Welfare overhaul facing challenge: Duality in demand for government support and less tax [1]

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EXCERPTS:

Lim Soo-hyang, a mother of two children living in Ilsan in the outskirts of Seoul, was on a waiting list for two years to send her 5-year-old son to a public-funded daycare center. At the end, she had to go with a private one at extra monthly costs of 200,000 won for a less compelling curriculum.

Since the government incrementally expanded the budget for child care, competition over public daycare services has become fierce among Korean moms due to their affordability and qualified teachers.

"Some ‘smart moms' apply for a (public daycare) in advance once their baby is born," Lim said as she is planning to take similar action for her 2-year-old daughter.

Child care subsidization is the government's latest effort to improve the welfare system in Korea, which has been historically neglected since it had a negative connotation of helping the poor at the expense of taxpayer's money and ultimately hurting the economy.

Now people from politicians to pundits and interest groups have raised their voices on an urgent need to overhaul the system.

"Since last year's local elections as the free school lunch controversy triggered a debate on universal welfare, the national discourse on welfare has been elevated to another level" said Ahn Sang-hoon, a professor of social policy at Seoul National University.

Despite the government's increased subsidies, demand for more funding from different interest groups has exploded, and the top-down implementation of the policies has created social confusion.

Daycare teachers' strike

Nearly 15,000 private care centers of the Korea Private Nursery Educare Association threatened to go on a strike last month in request for better compensation and working conditions. In the end, they settled with a meeting with a vice minister of the Ministry of Health and Welfare.

Korea expanded its subsidy for childcare centers to 813.6 billion won or about $722 million in 2011, 47 percent up from 2007, according to the Korea Institute of Child Care and Education, a government branch.

But the daycare providers claim they deserve higher benefits because of long working hours and the stressful environment.

"We believe the government's child care policies have focused on the parents' perspective when it is the teachers who actually work in the field and provide the services," said Eom Seo-young, a president of Moolbit daycare center in Seoul.Welfare models and tax resistance

In advance of the April 11 parliamentary election, politicians across the parties have introduced welfare proposals based on cases in developed countries.

Already last year, Park Geun-hye, the ruling party's de facto leader and possibly its next presidential candidate, has proposed a Korean welfare model and has been pushing it as her primary campaign issue.

Based on the Esping-Anderson's three welfare state models in 1990, Ahn of Seoul National University, the key figure behind the Park's welfare agenda, proposed a mix of the "Social Democratic" design of the Nordic countries including Denmark, Finland, Norway and Sweden, and the "Liberal" type from countries such as the U.S. and the U.K.

Since the 1980s, the Nordic countries have invested more than 25 percent of GDP on average on funding welfare services from child care to education to health care, Ahn said in a study.

As a result, the employment, especially among women exceeded 70 percent, ahead of the any other OECD countries .

But when it comes to applying it in Korea, the issue gets boiled down to tax, he said.

"Koreans have double standards on the welfare system, they ask for more government support but don't want to pay more taxes," Ahn said adding that distrust in government is deeply rooted in them due to a history of corruption.

"People don't think they will get the services in return for the taxes they pay," he said.

Interestingly, the resistance to tax was the lowest among the Nordic people, compared to the ones of the U.S. and U.K., when in fact, they paid the highest portion of taxes for social services, Ahn said in his research note.

That is because people feel more compensated through everyday services such as child care, health care, education and housing than cash transfers like pensions and unemployment benefits, he said.

"That's why the government has to invest more on social services in order to meet the rising welfare demand and create jobs at the same time," Ahn said.

In other words, if a working mom gets a monthly allowance for child care, she could easily use it for something else whereas if she receives a free care service, it would directly alleviate the burden of babysitting while at work.

In fact, six out of 10 Koreans picked financial burden as the main reason for low birthrates, according to a survey by the Ministry of Health and Welfare in January. Almost 93 percent the respondents said they would like to have children but agreed that there is a lack of social support.

Other scholars have raised concerns that the service quality should not be sacrificed for the economic benefits of adding jobs.

"As we have learned from the daycare strike, private centers lack qualified teachers and a good working environment," said Kim Jeung-kun, a research fellow with the Samsung Economic Research Institute.

"Government should focus on regulations that improve the quality of the private sector services, which take up about 70 percent of total child care providers," Kim said.

However, other experts, who believe in small government, pointed out that greater tax pressure on social services among Nordic countries like Sweden hurt the nation's economy in the 1970s and the 80s.

Johnny Munkhammar, a current congressman of the Sweden's Moderate Party, called the 25-year period of tax increase the "most unfortunate years in the Swedish economy."

"True, stagflation was not a single Swedish phenomenon, there was an oil crisis, government increased in many ways and not only taxes, but Sweden developed worse than most OECD countries and that was not without cause," Munkhammar said, during a seminar by the Center for Free Enterprise held in Seoul on March 5.

For Sweden's advanced welfare foundation, the lawmaker credited social cohesion - small income difference, an inclusive labor market and low social conflict - and universal education, which he claimed that came "long before the big government welfare state in the 1970s."

Ahn from Seoul National University agreed that Sweden's unique labor markets and other social features should be taken into account when Korea refers to the Nordic model as an example.

Unlike Sweden, Korea has extremely intense competition whether in education or the job market, and growing social tension from issues such as a widening income gap and divided unions.

"Think about the social costs caused from the numerous strikes that have taken place in recent years, that's a waste of money we could have saved," he said.

Korea also has a unique factor as one of the most rapidly aging societies with a low birth rate. In 2000, Korea became an aging society with people over 65 exceeding 7 percent of the total population, and the proportion of the elderly is expected to double by 2018, according to Ahn's study.

Additionally, Korea had the lowest fertility rates among the OECD countries in 2009, the OECD's country report said.

"For a long time, we have failed to make - and still don't have - a strong social network for working moms to remain in the workforce," said Kim of the Samsung Economic Research Institute.

To catch up with other developed countries and save on social spending, the government should intervene and collect taxes to make investments for the long run, he said.

A 36-year-old working mom named Seol said the financial burden of child rearing is a challenge. Most of the couple's income goes to her six-year-old daughter including 1 million won or about $900 a month for a private kindergarten in Jamsil, southern Seoul.

Thanks to her mother who babysits her child when she's not in pre-school, Seol can at least save the costs for a nanny, which would be another 1,200,000 to 1,300,000 won.

"Even though it's painful to work when your child is young, I have no other option but to keep working," she said.

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