The Newest Threat to The Care Economy: Private Equity

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I'd like to thank the organizers of this event, Martha Friendly and Susan Prentice, for including me in this remarkable day of learning and exchange with colleagues from across Canada and around the world about a topic that will define our collective future.

I have been invited to talk to you today not specifically about ownership issues in childcare, but the big picture for the evolving ownership of the care economy. That's because the accelerating financialization of the care economy didn't start with childcare. It started with long-term care first, in Canada and abroad, at least a generation ago; and now is expanding rapidly in both healthcare and childcare. And what is now happening in *this* era of financialization of long-term care throws a long shadow on what you can expect to happen in childcare in the coming years.

This is a form of profitization that is catching many people off guard. My job today is to be your economic Cassandra, and I'm here to tell you about how the financialization of care, and particularly the arrival of private equity, is affecting the care economy – in childcare, long-term care, and healthcare.

Why The Care Economy Matters

Caring has long been seen as a woman's issue. It took a long time to get the care economy on the political agenda, especially in Anglo nations (maybe because Anglosphere's culture is a bigger fan of making money than making love) because historically care has primarily fallen to women to care at home for those too young, too old or too sick to work. This was most often the case when one breadwinner could support a family, and that breadwinner was most often a man.

The care economy was viewed, and sometimes still is viewed, as the love economy, a turn of phrase coined by Hazel Henderson in 1982. She placed the love economy as one of two unmonetized layers in her metaphor of the economy as a layer cake: starting with the natural world from which we draw sustenance and resources, moving to the unpaid world of social reproduction and care. The next two layers were the monetized parts of GDP, the public and private sectors, impossible without the non-monetized layers. Innovation is the icing on the cake.

The economy as a baked good is not a new concept, though it's normally viewed as a pie – as in "let's bake a bigger pie" – not a layer cake. But caring only recently became viewed as an economic issue of consequence.

As an economist I can attest that is very odd. And it needs to change – *you* need it to change – because of the outsized economic importance of the care economy.

You may be surprised by the facts. Most people are. For economic measurement purposes, I combine Statistics Canada's measures of the industry of health and social assistance (a combined sector) with the industry of education. They contribute to and ultimately define societies' human development and potential. That definition of the care economy accounted for 13.4% of GDP in 2023. Its closest rival is real estate, which clocked in at 13.2% of GDP (which is not the type of driver of economic growth that makes life better for most people).

In 2023, the care economy was over a third (38 percent) bigger than all manufacturing; almost twice as big as construction or finance; and close to three times as large as the mining sector, which goes well beyond oil and gas.

You'd never know it from the way the business press and decision makers talk about the need for economic growth from exports and innovation. So much thought goes into optimizing the production of cars, oil and gas, new homes; yet the care economy, already a dominant source of growth and innovation that could transform the economy and lives, faces chronic disregard and underinvestment. Nonetheless, primarily because of demographics, it footprint in the economy has grown in the last twenty years and it is poised to continue to expand, perhaps becoming the biggest driver of future economic growth.

And here's another "I bet you didn't know": the care economy already provides over one out of five jobs in the economy, eclipsing all other industrial sectors of the economy as a source of income for Canadian workers.

The care economy has the potential to be the backbone of the Canadian middle class like manufacturing was in the 1950s to 1960s.

We treat it as a derivative part of the economy, a nice-to-have once we've dealt with the "real" public policy priority, economic growth. But economic growth can't be sustained without the care economy. It is the *foundation* of economic growth.

Why our thinking about the care economy is changing.

There are three reasons our awareness of the role of the care economy has changed in the past few years.

Reason 1: The pandemic. It raised the visibility and lived reality of the care economy as the social infrastructure of the economy, as critical to its functioning as roads and bridges, water and electricity.

Reason 2: Population aging. Just before the pandemic hit Canada's unemployment rates were the lowest seen since the early 1970s. That was because, like any nation that had a baby boom after the second world war and saw birth rates fall plummet over the last 40 years, more people were exiting from the labour force than entering it. That's why we have seen a surge of newcomers, not just in Canada, but everywhere around the world (though Canada won the gold in the Olympics of intake of newcomers in the past two years).

Reason 3: Because of population aging, climate change and geopolitics, economic growth is slowing in the richest nations of the world. Investors are finding it harder to make money. A *lot* of money was made since the reopening of the global economy due to the pandemic, the invasion of Ukraine by Russia, and a wave of inflation not seen in 40 years. But a lot of that money migrated from the usual types of investment – publicly traded stocks and bonds – to private equity.

Why private equity is becoming a major issue.

You may recall Canada's federal finance minister saying in the fall of 2022 she was being "fiscally responsible, keeping our powder dry" to explain why she didn't increase federal spending to support people struggling with affordability issues in the wake of the spike in inflation. She wanted to reserve funds to deploy if the economy fell into recession.

There's another, far more explosive form of "dry powder" and it's not being held in reserve to help you. It's the term used in private equity markets to refer to cash ready and available to be put to work to make money for its owners, not you.

How much dry powder is available in the world of private equity is a question mark because – by definition and by law – we only know what these investors want to tell us; but estimates from Prequin and Dealbook put the amount of dry powder available in early 2024 as approaching or exceeding $3 trillion USD globally. From what we can see, they're increasingly eyeing the care economy.

Next week a huge conference in Washington DC will bring together investors to talk about the potential for dealmaking in homecare and long-term care businesses. In early March, Lina Khan of the U.S. Federal Trade Commission put the investment world on notice that, given the acceleration of private equity deals in health care which are consolidating market power and driving up prices, more interventions and possibly new regulation may occur. Meanwhile the U.S. Senate is studying how private equity is advancing within hospitals and changing care. California just tabled a bill that aims to lock private equity out of health care.

Here in Canada, we are walking towards a world of pain with our eyes wide shut.

Three truths to pay attention to.

We need to pay much closer attention to trends in private equity in the U.S., U.K., New Zealand, Australia, Europe, the Nordic nations, and even in South Asian nations. The same patterns are playing out around the world, largely because of the three incontestable truths learned at high cost in the past few years.

Truth 1: Care workers go to work so that you can go to work. If there aren't enough care workers to do the care that is needed, more other types of workers will be unable to work to their potential. They will need to provide some amount of unpaid care. That will undermine the latent economic potential of a nation.

Not to fetishize paid work, but we are in a new moment. Soon one in four Canadians will be seniors, the biggest cohort of elderly in history; and we will have the smallest working age cohort since the 1960s. This high dependency ratio will continue not for a few years, as it did in the 1950s and early 1960s, but for decades; and this reality will unfold with a background rate of economic growth not of five or six percent as was the case more than half a century ago, but growth hovering around 2 percent or less. It wouldn't take much to push the system into long-term recession if we don't play our cards right.

This is happening around the world, with events unfolding roughly the same way it is happening in Canada: rapidly growing demand for paid care services; rapidly growing government financing; and a light touch on the rules, to facilitate expansion. The care economy is turning into an economic wild west.

Truth 2: These are the perfect conditions for attracting private sector investors. But not just any kind of investment. Not publicly traded companies, by and large, who are regulated by security commissions; but private equity for whom there are fewer legal requirements and fewer legal restrictions. They work within the rules (or lobby to change the rules) to shield themselves from scrutiny, responsibilities, and liabilities through complex corporate structures.

As has been said over the course of the day, taxpayers and academics now need forensic accountants to help us follow the money. *Our* money.

There's something very wrong with this picture. We can't wait for academics to assemble the right set of people to start digging into the evidence, because these players are high-flyers and fast movers. A private equity asset is held on average for four to seven years before it is sold.

The care economy is in their crosshairs because, in the era of slow growth, it is a sure source of growth, and provides a stable government-backed stream of monthly revenue. Further, it is ripe for the private equity playbook, with high potential to squeeze these modes of service delivery by lowering costs, increasing revenues, and organizing government lobbies for new rules regarding staffing levels and qualifications, and fee rates. This is not your daddy's privatization.

Truth 3: The laws as they now exist won't protect you

The Canada Health Act (CHA), enacted in 1984, won't protect you from private equity in healthcare. It protects us from privatization of the administration of systems of public insurance (pooled risk is the best risk/lowest cost) but was really enacted to prevent extra billing… when it's enforced. Extra billing was your daddy's form of privatization.

C-35, put into force just a few weeks ago (March 19), won't protect you from private equity in childcare. It uses the same language as the CHA, based on Guiding Principle 7(a): "support the provision of, and facilitate equitable access to, high-quality early learning and child care programs and services — in particular those that are provided by public and not for profit child care providers."

This is the only mention of the word 'profit' in the legislation. There is no acknowledgement of the risks of profitization in this or any other aspect of care that is funded by the federal government.

We have no federal law that restricts the growth of for-profit care, and certainly none that identifies much less prevents the particular form of care for profit that is private equity.

Worse, we don't even know how fast or where private equity is moving into the care economy, either at the national or sub-national level. It's a black hole.

When people talk about privatization in 2024, they often still mean big box childcare, extra-billing in healthcare, or corporate chains in long-term care. These aren't the only barbarians at the gate. The new kid in town is private equity.

Private equity isn't new. It's new in the care economy.

Private equity is a form of profitization whose modus operandi is stripping profits from pre-existing economic activities, then flipping the assets to the highest bidder who buys a now more "profitable" enterprise. This is achieved by standardizing practices to only the lowest-cost, highest-price activities (creaming); reducing staffing levels and qualifications of staff to better control (axe) wages and benefits; relying on a model of human resource planning that views churn as a good thing (temporary and migrant workers); and creating corporate structures that make facility operators (the actual providers of care) pay escalating rents and debt to another arm of the owner company.

In the case of the care economy, because of deep government offsets for the costs of these necessary services, taxpayers end up footing the bill for debt-leveraged mergers and acquisitions through subsidies for operational costs. For-profit owners can and do also up-charge for anything that isn't covered by public subsidies or insurance, creating another tier of revenue. That is a more common feature of entities purchased by private equity, because it increases revenue streams and the ability to put these operations on the market at a higher price.

The Norwegians call it the tapeworm economy, a parasite that absorbs the nutrition from public funds, weakens care, and degrades jobs.

In Canada, we're sleepwalking through it at best, and at worst actually actively rewarding these companies as I documented in my last column for the Toronto Star. (It described how the government of Ontario actually rewarded the long-term care companies with the highest incidence of infection and death with more taxpayer dollars to expand their footprint of "care", despite the fact that these companies are facing class action suits currently worth $500 million. Two other recent columns on this topic are also worth a read: what is happening to long-term care capacity in Toronto as these care providers sell their assets to condo developers; and what the tapeworm economy means, for you and me.)

What needs doing, right away?

I'm learning as fast as I can, but there simply aren't enough researchers, journalists or public servants looking into this story in Canada, as it unfolds right under our noses. In the U.S., both the Federal Trade Commission and the federal government have thrown resources at following the money.

I have begged the federal government here to do the same. Wrong jurisdiction, you say? What they learn will be relevant because it will help us understand what is happening in the provinces, and because they can place conditions on federal transfers, and exercise the enforcement of those conditions.

Setting the tone from the top in the care economy isn't just performance art.

Exhibit A: the federal government's recent willingness to have a much more muscular version of fiscal federalism. Just days ago federal housing minister Sean Fraser admonished the Ontario government, saying if they didn't clarify their plans on how they would use the $357 million transferred to the province for housing, the feds would take those funds back and deploy them for the purpose they were allocated in another way.

That approach to fiscal federalism opens the door to the possibility of better monitoring and better regulating the care economy...but hurry up please!

It of course is not just up to public servants, journalists, or researchers to ferret out the story. *You* are at the coalface of what is happening, and the source of new information as it takes place. What networks could you build to share these stories?

I want to again thank the organizers of this event for putting us in touch with one another. Let's keep learning from each other and making sure the negotiators of this round Canada-Wide Early Learning and Childcare agreements – purportedly with a view to better recruit and retain a much-needed workforce – are relentlessly focused on better staffing levels, qualifications and wage grids.

There's strength in numbers. We're dealing with these same forces around the world, the forces that aim to deskill labour and make it as cheap as possible for the gain of investors and to the detriment of our children. Let's learn more about private equity strategies and discover techniques that can stop those strategies from succeeding. That's what you're all about, right? Start learning early, keep learning life-long.

Dealing with mistakes

Someone today said it's hard to fix things when we're always playing from behind, first expanding to meet demand, then trying to make things right with the supply.

It's true, we often play from behind. But nobody says the way forward should deskill doctors, engineers, or crane-operators because we need more of them.

Across the care economy, that strategy should be prohibited, with incentives to improve care providers' ability to serve peoples' needs with the best knowledge available, and have workers paid commensurate to their qualifications.

Even doctors and engineers and crane-operators didn't fall off the turnip truck with qualifications on how to do the job. That came along later.

The lesson: Start where you are, use what you have, do what you can.

We're driving straight into a very fast-moving story. Let's not take our hands off the wheel or we'll all end up in the ditch.

Which brings me to three things we need and can do to steer the drive into a less risky future.

Three tools to improve the path ahead

More Data – we simply don't know what we don't know. That must change. How much public funding for care ends up in an offshore tax haven for the rich? In an era of accelerating demand and limited funding, the veil of "corporate confidentiality" must be lifted so taxpayers and their elected representatives can monitor how public dollars are being used.

New Rules, Better Enforcement – As we discover emerging solutions from other nations on how to counter unproductive and sometimes destructive investments, our governments will need to amend regulations and laws, and better enforce the rules we have.

More public pressure – One more, irreplaceable tool: make some noise. It's time for us in this room, and our colleagues back home, to organize a full-throated demand for better, more sustainable, more humane care.

Every aspect of the care economy – childcare, healthcare, and long-term care – is under duress. It is expanding quickly, and that requires more money, both public and private. While more is being added, more is also collapsing, making much of the care economy feel like the wild west these days. But the storyline is not developing in an unpredictable way.

This isn't a murder mystery. Let's write the script.

The long-term care sector in Canada was the first to welcome private equity into its fold. Its growth is even more rapid than in childcare and is seeing rapid increases in public funding go together with don't-ask-don't-tell rules. The investors are laughing all the way to the bank.

We have runway to change things, but at the moment we're not learning fast enough from others to meaningfully apply some brakes. Some nations, like the U.K., the U.S., and Australia have seen private equity investment rip and strip their way through multiple sectors of the economy for two decades or more. This isn't a murder mystery.

Private equity can finance start-ups, but increasingly it doesn't support the creation of anything new. It finances profits through corporate consolidation, rolling-up existing enterprises into a chain, then selling the chain, commonly within seven years or less. The pattern recurs with each sale – mergers and acquisitions grow market share; lower costs come from economies of scale and cheaper payroll costs; higher revenues come from using growing market share and/or captive markets (with little or no options) to set prices.

This happens over and over, accompanied by rising rents and debt payments as well as profits that need to be drawn from revenues. What happens when you can't juice more profit out of the enterprise? It goes bankrupt. The Body Shop is the latest example of a disastrous private equity takeover, the storyline of which has been repeated for decades and is now mushrooming across new sectors of the economy, like the care economy.

But the consequences are starkly different in the care economy. Paid care is chronically undersupplied. What happens when the enterprise that goes bankrupt serviced the care needs of 10 or 20 percent of a market? Where are the kids supposed to go and what are their parents supposed to do – stay at home? In long-term care, more elderly are being evicted from their aging nursing homes so owners can cash in on the real estate bonanza, but there's no other capacity to turn to. How will people without supports or bags of money end their lives?

The dynamic now at play in the care economy has terrible human consequences. It has devastating economic consequences too, affecting those who give the care, receive the care, and rely on the care being there to be able to go to work. If the inevitable happens, with more enterprise collapse in the coming decades because of the accelerating nature of private equity buying and selling the service of care, the disruption faced by individuals and the economy at large will be fearsome.

We can wait for the predictable disasters to happen. Or we can pay attention to how the story is unfolding in other nations and learn from their strategies for preventing this from happening or reversing it when it does.

The care economy is too important – economically and at a deeply personal level – to just let market forces take us where they will. We have to shape the story. That's the big picture. I hope this reconnaissance mission helps you position yourself in the sea we are all swimming in. I am so grateful to be swimming right alongside you. Thank you for all you do.