

Subsidies, Substitution and Spillovers of Formal Child Care

Hans van Kippersluis – Erasmus University Rotterdam
(with Hongliang Zhang – Hong Kong Baptist University)

Child care subsidies aim at enabling parents to combine parenthood with a sustained career development. The recent literature shows that while child care subsidies are generally successful in encouraging parents to use formal child care, they are less successful in boosting female labor supply. In this paper we exploit a series of reforms in child care subsidies and population-wide register data from the Netherlands to estimate the effect of subsidies on child care use and labor supply. Our contribution is twofold. First, we are the first to study how parents respond to subsidy cuts rather than subsidy increases. This allows understanding whether changes to child care subsidies have a symmetric effect, and whether subsidy cuts provide a way to cut public spending without distorting labor supply. Second, through exceptionally rich register data, we can observe not just the parental employment response, but additionally the grandparent's employment response. This allows studying substitution between formal and informal child care, and estimating spillover effects of childcare subsidies on grandparent's labor supply decisions.