

February 5, 2021

The Honourable Peter Bethlenfalvy
Minister of Finance and President of the Treasury Board of the Government of Ontario
Treasury Board Secretariat
Whitney Block, Room 4320, 4th Floor
99 Wellesley St. W
Toronto, ON M7A 1W3

Dear Minister Bethlenfalvy

Thank you for the opportunity to meet with you this week. It was reassuring to hear you say that, amidst the challenges of writing a budget to steer us through the pandemic, you are taking the long view. Your interest in delivering greater efficiencies is also admirable, which I hope will go hand in hand with better services. We are entering a prolonged period of growing demand due to population aging, which will also constrain budget growth. A more efficient and effective public service is the secret sauce to this dilemma.

We will need all hands on deck once we get through the pandemic; and, to speed recovery, we will also need more hands on deck as soon as possible. A focus on maximizing growth rather than a focus on deficit and debt reduction seems to have become the common, if not universal, view. There also seems to be a near-consensus that providing more early learning and childcare (ELCC) is a major policy lever to maximize growth, both in the short run and longer term.

The importance of ELCC as a way to speed recovery and pave the road for greater future potential growth has been voiced from people across the political spectrum, and across the public and private sector divide. When bankers like [Brian Porter](#) (Scotiabank), and investors like [Mark Wiseman](#) (ex CPPIB and Blackrock) point to the need for governments to do more in this policy arena, there is an opportunity to achieve a legacy policy milestone.

The Conservative Party has been the author of such legacy policy achievements in the past. Prime Minister Diefenbaker commissioned the Hall Report which led to the creation of Medicare, where federal supports helped provinces and territories improve the quantity and quality of hospital and physician care. Prime Minister Mulroney created the Canada Child Benefit which all subsequent administrations have built on and enhanced. Today, the federal government appears poised to step up unilaterally with financial help to create more high quality ELCC spaces across the country.

Without doubt, the emphasis is on quality as much as quantity, in order to ensure all children are learning-ready when they enter school and learning-supported through their school years. If these goals are at the forefront, public investments can maximize children's learning potential today and their earning potential tomorrow, thereby reducing public expenditures and improving public revenues. Few publicly funded programs yield such returns; but not all versions of ELCC produces these results. In the "Further Resources" section I have attached some documentation on strategies that build on more than a quarter century of evidence, showing that public investments in quality, not just quantity, pay off. Given changes in the economy, you need to decide your approach and move quickly.

The latest Labour Force Survey results show that 72% of the 212,800 jobs lost in Canada last month were in Ontario, due to the worsening rate of COVID-19 infections. Women have taken most of this hit (59% of job losses in Ontario and across Canada over the past year), as they have throughout the recession around the world. Once more in January more women (59%) than men left Ontario's labour market altogether (neither working, nor looking for work). From January 2020 to January 2021, more than 32,000 men came into Ontario's labour force over the last year, while 54,000 women have dropped out. The

employment rate of women in Ontario has fallen to just over 53% of the female population aged 15 and over, a level last seen in 1993, a devastating trend, for families, communities and the economy.

You can do four things immediately to avoid further macroeconomic damage, taking advantage of the federal initiative to finance high quality ELCC:

- Build on the Canada-Ontario bilateral agreement from 2017 to secure quality, accessible, affordable, inclusive ELCC, addressing bilateral weaknesses that exclude funding for school-operated ELCC and workforce compensation.
- Recognize and support the role of qualified educators in security children's safety, well-being and healthy development, by increasing pathways to training for all caregivers working in licensed programs.
- Increase required staffing ratio with qualified early childhood educators, and tie compensation to staff qualifications.
- Reduce class sizes.

These actions fit within Conservative values.

Choice: There are licensed care spaces (not all of which are high quality) for only [33%](#) of Ontario's almost 900,000 children [under the age of 6](#). In addition, full day kindergarten is attended by [90% of 5 year olds and 87% of 4 year olds](#). Even with more money in your pocket, you can't buy something that is not there.

The Ford government has allocated [\\$1 billion over five years](#) to expand access to ELCC through publicly-funded schools, an efficiency you can build on to expand the supply of programs that deliver superior education outcomes, and more bona fide choice for parents.

Smart investments reduce costs: You will be well aware that Canadian governments at all levels are struggling to reduce academic achievement gaps and the runaway costs of special needs interventions. Childcare alone cannot address these issues, but they are mitigated by ELCC which – as the words “early learning” suggests – relies on trained educators who are properly resourced to maximize retention and learning success.

Efficiency yields better performance: When compensation commensurate with training is brought into the picture, it reduces churn in the labour force. This is key to improving educational outcomes and consequently lifetime income trajectories. Two-thirds of childcare centres are plagued by [high staff turnover](#), as trained staff leave for better wages and working conditions outside the sector. No business can perform effectively when it is constantly recruiting new inputs.

Less fiscal strain: Evidence from the expansion of full-day kindergarten shows when reliable care is available, more women increase their hours of paid work. This element of social infrastructure generates more public revenues, ultimately delivering a net benefit. Does it pay for itself? The Quebec model suggests yes, based on the work of economists [Pierre Fortin et al](#) (in 2008, for every \$100 of subsidized care provided by the provincial government, the province received an additional \$104 in personal income taxes, and the federal government received a windfall of \$43).

While there is an emerging consensus that the government of Ontario should move forward on expanding childcare supports, there are differences of opinion as to how to do it. There are even cautions against going down a path of high quality, regulated care provided by qualified staff, which is unequivocally the best way to yield the best, most sustainable results. Three such propositions stood out during our group's conversation on Wednesday:

Vouchers – More money in your pocket is a feature of Conservative budgets, and no doubt again has a great deal of appeal. We have the Quebec experience to show that more public funding can and will expand the market for care, but won't increase the quality of care or the availability of licensed regulated spaces, unless that is the goal of public spending. Going this route will permit more parents to warehouse their children while they work, but that doesn't align with most Conservative politicians' expression of family values; and while more money in your pocket may offer choice for some people/women to opt out of paid work, both household budgets and GDP growth would benefit from more women with young children working. The fact of the matter is that someone needs to care for the children when they are not at school and parents are working. Conservatives would surely prefer to be known for creating bona fide choice in the kind of care that young families and children can access, and assure citizens that you are there to help prepare the next generation for job and business opportunities. That's how you maximize growth.

Deregulation – As was mentioned yesterday, the supply of care can be expanded by deregulating the sector. Indeed, I am concerned your government seems poised to move in this direction, based on consultations and some initiatives that seem to favour increased class size, lower staff ratios, and reduced qualifications of early childhood educators in regulated settings. This will deliver more care, but of lesser quality, a direction that you should actively avoid, and one that only [started to be reversed after a flurry of tragic events in 2014](#). Deregulation guarantees more parents will find themselves in the situation of the family whose baby was found dead while in the care of an unregulated care provider who was “taking care” of [27 children](#). Governments would not deregulate physician or engineering services to lever greater supply. Ontarians expect enforceable standards to protect them and their families in any given market setting. In the case of our youngest and most vulnerable citizens and learners, we need strong rules.

Federal “bait”/inconsistent funding – It is true that historically the federal government hath given, and the federal government hath taken away. But you want to run government more like a business; and what business would turn down free money today because of the fear that a little less might be available some years in the future? The advice to turn down funding because some of it may be cutback in some future scenario guarantees doing nothing, given provincial finances. Far from maximizing potential growth, this stance guarantees economic stagnation and decline. As is the case for federal transfers for physical infrastructure, perhaps a 10 year deal could be negotiated in the next bilateral agreement with the federal government, to create greater certainty for the development of this vital social infrastructure, which – done right – can provide the residents a vital foundation for future growth.

A remarkable opportunity is at hand. You could be the Finance Minister of a government in Ontario that created a legacy approach to early learning and childcare and future growth. While I am sure you and your colleagues will move ahead, what option you choose could make or break this historic opportunity. I hope you will choose quality as well as quantity, for the good of us all.

Sincerely,

Armine Yalnizyan
Economist and Atkinson Fellow on the Future of Workers

Further Resources:

<https://atkinsonfoundation.ca/atkinson-fellows/posts/investing-in-early-learning-and-child-care/> see Appendix A Tables 1 and 2 to see Ontario's ranking compared to other provinces
<https://atkinsonfoundation.ca/atkinson-fellows/posts/a-year-by-year-approach-to-investing-in-early-learning-and-child-care/>

Please also see the attached deck that was presented to Senators re: “she-cession and she-covery”.