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THE UNINTENDED CONSEQUENCES OF CHILDCARE REGULATION: EVIDENCE FROM A REGRESSION DISCONTINUITY DESIGN

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In several countries governments fund childcare provision but in many others it is privately funded as labor regulation mandates that firms have to provide childcare services. For this later case, there is no empirical evidence on the effects generated by the financial burden of childcare provision. In particular, there is no evidence on who effectively pays (firms or employees) and how (e.g., via wages and/or employment). Our hypothesis is that in imperfect labor markets, firms will transfer childcare cost on to their workers. To analyze this, we exploit a discontinuity in childcare provision mandated by Chilean labor regulation.

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I. Introduction

Childcare policies started to be in the public debate at least since the 19th century, as the Industrial Revolution in part was fueled by the economic necessity of many women, single and married, to find waged work outside their home.[1] Childcare policies were mainly discussed in order to strengthen the parent-child link without negatively affecting their labor market situation, in particular female labor market participation. This later point is still a concern in many countries around the world. One of the examples is the Chilean case, as female participation is rather low (47%, INE 2010) relative to other OECD countries (57%, OECD 2010).[2]

Previous empirical literature on childcare policies can be classified into two main strands. On the one hand there are studies that analyze the effects of childcare policies on the development of cognitive abilities of children (see Baker, Gruber and Milligan 2005, Berlinski, Galiani and Gertler 2009, Berlinski, Galiani and Manacorda 2008, Bernal 2008, Carneiro, Loken and Salvanes 2008, Herbst and Tekin 2010 and Veramendi and Urzúa 2011). On the other hand, there are studies that analyze the effects of childcare policies on females' labor market participation and employment (see Baker, Gruber and Milligan 2005, Berlinsky and Galiani 2007, Betancor 2011, Blau and Tekin 2003, Cascio 2006, Encina and Martínez 2009, Gelbach 2002, Guzmán 2009, Jaumotte 2003, Schlosser 2011 and UNDP 2008).

To the best of our knowledge, there is no empirical evidence on who bears the financial burden of childcare regulation when it is not publicly funded. This is important as if it is indeed paid by firms then this legislation is a tax to female workers in the sense that is a disincentive to hire female workers. However, if firms are not paying someone else must do it (for example: workers). Thus, the objective of this study is to present evidence about who bears the financial burden (i.e., firms or employees) of childcare. In order to do this, we exploit Chilean childcare regulation where the labor code establishes that the financial responsibility about

[1] See for example *The history of child care in the U.S.* where it is pointed out that "To draw attention to the need for childcare and to demonstrate "approved methods of rearing children from infancy on," a group of prominent New York philanthropists at the 1893 World's Columbian Exhibition in Chicago went on to found the National Federation of Day Nurseries (NFDN), the first nationwide organization devoted to this issue, in the US ". (http://www.socialwelfarehistory.com/programs/child- care-the-American-history).

[2] Actually, Chile has one of the lowest rates of female participation among OECD countries, only above Mexico, Turkey and Italy (OECD 2010).