan, develop, and operate Community Health Centers, requires any center that receives this stream of federal funds to be a public or nonprofit private entity. This requirement serves several functions. First, it ensures that public resources are being used to build a supply of primary health care—in the case of Community Health Centers, for medically underserved communities—that is responsive to public need rather than a private profit motive. Next, it provides opportunities, as described below, for more intentional public participation in the governance of the centers. Finally, it provides important balance to the distribution of centers in a community, preventing a circumstance in which all medical facilities in a community are privately held and thereby subject to the vagaries of the market.

How might we apply this model to the current childcare sector, while still meeting the goal of the Child Care Growth and Innovation Fund to expand current supply and upgrade existing facilities? Currently, more than one-quarter of the nearly 80,000 childcare establishments in the United States are nonprofit entities. One approach is simply to limit Child Care Growth and Innovation Fund resources to nonprofit entities and to concurrently use funding to build a supply of public facilities. While this approach would limit the opportunities for corporate extraction, it may not do enough to provide opportunities for local wealth building by the Black and brown women who center this care in many communities. To achieve such an important goal, another option would be to limit Child Care Growth and Innovation Fund resources to public or nonprofit entities or to small businesses owned and controlled by women or by socially or economically disadvantaged individuals. This final option would allow for the federal government to invest in the home-based childcare programs that have been the backbone of the US childcare system and an important source of income for Black and brown women especially. Such an investment could help turn these often-struggling
small businesses into wealth building opportunities for the disproportionately Black and brown women who own them.

ENSURE THAT CHILD CARE GROWTH AND INNOVATION FUND PROGRAMS HAVE LONG-TERM OBLIGATIONS TO THE PUBLIC

In addition to funding childcare entities with ownership structures that support the public interest, specifically requiring Child Care Growth and Innovation Fund funded childcare programs to have long-term obligations to the public is another way to mitigate the potential for public subsidies in the childcare sector to result in concentrated, financialized firms extracting resources from families, workers, and the federal government. Here, we note that the nonprofit designation has often failed to constrain hospitals from acting in extractive ways. This is a lesson that calls for strong enforcement of the safeguards we propose above, as well as explicit long-term obligations to the public.

Like the obligation under the Hill-Burton Act to provide a “reasonable volume” of uncompensated services to those who were unable to pay for the care the hospital provided, Child Care Growth and Innovation Fund programs should have a similar obligation. To achieve this goal, federal rules should require these facilities to provide free or reduced cost care to low-income families commensurate with the amount of Child Care Growth and Innovation Fund resources spent on construction or capital costs annually for some period of years after the initial investment. This provision is not intended to replace a robust subsidy program, but rather to complement it, as Medicare and Medicaid have long complemented the Hill-Burton and other funding of direct supply-side support for health care facilities. This approach would need to be tailored so that it takes into account the size and corporate structures of the firms that receive funds, and is contingent on the adoption of a robust subsidy system. Child Care Growth and Innovation Fund programs can and should serve as a complementary safety net for families who might fall through the cracks of an expanded subsidy system.

Child Care Growth and Innovation Fund programs should have obligations not only to the families they serve but also to their workers. Throughout the country, childcare workers, who are disproportionately Black and brown women, are severely underpaid. All care workers, including those employed at Child Care Growth and
Innovation Fund programs, should be guaranteed a good wage and benefits. The investments proposed in the American Families Plan should go a long way in this direction. In addition, programs receiving Child Care Growth and Innovation Funds should be required to agree to neutrality in the case of a union election. This requirement should be consistent with the requirements childcare facilities will be required to meet in order to receive consumer subsidies. Taken together, the Child Care Growth and Innovation Fund can complement efforts that must be included in any consumer subsidy program to raise the floor for childcare provider compensation.

Finally, consistent with governance of federally funded Community Health Centers, childcare programs funded through the Growth and Innovation Fund should adopt a stakeholder governance model, such that the majority of their Boards of Directors are parents and representatives of workers, and such that taken together, each Board reflects the demographic characteristics of the population the center serves. Here, it is worth noting that Head Start offers an important precedent for this recommendation. Like Community Health Centers, Head Start is a product of the Great Society, and its governance structures’ emphasis on community representation continues to reflect its origin. State and local agencies administering Head Start funds are required to have a policy council elected by parents with the majority of members being parents of currently enrolled children.

**CONCLUSION**

As policymakers consider how to structure a historic investment in our nation’s childcare system, it is critical to use the power of government directly to build a supply of childcare that meets the needs of families and communities, rather than relying on the market to dictate the supply of childcare establishments available. Lessons from other industries—both good and bad—can inform the structure of these investments.

Alongside historic investments through consumer subsidies to bring down the cost

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of care for families, it will be essential to have public, nonprofit, and bona fide small businesses that are required to accept children using the subsidies. Without such programs providing an accessible childcare option, families will be vulnerable to the same kinds of exploitative actors who have plagued other government subsidy programs—for example, in higher education and housing—that offer a subpar product to extract federal subsidies, then use their resulting power to rig the rules in order to avoid public accountability. The structure of public spending, in the childcare sector and beyond, is as important as its scale to rebalance power in our economy.
REFERENCES


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