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# Fiscal Policies of Early Childhood Education in China: A Historical Overview from the Cost-sharing Perspective

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**Abstract:** Early childhood education in China has undergone dramatic changes during the past seven decades, associated obviously with the rapid social transition and economic growth. Educational policies and government investments are supposed to be the key influential factors in the development of early childhood education. By decomposing the historical progression of early childhood education in China into four stages, this article sets out to explore the dynamics of early childhood education through the lens of fiscal policies. Following a historical overview and analysis, the article reveals that the evolution of fiscal policies of early childhood education are highly related to and influenced by the development of the society and its economic status. Top-level design and overall planning of early childhood education are proven to be the most essential factors for its sustainable development. Hence, the laws and regulations concerning the educational and welfare value of early childhood education and fiscal responsibilities of governments at all levels should be clear and definite so as to make sure the stable financial funding and supporting. In order to establish and expand the public system of early childhood education services, governments of higher levels should take more fiscal responsibilities and look for ways to fund early childhood education efficiently and effectively.

**Keywords:** Fiscal Policies, Early Childhood Education, Historical Overview, Cost-sharing Perspective

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## 1. Introduction

Early childhood education (ECE) has been widely recognized as being crucially important in one's lifetime. Many studies have shown that ECE could be beneficial not only to the physical and mental development of children [1-3], but to the mothers' employment status and the families' economic conditions [4-6]. Furthermore, ECE has also been taken as a long-term strategy for human capital investment and social stability by an increasing number of countries worldwide [7-9]. Against this background, the government of China had issued a plenty of intervention policies and made a great effort to support and fund ECE since 2010. However, ECE had gone through ups and downs following the twist and turns of economic and social development of China before 2010. Although there have been many pieces of research about the review on China's ECE policies [10-12], none has critically analyzed the historical evolution of fiscal policies of ECE in China. Fiscal policies have been the most influential factors for the development of ECE by funding programs and

supplying adequate resources, and therefore this paper is dedicated to addressing this research gap by revealing the dynamics of fiscal policies of ECE since the founding of China and exploring the reasons behind the changes, so as to offer a deeper understanding of ECE's evolution and reflections on the sustainability of ECE in China.

This paper is organized as follows: First, an analytic framework is constructed before providing a historical review on the dynamics of China's ECE fiscal policies. Next, a comprehensive analysis is conducted by decomposing the evolutionary process into four stages. This will be followed by a discussion on the characteristics of the evolution and reasons behind the changes in the context of the social and economic development during the past seven decades. Finally, after discussing the future challenges facing ECE in China, some suggestions are proposed.

## 2. Analytic Framework

The concept of Public Goods laid the theoretical foundation

of government intervention and public expenditure [13, 14]. Typically, education is regarded as a quasi-public goods for its positive externality to both individual's family members and the whole society [15, 16]. Due to the market failure and underestimated level of investment, governments need to fund education aiming to raise its consumption level [17]. In addition, the definition of Cost-sharing has provided a perspective for analyzing how the cost burdens are shared by all stakeholders [18].

However, the level of financial support for education is not just based on the ideology of quasi-public goods, it's also influenced greatly by various factors such as political system, economic growth patterns, government's preferences for public expenditure, etc. Besides, the Public Choice Theory has proved that government should also be recognized as 'a rational person' and its behaviors abide by the principle of benefit maximization [19-23]. As a result, analyzing the dynamics of fiscal policies of ECE in China from the cost-sharing perspective is necessary to gain a more comprehensive understanding about the cognition and pathways from the past to the future.

Based on the actual conditions in China's society, the stakeholders of ECE include children and their families as well as governments at all levels. Consequently, the cost of ECE is mainly shared by the public and the private. Meanwhile, it is also necessary to analyze how the cost is shared by the central government and local governments for the Chinese government has a hierarchy system of five different levels being accompanied with a variety of educational responsibilities and fiscal capacities. Therefore, this paper reviews the progression of fiscal policies from perspectives of the public/private cost-sharing and the central/local government cost-sharing.

### 3. The Evolution of ECE Fiscal Policies in China Since 1949

ECE Fiscal policies mainly focus on how to allocate financial resources to early childhood education system, including several typical questions as follows:

- a) Who should fund ECE?
- b) How to fund ECE?
- c) How many financial resources should be allocated to ECE?
- d) What kind of ECE institutions or services could get the financial appropriation?

From the cost-sharing perspective, the historical involvement of ECE fiscal policies in China can be divided into four stages. Besides, it should be noted that the term of ECE used in this paper is not a rigorously precise concept. Generally speaking, ECE includes early education of children aged from 3 to 6. However, ECE may refer to early education and care of children from 0 to 6 years old, kindergarten education or preschool education in China's issued policies and regulations. For the sake of research goals and simplification, the concept of ECE in this paper mainly refers

to ECE of 3-6 years old, and sometimes may overlaps with a wider range.

#### 3.1. Stage 1: From 1949 Until Late 1970s

When the People's Republic of China was founded in 1949, China started to launch a series of reforms in social system. As a new regime, the New China gave priority to promoting economic recovery. ECE was used as an important tool to facilitate children's mothers who were greatly encouraged to join the workforce [24]. Based on the idea of social labor insurance, ECE was provided by the work unit system in urban China since early 1950s, which meant that most staff members could get child care services where they worked and all the cost should be borne by their work units. At that time, a highly centralized planned economy was adopted, hence the central government took the responsibilities of planning all aspects of social affairs and was in charge of allocating all the financial resources. The mode of fiscal administration system was called monopolized revenue and expenditure, which meant the whole country's revenue and expenditure were all controlled by the central government. Consequently, all the local governments and public sectors complied the orders from above, and the central government actually shared almost all the cost of child care services provided by the system of work unit.

In short, ECE was regarded as social welfare during the early years of New China, aiming to boost the economic development by releasing the potential of female labor force. Under a planned economy and a fiscal administration system of state-monopolized revenue and expenditure, almost all the cost burden of ECE was borne by the central government in spite of various type of providers such as public sectors, state-owned-enterprises and etc.

After a rapid expansion during 1949-1957, New China was confronted with a series of political turbulence and most of the ECE institutions as well as other educational institutions were closed down during 1958-1977.

#### 3.2. Stage 2: From Late 1970s Until Late 1980s

After the chaotic period of nearly two decades, the Chinese government had initiated many significant and profound policies to rebuild the social and economic system since 1978, such as the 'open-door' policy and 'market-economy' reform. Unlike the planned economy, market other than governmental plan was gradually used as a more efficient way to allocate resources. Accordingly, education especially non-compulsory education including ECE launched the market-oriented reform. Given the condition of inadequate funds and resources, a national level ECE policy being issued by State Council in 1979, namely *Summary of the National Conference on Childcare Work*, mentioned that all stakeholders including government, society and individuals should share the cost of ECE, which turned out to be the very first concept of multiple channels of fund-raising and cost-sharing.

At the same time, the fiscal administration system and state-owned enterprises in China had gone through reforms

and tremendous changes. Local governments gained the financial autonomy through the reform of the fiscal contracting system around 1980, so that they could take fiscal responsibilities of social affairs at the local level. Due to the replacement of profit delivery by taxes in 1983, state-owned enterprises gained disposable profit to some extent, and in that case, raising money from profit for ECE became an undesirable choice impeding the expansion of reproduction. Consequently, most of the state-owned-enterprise-run ECE institutions ended up with closing down, suspension or being merged with other institutions. Other private ECE institutions relied on the child care fees from children's parents for operation while public-sector-run ECE institutions could still get the financial resources from their providers. Hence, the paths ahead for ECE institutions became divergent and were highly associated with the types of their providers.

As to the educational development, the law of universal compulsory education was issued in 1982 and local governments were designated to take the main responsibility for the popularization of nine years compulsory education. Meanwhile, local governments who also took charge of ECE would undoubtedly give priority to compulsory education under the condition of limited financial resources. Except some public-sector-run ECE institutions, others increasingly relied on tuition fees for operation and families shared more of the cost burden compared to the past.

In brief, during the period from late 1970s until late 1980s, social transformation had greatly impacted the development of ECE. A new economic growth pattern promoted the trend of marketization of ECE, and the fiscal contracting system made the local governments other than central government bear the cost of ECE. Furthermore, local governments were under the pressure to accomplish the goal of universal compulsory education and their preferences of public expenditure were less likely to involve ECE. Under such circumstances, local governments and children's families jointly shared the cost of ECE and families' proportion had increased a lot. Above all, there was no explicit policy or regulation to ensure the development of ECE and therefore the local governments lacked the incentives to share more cost of ECE.

### 3.3. Stage 3: From Early 1990s Until 2009

Since early 1990s, a series of economic and fiscal innovations along with educational reforms had jointly reinforced the trend of marketization of ECE. In order to build a socialist market economy and improve the level of specialization and productivity, modern corporate system was set up and corporations were encouraged to take full responsibility for their profits and losses being independent from government's intervention or supervision. Accordingly, social functional departments such as education and health care being affiliated to the corporation needed to be separated. The work unit system was once the main provider of ECE, but now such kind of ECE institutions confronted a severe situation due to the lack of necessary policies for how to arrange for them and ensuring the smooth transition in the changing times. At the same time, Tax Sharing Fiscal

Administration System was implemented since 1994, and this fiscal reform had a significant and profound impact on the fiscal relationship between the central and local governments as well as the expenditure preference of local governments [25, 26]. As mentioned before, government could be regarded as 'a rational person' and the incentives of its choices are profit maximization. Under the tax sharing fiscal administration system, local governments aiming to gain more fiscal revenue from local taxes would prefer more to financially support the productive fields such as infrastructure constructions rather than those welfare ones [27-29].

As for ECE, a reform policy being issued by State Council in 2003, namely *Notice on Guiding Opinions on Early Childhood Education Reform and Development*, mentioned the direction of transformation and the responsibilities of governments at all levels. Private kindergartens had been designated as the main body of ECE institutions and the lowest level of governments needed to take the financial responsibility of supporting ECE while the central government only took charge of macro-level administration without any fiscal responsibility. Such structure of fiscal supporting system is extremely unreasonable for the lower level the government is, the less fiscal capacity it has. If there was no financial support from upper level of governments through fiscal transfer system, local governments had neither the incentives nor the capacities to fund the development of ECE. The educational policies had then focused on universalizing the nine-year compulsory education especially in rural China and the Compulsory Education Law guaranteed the financial support being provided by governments from top to bottom. Nevertheless, there was no fiscal policies concerning ECE until 2010.

In a word, during the period from early 1990s until 2009, the cost-sharing ratio in ECE had further changed by the enlarging portion from private and the shrinking portion from public. As an increasing number of private kindergartens became the main providers, children's families borne more and more cost of ECE while most of the local governments lacked either impetus or capacity to fund ECE, which had put ECE at the most disadvantaged position in the whole educational system in China.

### 3.4. Stage 4: Since 2010

The year of 2010 marked a turning point in the development of ECE and a few crucial policy documents had been issued ever since. In the society with highly developed information technology and internet popularization, Chinese people learned to participate in the policy making process through online public hearings on proposed policies. Two rounds of public consultation had been launched before *the Outline of China's National Plan for Medium and Long-term Education Reform and Development (2010-2020)* (hereinafter referred to as 'Outline') was officially announced. Among all the feedbacks from the public, issues from inaccessible to unaffordable of ECE accounted for the major proportion. The long-term conflicts between short supply and high demand of qualified ECE had finally received attention from the central government

and the draft Outline was revised based on the nationwide open discussions. In the final Outline, unprecedented importance had been attached to ECE, for example, the goal of universalizing ECE was proposed for the first time.

Shortly afterwards, another crucial policy document, namely *the Several Views on the Development of Preschool Education by the State Council* (hereinafter referred to as 'Views'), was issued by the central government, in which the responsibilities of governments at all levels were clarified. In addition, ECE is called the starting point of lifelong learning, a crucial part of national education system and being of significant importance on individuals and their families as well as the whole society. In order to establish a public system of ECE services, the central government is responsible for compensating the disadvantaged regions such as rural areas in central and western China, while provincial governments should be in charge of their regional ECE's promotion and administration including raising funds and establishing accountability. Local governments ought to take charge of policy implementation and formulating the standard educational expenditure and financial appropriation per student.

Aiming to expand the public system of ECE services rapidly, four rounds of programs being known as *Three-year Action Plan in Developing Early Childhood Education (2011-2013; 2014-2016; 2017-2020; 2021-2023)* (hereinafter referred to as 'Three-year Action Plan') have been initiated by the central government whereas governments of the county level had been designated as the basic unit of implementation. The Three-year Action Plan was used as the leverage to encourage more public and private resources contributing to ECE's expansion and popularization, which required the government to share more cost burdens while the private reasonably share some of the cost. Although the proportions are not clearly defined, the trend of a more balanced cost-sharing structure between public and private is obvious. Universal kindergartens should be either accessible or affordable for all citizens.

In brief, once ECE got the acknowledgement of educational significance and public benefit, the related institutional system had been gradually established and ECE had drawn the attention of governments from top to bottom. In the context of high-speed economic development in China and the financial education expenditure being constantly increasing year by year, nine-year compulsory education has had the relatively higher fiscal inputs while ECE had been neglected by government during the last three decades. Under the recognition of the importance of ECE, more financial resources shall be allocated to ECE and governments would like to take more responsibilities in funding and administration. What's more, the policy document being called *the Several Views on Deepening Reform and Normative Development of Preschool Education* being issued by the State Council on 2018 proposed that no less than half of the children should attend public ECE institutions, which further strengthened the governmental responsibilities by the indicator of 50% enrollment rate in public kindergartens.

Consequently, the structure of cost-sharing has fundamentally changed by the growing portion shared by governments especially the ones from higher levels.

## 4. Discussion

### 4.1. Characteristics of the Evolutional Process

From the historical review of fiscal policies of ECE since the founding of New China, it is very clear that the evolutional process is deeply embedded in the development of the society and its economic status. In the context of rapid and frequent social transformation, ECE was once regarded as a by-product aiming to facilitate economic growth and did not gain the necessary attention to its value of both educational and welfare until 2010. Accordingly, ECE in China had gone through the ebb and flow of progression and been at the most disadvantaged place and got the least proportion of governmental funding within the whole formal education system. The underfinanced supporting system led to an extremely inequitable and inefficient use of governmental funding for the financial resources were almost all allocated to a very few public-sector-run kindergartens where children mostly came from families of higher socio-economic status [30].

ECE caught the attention of top policymakers and the public on condition that its educational and welfare values to individuals, families and the whole society had finally been widely recognized and the conflicts between the increased demand and the decreased supply had been intensified for ages. A comprehensive policy system has established and governments of various levels started to take responsibilities for administration, funding, regulation and monitoring and higher-level governments would be in charge of more financial supporting obligations. By now, the Three-year Action Plan program was used as one of the important tools to promote the popularization of ECE nationwide, as well as many other earmarked grants for rural and remote areas in China.

### 4.2. Exploring the Reasons Behind the Changes

By analyzing the historical evolution of ECE policies, many studies discussed better ways to promote the development of ECE in China from various perspectives, such as curriculum reform and teacher education [10], accessibility, affordability, and accountability [12]. Through focusing on fiscal policies, however, this paper indicates that the top-level design and overall planning of ECE are proven to be the most essential factors for its sustainable development. If there isn't a stable policy system, ECE could be greatly and profoundly influenced by the changing social goals and economic growth patterns. For instance, ECE was easily abandoned when its economic functions were weakened during the time of stage 2 and stage 3. Only when ECE got widely recognition of its own irreplaceable values of both educational and welfare, could ECE obtain legitimate status and adequate financial resources.

Moreover, how to protect children's rights has been a hot issue for decades worldwide as the medical, psychological and

educational researches have increasingly revealed the irreversible effects of early years' experiences in one's lifetime. Meanwhile, the Chinese government has more fiscal revenues than ever before due to the rapid development of economy for over forty years after reform and opening up, while the goal of popularization of nine-year compulsory education was mostly achieved. Against such background, jointly with the short supply of ECE being a severe social issue, ECE embraced its golden period of development and unprecedented number of financial resources began to flow in and more public kindergartens would be set up in the future. ECE now is more likely to be a kind of quasi-public goods other than private goods or club goods and a comprehensive public system of ECE services is being constructed by various levels of governments.

## 5. Conclusion

### 5.1. Future Challenges

The Chinese government intended to expand public service system and increase the enrollment rate of public kindergarten to more than 50%, which turned into a huge challenge for government's financial funding system. What's more, a large proportion of kindergartens were private ones before 2010, and how to support those private kindergartens to be transformed into public ones or be involved in the public service system are still some outstanding issues.

As *Three Child Policy* was embodied into the lately amended Population and Family Planning Law of China, child care service for children under 3 years old is going to be another policy priority, which would broaden the range of ECE public service system and increase the burden of cost-sharing from all levels of governments.

A series of efficient fiscal policies needed to be established to make sure the financial responsibilities of governments and encourage more qualified institutions and personnel to participate in the expansion of public service system, support ECE teacher education and professional development, and draw on more private capital to invest in ECE services.

### 5.2. Suggestions

As shown before, the evolvement of fiscal policies is highly related to the cognition of ECE's educational and welfare value, and more financial resources would be stably allocated to ECE if its value is widely accepted by the public especially by the policymakers. As a result, Early Childhood Education Law is of the most critical importance for ECE's sustainable development. Early Childhood Education Law which would be forthcoming is proposed to specify the legal status of ECE and clarify the responsibilities especially fiscal ones of governments at all levels to establish an accessible and affordable ECE public service system.

In addition, acting as 'a rational person' with the tendency of benefit maximization, local governments are preferred more to productive expenditure other than educational one, which means strict and specified rules of governments' fiscal

responsibilities for ECE should be explicit. Besides, the fiscal capacities of local governments in different areas in China differ widely, hence the finance transfer payment system for ECE should also be built to address this issue of imbalance. An efficient and effective intergovernmental fiscal transfer system should be amended to ensure the distribution of fiscal inputs being equitable and adequate. That means the central government need to compensate the disadvantaged areas nationwide while the provincial governments need to balance the financial resources regionally through financial allocations. Governments of lower levels need to explore more available resources both public and private to support the expansion of ECE and more flexible ECE institutional forms such as community-based or home-based to meet diverse needs of children's families. As for the quality of ECE services, sufficient qualified teachers are indispensable for qualified ECE services, so teacher training and professional development should also be financially guaranteed.

The above-mentioned issues concerning equity and efficiency in financing ECE require further discussion and more detailed analysis, and last but not least, scientific researches on early childhood development and early childhood education of both theoretical and practical dimensions should also be fiscally supported by governments, so that financial fundings and resources could be used in right directions and in more efficient and effective ways.

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