Financing ECCE Services to Build the Wealth of the Nation

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The Presenter’s Bio

Ph.D. in economics, the Univ. of Chicago, 1981.
Assistant Professor, the Univ. of Colorado, Boulder,
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Counselor to the Minister of Finance, 1984-87.
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A. What is the scope of the ECCE program?

- It supports the children’s survival, physical and emotional development, and their learning from birth to entry into primary school.

- The ECCE program takes diverse forms ranging from parenting programs to community-based and home-based childcare, center-based education and pre-primary education.
ECCE measures include maternal and child health, psychosocial support to families, promotion of food security, parental leave and childcare allowance.

B. What are the private benefits from ECCE Investment?

The private individual benefit to each child with the ECCE program experience includes the enhancement of school readiness and class performance.
Early childhood is a sensitive period during which significant brain development occurs before age 6, especially the first three years of life.

The ECCE program ensures the children’s health and enhances their physical and emotional development.
C. What are the social benefits from ECCE investment?

- Through increased efficiencies in children’s health and education, ECCE significantly enhances the productivity of the society’s workforce.
- The ECCE program contributes to the educational and economic success of those Porf. Inchul Kim
people in poverty thereby reducing the social inequalities.

- Increased ECCE investment helps the women to participate in the labor market thereby narrowing the gender gap in society.

- Korea believes in its social benefits and makes a strong commitment to ECCE investment.
2. The Cost–Effective ECCE Strategy

- All resources are scarce and limited in supply. So they should be utilized in the most effective and efficient manner.

- Most ECCE expenditure is financed by the taxpayers’ money and wastes should be prevented. Therefore, the monitoring system cannot be emphasized too much.
To make the ECCE investment project successful, its NPV (Net Present Value) must be sufficiently above zero and its IRR (Internal Rate of Return) should be sufficiently large.

To make the ECCE investment project cost-effective, evaluation of ECCE performance must be conducted on a regular basis.
The policy makers must consider the appropriateness of the ECCE expenditure and evaluate the quality of ECCE services.

To check the appropriateness of the ECCE budget, the policy makers must consider the trend of the nation’s fertility, the number of children per family.
To improve the quality of ECCE services, policy makers check the parents’ demand for the quality of their children.

To this end, it is necessary to make projections of the future family size and the future growth of national and regional GDP.
To maintain the soundness of the ECCE expenditure, the policy makers should consider the sentiment of taxpayers and the parents’ increasing demand for the quality of their children.
3. The ECCE Budget-GDP Ratio for OECD and Korea

- Most of OECD countries try to support the ECCE programs and they try to improve the ECCE services by raising their ECCE budget-GDP ratio. The OECD’s average budget ratio in 2008 was about 0.5.

- The OECD countries with the budget ratio exceeding 0.5 are Island, Israel, Sweden, Chile, Denmark, Mexico, France, Poland, Germany,
Spain, Belgium, and Estonia.

- The budget-GDP ratios for Austria, Italy, Norway, and New Zealand are all about the same at the 0.5% level. Surprisingly, the ECCE ratio for the US is less than 0.3% and that for Australia is less than 0.1%.
The ECCE budget-GDP ratio for Korea in 2008 was only 0.2%, with Korea being the second lowest country among the OECD member countries. In 2012, however, the ratio for Korea jumped to the 0.5% level.
4. Major Issues in Future Financing

- Projection of future ECCE financing for any country requires the information of the number of future children and of the nation's future income.

- If the number of future children is expected to increase, the government needs to increase its ECCE budget.
If GDP growth is expected to increase, the government can implement ECCE policy with some ease.

Under the decreasing trend of fertility, parents tend to switch their child preference from quantity to quality. This is due to drastic increases in wage income for women.
The Nobel-winning economist, Gary Becker of the University of Chicago previously argued that with sufficient wage hikes, women’s time would become too much expensive to conceive and raise children.
5. Korea’s Benchmark Fertility Rate (1960–2012)

- Korea has experienced a drastic change in fertility since 1960. The actual fertility rate in 1960 was 6.1 children but it came down to 1.2 children in 2012.

- While the Korean fertility rate dropped drastically, the OECD fertility rate fell moderately during the same period. The OECD fertility rate in 1960 was a little less than 3.5 and it dropped to a level a little above 2.5.

The benchmark fertility rate refers to ‘the socially desirable number of children for a time period.’
Comparison of Fertility Trends between Korea and OECD (1960-2012)

Note: This is based on the average of 30 OECD member nations.
Source: OECD
Korea’s Benchmark Fertility Rate (1960-2012)

- Six children: 1960-1969
- Four children: 1972-1975
- Two children: 1982-2000
- One child: 2001-2012

Source: the Statistics Korea
6. Korea’s Decreasing GDP Growth

Korea's GDP growth rate

Korea's GDP growth rate over the past three years

Infants and Toddlers Free support

Free services for all regardless of income levels

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Korea’s GDP Growth Rate (1971-2012)

Source: The Bank of Korea
7. Korea’s Care and Education Fee Support

Care and Education Fee Support by Age

<table>
<thead>
<tr>
<th>Age</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>0~2</td>
<td>All Income levels</td>
<td>All Income levels</td>
</tr>
<tr>
<td>Age 0</td>
<td>₩ 394,000 ($354)</td>
<td>Age 0: ₩ 394,000</td>
</tr>
<tr>
<td>Age 1</td>
<td>₩ 347,000 ($312)</td>
<td>Age 1: ₩ 347,000</td>
</tr>
<tr>
<td>Age 2</td>
<td>₩ 286,000 ($257)</td>
<td>Age 2: ₩ 286,000</td>
</tr>
<tr>
<td>Bottom 70% income family</td>
<td>Age 3: ₩ 197,000 ($177.5)</td>
<td>Age 3: ₩ 220,000 ($198)</td>
</tr>
<tr>
<td>Age 4</td>
<td>₩ 177,000 ($160)</td>
<td>Age 4: ₩ 220,000</td>
</tr>
<tr>
<td>5</td>
<td>All Income levels</td>
<td>All Income levels</td>
</tr>
<tr>
<td>Age 5</td>
<td>₩ 200,000 ($180)</td>
<td>Age 5: ₩ 220,000</td>
</tr>
</tbody>
</table>
Korea’s childcare and education fee support increased very moderately over the period 2012-2013.

For children age 0, the government provided $354 in 2012 and 2013 regardless of their family income. For children age 3, the government gave $177.5 in 2012 if their family income belongs to bottom 70% income group but the government pays an increased amount $198 in 2013.
8. Conclusion

- ECCE (Early Childhood Care and Education) investment brings benefits not only to an individual child but also to the society at large.

- The financing of future ECCE investment requires the information of the number of future children and future GDP growth.
The fertility rate for countries whether they are developing or developed has been on a declining trend. This is because women's work participation has been on the rising trend along with industrialization. Since the 2009 global financial crisis, the world has been suffering from low GDP growth. This makes the securing of the required budget for early child support (0-5) become more difficult.
The declining trend of the fertility rate helps the government to carry out the financing of the ECCE budget. On the other hand, however, a great number of parents switched from the quantity of children to the quality of children. This implies that their demand for ECCE services is increasing and the government will have to secure more ECCE budget.
The actual fertility for Korea was 1.3 in 2012 and it will not exceed 2 in the near future. Then the socially desirable number of children (the benchmark fertility rate) for Korea will be unity for some years to come. During 1982-2000 Korea’s benchmark fertility rate was 2 children.

In financing ECCE expenditure, a proper sharing between the central and local governments is essential.