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Research Report

Nine Observations on Korean Child Care Support and Their Policy Implications

KDI Focus, No. 34

Provided in Cooperation with:

Korea Development Institute (KDI), Sejong

Suggested Citation: Yun, Heesuk (2014) : Nine Observations on Korean Child Care Support and Their Policy Implications, KDI Focus, No. 34, Korea Development Institute (KDI), Sejong, <https://doi.org/10.22740/kdi.focus.e.2014.34>

This Version is available at:

<https://hdl.handle.net/10419/200843>

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KDI FOCUS

October 23, 2014 (No. 34, eng.)

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Nine Observations on Korean Child Care Support and Their Policy Implications

Heesuk Yun *et al.*

“Korea’s public support system for Early Childhood Education and Care (ECEC) is in urgent need of reforms that will harmonize the objectives of social policy while improving service quality through linkages to financial assistance and information disclosure.”

In the realm of policy development, a common concern whenever social services are expanded is that increased availability will generate increased demand. More specifically, there is a demonstrated phenomenon where, once new benefits are institutionalized, individual patterns of behavior tend to change accordingly, producing new demand and orienting politicians and civil servants toward a benefit expansion. Political concerns can often overwhelm other long-term strategies, resulting in a policy decision-making process that is shaped by political considerations rather than the rationality of the policy measures in question.

Any attempt to expand social services without triggering this sort of cycle demands an awareness of the policy direction—a sense of a society’s values as a whole. Social and economic institutions must then be coordinated and deployed in a way that reflects those goals. In Sweden, for example, the country maintains a high employment rate despite its high taxes, a feat that is typically the result of a system that offers welfare benefits in direct relation to a person’s employment status.¹⁾

Many people—citizens and policymakers alike—differ in opinion on how Korea should be positioning its economy as it moves forward into the future. An important point to consider,

* This is the translated version of KDI FOCUS released on August 20, 2013.

1) R. Rogerson, “Taxation and Market Work: Is Scandinavia an Outlier?” NBER WP 12890, 2007.

however, is that the country's policy objectives cannot deviate from the targets that were consistently pursued under past administrations. One example of this is in the current administration's approach to boosting the employment rate, particularly in the hiring of women. The government's economic strategy has prioritized an increase in Korea's employment rate among women for two main reasons: first, to help establish a stable workforce and fiscal base among Korea's rapidly aging population, and secondly, to bridge the socioeconomic divide by increasing the number of income generators within Korean households.

An additional context can be found in the government's steps to boost accountability in the public sector. Since the administration of Roh Moo-hyun (2003~08), governments have consistently emphasized stronger transparency in both public spending and taxpayer accountability, with linkages established between performance and expenditures.

As a result of these goals, the area of ECEC support emerges as a policy area in particularly urgent need of redirection. The rapid expansion in financial support that has taken place over the past 10 years does not appear to be in line with sound policy development, nor does it take into consideration other long-term social goals. Moreover, the side effects are now becoming increasingly severe. Unlike other nations of the OECD that set fixed confines for their free coverage and codified them in policy, Korea has pursued the goal of universally free child care without any guiding principle as to exactly what services should be provided to citizens free of charge.

Today, Korea's child care support policy is in need of reorientation toward a new focus, one that complements women's employment, reduces social disparities, and improves accountability in public spending. In the midst of this redirection, there also needs to be thoughtful consideration as to what the term "free of charge" will mean in relation to child care services in Korea.

I. Mushrooming Support Without Guiding Policy Goals

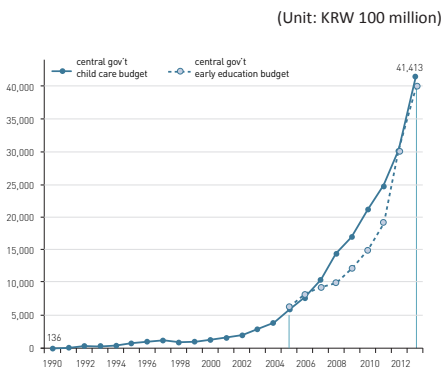
1. Over the course of four years, fiscal support for ECEC has risen to 2.6 times its 2009 amount (from KRW 4.8 trillion in 2009 to KRW 12.3 trillion in 2013)

A shift primarily attributed to politicians, support for ECEC in Korea has risen by 2.6 times in the past four years.

The Korean central government's child care budget (not including the 50.6 percent share paid by local governments) rose by over 13 times in the 10 years between 2003 and 2013, from approximately KRW 300 billion to KRW 4.14 trillion. Meanwhile, the budget for early childhood education rose by an average of around 25.8 percent per year between 2005 and 2013, from KRW 637.8 billion to about KRW 4 trillion (Figure 1).

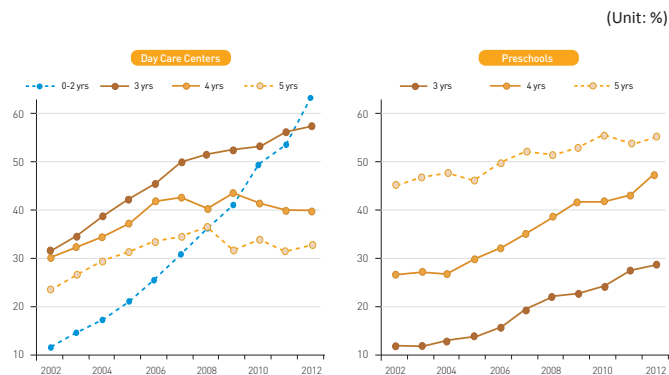
The reason for the rapid rise in fiscal support has varied from one period to the next. In the early 2000s, the rise was attributed to the government's attempts to counter the country's low birth rate. But as the effectiveness of the country's birth rate policies slowly came into question, the increase in support became a talking point for politicians wishing to present themselves as providers of free child care.

[Figure 1] Government Budget for ECEC Support



Sources: Child care budget data for 1990 through 2008 has been taken from yearly child care program guides in *Sixty-Year History of the Korean Economy*; Early education budgets reprinted from Jang *et al.*, "Directions for Mid- and Long- Term Development in Infant Education, 2013~17," 2012.

[Figure 2] Day Care Center and Preschool Usage Rates by Age Group



As a result, the number of day care centers rose from 1,919 nationwide in 1990 to over 43,000 in 2012, with the number of children enrolled surging from 153,270 in 1993 to 1,487,361 in 2012. The shift in attendance among children aged two years old and under has been especially dramatic, rising from 11.8 percent in 2002 to 63.0 percent in 2012 (Figure 2).

2. The only country in the OECD where the day care center usage rate exceeds the employment rate for mothers of children two and under

As mentioned above, Korea's decision to expand free access to child care without first establishing the parameters of these services has resulted in a system where the government now guarantees 12 hours of child care a day (up to 68 hours a week) for all children aged five and under. The situation is vastly different from those in other OECD nations, where the realistic scope of assistance was determined first and the amount of coverage is based on a mother's employment status and the family income level (Table 1).

Other OECD nations have also noted that, because of the perceived importance of the close relationships that develop between children aged two and under and their primary caregivers, the usage rate for such facilities tends to be low, provided there are no difficulties relating to employment or poor conditions at home. This perspective has typically been incorporated into the policy approach of these countries.

In Korea, however, the idea of varying child care support according to the mother's employment status and family income level has not been incorporated into the decision-making process, despite proposals to that effect from the executive branch and numerous experts.²⁾ Also, the guarantee of 12 hours a day of free day care center access, regardless of employment status, has spawned the serious side effect of discrimination against employed mothers, who

Korea is the only country in the OECD where the child care facility usage rate exceeds the employment rate for mothers of infants.

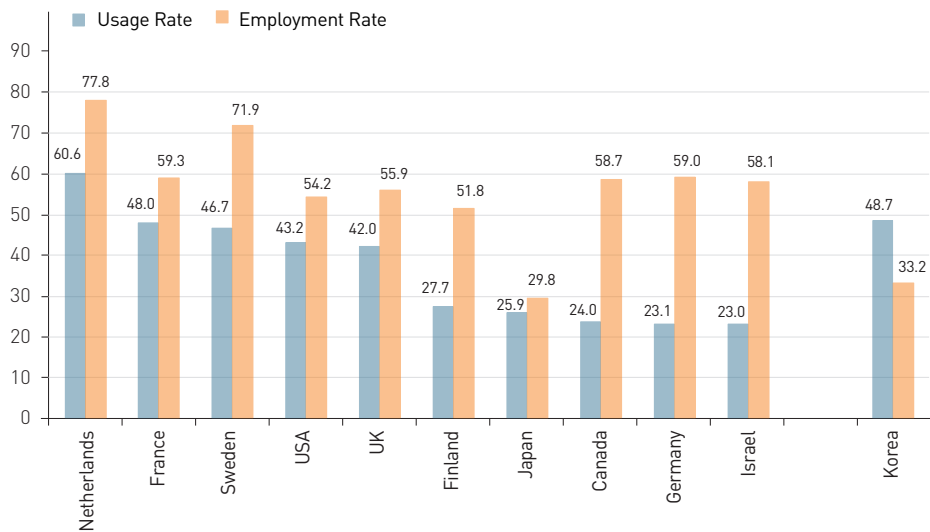
<Table 1> Types and Related Job Codes (KSOC) for Creative Occupations

Country	General rule(s)
Sweden	Guarantees of 40 hours/week when mother is employed or studying, 15 hours when unemployed; user cost varies with income.
Australia	Usage varies according to mother’s employment status (50 or 24 hours per week); user cost varies with income.
UK	Fifteen hours of free early education per week, 38 weeks per year for children aged 3 and 4; infant child care support provided for low-income families. Tax credits available to families depending on employment status and income.
USA	Child Care and Development Fund (CCDF) is a system providing child care support for low-income families according to employment status and income. Head Start is an early education program for children from low-income families. Families may be entitled to tax benefits according to mother’s employment status and household income.
Japan	Varied levels of assistance by income, with working mothers extended priority consideration.
Germany	Varied by income.

Sources: OECD, *Benefits and Wages*, 2010; OECD, *Starting Strong II*, 2006.

[Figure 3] Day Center Usage Rate and Mother’s Employment Rate for Children Two and Under

(Unit: %)



Notes: 1) Employment rates for OECD countries (2009) apply to mothers whose youngest child is aged two or under; employment rates for mothers of children two and under based on 2010 statistics, except for Canada and Israel (2008).

2) Korean usage and employment rates from 2012.

Sources: OECD Family Database, July 29, 2013; National Child Care Survey, raw data, 2012.

As a result of its failure to consider the meaning of “free child care,” Korea has developed a peculiar form of support in which the same benefits are provided to all households, regardless of the actual demand or income level

tend to pick up their children at later hours.

The consequence of this policy direction is that Korea now stands as the sole OECD nation (excluding two for which data were not available) where the employment rate for mothers of children aged two and under is lower than the usage rate for child care facilities (Figure 3).

2) In September 2012, the Korean Ministry of Health and Welfare cooperated with other departments on developing a Plan for Revisions to the Child Care Support System in 2013. Recommending that usage times vary according to real demand (including mother’s employment status) and parent costs vary according to income, it was proclaimed as part of an effort to “address previous trial and error”. But after the presidential election season later that year, the program that actually entered effect in 2013 conferred equal benefits to all households at all income levels—the exact opposite of what had been recommended.

II . Lax Government Oversight and Inadequate Quality Control

3. Day care centers and preschools receive financial assistance regardless of quality level

The increased fiscal assistance has necessitated an increase in supply to meet the exploding demand for child care services that it has created. Indeed, in the past five years the number of day care centers in Korea has risen by an average of 2,300 per year. However, systemic improvements to monitor and improve service quality have failed to keep pace, and serious management problems have gone largely unaddressed. These management issues are further influenced by the powerful interest group that has organized itself around the child care industry; those hoping to net financial gains from the considerable demand for day care have been active in hampering efforts to boost quality control.

Currently, only 67.3 percent of all day care centers in Korea have proper accreditation.³⁾ In the case of preschools, assessment results are provided only to the institution, not to the public, leading to a lack of any means for actively gauging the quality of care or facilities. In both cases—day care centers and preschools—there is no linkage whatsoever between performance assessments and fiscal support; public funds are guaranteed to any business that enters into the market.

From the perspective of business management, this means that the Korean child care industry lacks a basic system for managing service quality. Service issues ranging from child abuse and underfeeding to poor treatment of teachers, fraud in relation to subsidy collection and accounting—as well as generally low levels of satisfaction (apart from a few state- or public- run facilities)—are ultimately symptoms of the system’s failure to keep up with the spiking demand.

4. Entitled to public support even without applying the minimal safeguard of financial accounting rules

Child care centers are currently required to follow financial accounting rules for social welfare corporations and facilities, with compliance reflected in their accreditation process. For the institutions that remain outside the accreditation framework, however, it is impossible to verify their adherence to these rules.

Financial accounting regulations for preschools also lack stringency. Accounting practices are only mandatory for state- or public-run preschools, while unincorporated preschools, which make up the vast majority of private institutions, are not required to adhere to any financial accounting standards set up by the state. A series of hearings were held in June 2012 with the intention of enacting a set of industry-wide standards, but these efforts have thus far been stymied by objections from the National Association of Private Kindergarten. A 2012 audit

Child care support is provided unilaterally to all facilities, without any ties to quality.

3) Korea Childcare Promotion Institute (data from April 2013).

of private preschools by the Ministry of Education found a number of instances where the institutional bank account and the principal and/or founder's bank account were one and the same, or where subsidies had been received directly to a current or former principal's account.⁴⁾ These instances are evidence of a serious problem regarding insufficient financial transparency and accountability, where fiscal outlays in excess of KRW 12 trillion per year are involved.

5. Child care center premium for occupancy of up to KRW 300 million

Institutions may reduce service quality to turn a profit after paying high premiums for occupancy. But due to information infrastructure deficiencies, users have difficulties in accessing this information.

According to a 2012 survey of the child care industry in Korea, only 48.9 percent of respondents reported that they did not pay premiums for occupancy. For those who did pay, the fees ranged from KRW 150 million in Seoul to as much as KRW 300 million in other cities (Table 2).

Premiums for occupancy are payments that a new business owner will pay for location benefits, facility investments, a fixed clientele base, and permits; their value increases where future profits are expected to be large. Even in cases where facility investments are significant, the rate of premium payment may be low if sales during the period of operation are not high.⁵⁾

For this reason, premiums for occupancy cannot simply be viewed as the price of facility investments. Instead, they are seen as a reflection of expected profitability.

Premiums for occupancy related to entry barriers, such as permits, vary from one type of business to the next. In the case of child care centers, they are the remit of the local government, which limits market entry through occupancy rates. As a reference, a 2012 report by the Board of Audit and Inspection found that local government entry restrictions resulted in permit and certification transactions ranging between KRW 10 million and KRW 40 million.⁶⁾

At present, the amount paid by the Korean government for support is considered to be close to average cost level. For example, government support for a child under one year of age amounted to KRW 755,000 per month in 2013, compared to a standard child care cost of KRW 738,400 as calculated by the Ministry of Health and Welfare in 2008 (for a facility with a capacity for 50 students).⁷⁾

Under these circumstances, the traffic of permits and certifications and the high premium rates strongly suggest that institutions are being run in such a way that service quality is not guaranteed.⁸⁾

4) Ministry of Education, "Special Audit of Private Preschool Assistance Administration and Management: Findings and Response," June 2013.

5) Jungwook Kim, *A Legal-Economic Approach to Premiums for Occupancy*, Policy Research Series 2011-04, Korea Development Institute, 2011.

6) Board of Audit and Inspection, *Report on the Audit of Child Care Assistance Policy Performance*, April 2012.

7) Ministry of Health and Welfare, *A Study of Possible Changes to the Child Care Assistance System*, 2008.

8) Sale and purchase transactions for preschools are conducted openly. Selloffs and collateral backing are tacitly condoned, despite being prohibited by the Private School Act. Following a 2013 audit of private preschools, the Ministry of Education stated in a press release that it planned to "demand institutional improvements and remedial action for the private preschool sales and collateral backing that have been conventionally practiced, as well as failure to abide by establishment procedures" (Ministry of Education, Science and Technology, "Results of the Special Audit into Private Preschool Subsidy Management," March 14, 2012).

<Table 2 > Premiums for Occupancy of Private and Home-Based Day Care Centers

(Units: %, KRW 10,000)

		All	Seoul	Other cities	Counties
Private/Home-based	Percentage of all facilities	68.0	60.3	72.9	38.2
	Percentage of no response on premiums	27.3	37.0	26.3	17.2
	Percentage of paying zero premiums	48.9	42.9	49.4	57.8
	For private and home-based centers paying premiums:	Average amount	4,766	4,019	4,802
Maximum amount		30,000	15,000	30,000	20,000

Source: National Child Care Survey, raw data, 2012.

<Table 3> Child Care Center and Preschool Teacher by Educational Attainment and Institution Type

(Unit: %)

	Institution type	High school	Only some college	Four-year degree or higher
Child care teachers	State/Public	6.0	58.7	35.3
	Private	20.1	61.0	18.9
	Home Based	29.8	51.4	18.7
Preschool teachers	State/Public	0.07	14.6	85.3
	Private	0.03	60.5	39.4

Sources: National Child Care Survey, raw data, 2012; Korean Educational Development Institute, Education Statistics Database.

<Table 4> Distribution of User Costs for Child Care Centers and Preschools (July 2012 Data)

(Unit: KRW 10,000)

Child age	Facility	Cost to user		
		Average	Minimum	Maximum
3~5 years	Child care center	13.8	0	47
	State/public	9.2	0	40
	Private/Home-based	16.4	0	47
	Preschool	19.4	0	150
	State/public	3.6	0	21
	Private	24.2	0	150
0~2 years	Child care center	4.6	0	35
	State/Public	3.6	0	11
	Private/Home-based	4.8	0	27

Notes: 1) Age as of Jan. 1, 2012.

2) Child care total includes types other than state/public and private/home-based

Source: National Child Care Survey, raw data, 2012.

6. Severe disparities in teacher quality and user cost by institution type

One of the key components of any ECEC institution is its teaching staff; their level of qualification (including teaching experience) is a key indicator of the expertise they bring to the institution. Teacher education levels can be verified statistically, and remains an area where significant differences can be observed among institutions. The employment of teachers with only a high school diploma stands at 6 percent for state- or public- run day care centers, compared to fully 29.8 percent for home-based day care centers. Similar differences were also observed for state- and public-run preschools. While 85.3 percent of teachers at those preschools had university degrees, the rate for private preschools is just 39.4 percent (Table 3).

On average, parents pay higher fees at preschools than at child care centers, with the latter enforcing a cost ceiling to keep fees reasonable. But even with this limit, disparities among preschools are more severe. For children aged three to five, parents paid KRW 194,000 for preschools compared to KRW 138,000 for day care centers, for an average difference of KRW 56,000. In the case of preschools, the maximum user cost is KRW 210,000 for a state/public facility and KRW 1.5 million for a private one, for a difference of KRW 1.29 million (Table 4).

Disparities in user costs can amount to as much as KRW 1.5 million, with large differences in teacher education levels, but it is difficult to compare them before making a choice.

7. Capacity-based entry restrictions prevent market exits by acting as de facto minimum profitability guarantee

Every year, the Korean Ministry of Health and Welfare issues guidelines to local governments in which it stipulates standards for permit restrictions. The 2013 “child care project guide” cites “cases in which regional day care capacities exceed demand or current student numbers”. The guide also states that “when the occupancy rate in a permit-restricted region is above the national average, new child care permits will be issued to compensate for the difference”.⁹⁾ The decision to prevent new businesses from entering the market once the occupancy rate falls below a certain level likely stems from concerns about excessive competition. Conversely, however, this motion also reduces the number of competitors in any given region, lessening the pressure that might force certain competitors to exit the market. The Board of Audit and Inspection’s aforementioned references to how permit restrictions encourage permit/certification transactions touch on one of the many side effects of these restrictions.

Permit restriction, which bar market access when the number of facilities exceeds the number of children in a given region, have the effect of promoting permit/certification transactions and lowering instructor compensation.

In reality, one of the most flexible variables when examining the effects of permit restrictions on service quality is that of teacher compensation. Teacher pay is reported to be significantly lower in regions with permit restrictions than in those without. Instead of improving quality by preventing over-competition, these data suggest that the entry restrictions are actually triggering a decline in quality by limiting the amount of competition.

Another area for concern is that an influx of public money does not always result in improved services when competition is deterred and exit pressures are removed; funding is not always used in the ways that would seem appropriate by policy authorities.

III . The Need for a Stronger Government Role

8. Weak infrastructure for the sharing of information regarding price and quality

If families are to be given the freedom to choose how much to spend on child care, information must be made accessible that allows users to compare institutions in terms of their costs, their instructors’ level of qualification, and the special activities that each facility offers for children. As noted earlier, these differences become crucial issues when a user has the freedom to choose and has such details available for comparison.

Information disclosure is also necessary to ensure that minimal standards of quality are met. In order to turn a profit, centers often feel compelled to recoup costs by any means necessary. This will sometimes result in suppliers not paying the personnel costs applied for government

Korea should strengthen child care support infrastructure, providing the necessary child care information so that parents can spend time with their children.

9) As of the end of September 2011, complete or partial restrictions on day care center establishment approvals applied in 177 of the country’s 230 cities, provinces, and district (Board of Audit and Inspection, 2012).

calculation of the support amount, or sometimes to lessening the quality of the meals provided. At present, there are no ways for parents to check this information prior to making a decision about an institution. The broader ramifications, however, are such that there is no mechanism within the system that will motivate suppliers to maintain the quality of their services.

The concerns that parents generally share are threefold: teachers, food, and costs. Details such as food costs, teacher education, substitute teacher arrangements, instructor working hours, and information regarding special preschool activities are of specific concern to parents, as well as being the major determinants of service quality.

At present, portal sites for child care and preschool offer only basic information about the status of centers around the country and their assessment does not address many of the issues that concern parents most. The consequence for this lack of regulation is that Korea lacks the necessary information infrastructure to share important details with parents and children before they choose, or to motivate providers to improve their services. The purpose of a market is to improve product quality through selection and competition, and the most crucial step in helping this happen for child care in Korea is for the public sector to play a role in establishing the necessary information infrastructure.

9. No alternatives to cash-for-care and facility-based care

The support structure is one in which parents who send their child(ren) to a day care center or preschool receive full payment for fixed government assistance costs, while those who raise their child(ren) at home receive a home care allowance ranging from 100,000 to 200,000 KRW, depending on the child's age. Because a family's options are restricted to these two types, parents face an either-or decision: raise their children at home, or send them to a child care center, thus fostering unnecessary demand for child care.¹⁰⁾ A combination of short-term facility use and allowances for home care, it may be possible to reduce the fiscal expenditure while also meeting parent demand.

A larger problem is the fact that the most significant proportion of outlays to date has been channeled into facility costs rather than child care support infrastructure, making it difficult for parents to source places to spend time with their children outside the home. If a family finds it exceedingly difficult to locate public spaces where their children can interact and socialize with other children in their community, facility-based care becomes the only available option. Providing support for those parents who would like to spend more time with their children is a task that will require a more diverse support infrastructure, offering options such as play rooms, children's libraries, and child care support centers. The initial investment in such resources may be instrumental in reducing fiscal demands in the long run.

¹⁰⁾ A pilot effort for temporary child care services is under way to address non-permanent demand, but support should also be extended to demand for short usage times on a permanent basis.

This approach necessitates that serious consideration be given to determining which services should be made available free of charge. It raises questions regarding the areas in which the state can have the most positive impact upon the next generation, a discussion that is closely tied with the goals and values of that society. The prospect of having young children spending 12 hours a day away from their parents is hardly a desirable solution; rather, parental support should be designed in such a way as to reduce the burden of child care while promoting the goals of society as a whole.

Fiscal support should be tied to evaluation results, with reduced child care hours and extra availability for low-income/dual-earner households to reflect actual parent demand.

The issue of balancing society's demands for greater employment among women and reducing disparities in the existing child care assistance model is one that demands urgent remediation. The current system of free child care needs to be adjusted to reflect social consensus and actual demand while guaranteeing extra time to working mothers and those in low-income households.

Looking to future initiatives, there are two other areas where the government must play a stronger role in harmonizing child care support with socioeconomic realities: in the linkages between evaluation and financial needs, and in the reinstatement of market forces. The state's child care services are an important asset to the economy that must be budgeted as judiciously as any other national initiative; the matter of fiscal accountability cannot be overlooked. The current system's poor information infrastructure and needless entry regulations, which remove providers' incentive to improve service quality, are another matter that can no longer be ignored. ■