



# Does the cost of child care affect female labor market participation? An evaluation of a French reform of childcare subsidies☆

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## HIGHLIGHTS

- We evaluate a sharp increase in childcare subsidies for some French families.
- The impact on the labor force participation of mothers is significant but small.
- The highest impact is observed for mothers of large families.
- One-child mothers work more often full-time thanks to the childcare subsidies.
- Higher subsidies probably led to a substitution of paid care for informal care.

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## ABSTRACT

This study evaluates the short-run impact of an increase in childcare subsidies on the use of paid childcare and the participation rate of mothers of preschool children. We use a natural experiment provided by the PAJE, a French reform in family allowances introduced in 2004. This reform temporarily creates discrepancies in the childcare subsidies received by families according to the year of birth of the children. We apply a difference-in-differences strategy on exhaustive French fiscal data that provide information on gross income as well as on the use of paid childcare services between 2005 and 2008. We use the fact that the new policy results in a significant increase in the use of paid childcare services. The effect on the labor force participation of mothers is significant but of a smaller magnitude. The highest impact is observed for mothers of large families.

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## 1. Introduction

Policies that help to balance family and work have been considered as the most efficient way of increasing the female participation rate in OECD countries (see for instance [Jaumotte, 2003](#)). Childcare may represent a substantial cost and it is seen as an obstacle to labor force participation. Recent evaluations of the introduction of universal subsidized childcare spaces ([Havnes and Mogstad, 2011](#) in Norway, [Lefebvre and](#)

[Merrigan, 2008](#) for the province of Quebec in Canada), find a large impact of the availability of such childcare facilities on labor force participation of mothers with children of preschool age, which can be long-lasting ([Lefebvre et al., 2009](#)). Conversely, the introduction of policy programs that reduce work incentives for parents, such as long parental leaves or “cash-for-care” programs, has a strong negative impact on female participation (see [Piketty, 2003](#) for France and [Schöne, 2004](#) for Norway). Additionally, career breaks for childraising appear to have an impact on wages, but the durability of this effect is still controversial ([Lequien, 2012; Lalive and Zweimuller, 2009](#)). More generally, if the international literature confirms the link between women's labor supply and childcare costs, the estimates are spread across a rather wide range (see for instance [Blau and Tekin, 2007](#) for a review of studies using US data). The responsiveness of families to childcare cost is indeed expected to vary with institutional and cultural contexts.

This paper provides new insights from France on the impact of childcare subsidies on the participation rate of mothers of young

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children and on the use of paid childcare. The case of France, which has a long history of pro-family policy, is worthy of interest in this respect. In terms of childcare facilities, France has indeed an intermediate position compared to other OECD countries. A publicly funded pre-elementary school system guarantees free and high quality childcare for all children above the age of three. However, parents of younger children face a shortage of infant and toddler care. Public low-priced nurseries do exist for younger children, but the number of slots is much lower than the demand. Public nurseries are complemented by a system of private qualified childminders. In this case, the cost is partly subsidized by family allowances and childcare subsidies. As far as we know, very few empirical studies evaluate the impact of these subsidies on the participation rate of French women (one noticeable exception being [Choné et al., 2004](#)).

Evaluating the effects of these childcare subsidies is difficult. The scheme of these childcare subsidies is highly nonlinear, which can induce nontrivial disincentive effects on labor supply. In addition, the scheme depends on the total household income (thus including the mother's income) and the actual amount of childcare subsidy varies when parents choose to participate in the labor force. The identification of the impact of childcare subsidies is thus blurred by selection effects.

In this paper, we use a quasi-experiment created by a 2004 reform of the French system of family allowances that substantially increases childbearing and childcare subsidies. The reform temporarily creates exogenous discrepancies in the childcare subsidies received by families depending on the year of birth of the children. The new scheme applied to all families with a child born after 1 January 2004, while families with a child born prior to this date were still covered by the old scheme. For a period of a few years, some families with young children were under the old scheme of childcare subsidies while others were under the new one. We use this exogenous variation in childcare costs to evaluate the short-run impact of the reform on the labor participation and use of paid childcare of mothers of preschool children. We rely on a difference-in-differences strategy to estimate the impact of the reform, using an exhaustive fiscal dataset. This dataset provides information on yearly earnings of households as well as on the use of paid childcare by families and allows accurate analysis even when restricting the sample to specific populations. We focus on the targeted population of mothers of a young child just after the introduction of the new scheme, and conduct separate analysis depending on family size.

On the whole, the results suggest a positive if small short-term impact of the increase in childcare subsidies on the use of paid childcare as well as on the participation rate of mothers of preschool children. The results vary depending on family size. We observe that while the new schedule does have more impact for mothers of large families, it does not correspond to full-time yearly earnings. By contrast, the introduction of the new scheme of childcare subsidies has induced some one-child mothers (whose participation rate was already high before the reform) to increase the intensity of their participation in the labor force. The estimated impact of the reform is slightly higher on the use of paid daycare than on the participation rate. This suggests that the rise in childcare subsidy led to a substitution of paid care for informal care. The reform has had no detectable impact on the labor force participation of fathers.

The remainder of the paper is organized as follows. The following section presents the French system of childcare and the changes introduced by the 2004 reform. [Section 3](#) presents the identification strategy and the data, while [Section 4](#) presents the results. [Section 5](#) compares the results with those obtained in the related literature and discusses the specific features of the French situation that may explain the magnitude of our results. Finally, [Section 6](#) concludes.

## 2. French childcare policy and the PAJE reform

In France, the difficulties associated with combining work and motherhood are mostly concentrated in the first three years of the child's life.

For children between three years old and six years old, a free universal full-day preschool program is provided. Some two-year-old children also qualify for universal preschool. In 2009, 100% of three-year-old children and 20% of two-year-old children were enrolled in non-compulsory pre-elementary school programs (“*école maternelle*”).<sup>1</sup> These pre-elementary schools (which provide a state mandated curriculum) are completely free of charge for families (for further details see for instance [Goux and Maurin, 2010](#)).

For younger children (meaning children between 3 months old – the end of maternity leave – and 3 years old), no universal system exists. According to official figures provided by regular surveys focused on childcare arrangements, two-third of children under three are *mainly* cared for at home by their parents during the workday ([Blanpain, 2009](#) and [Villaume and Legendre, 2014](#)). This does not necessarily mean that parents do not participate in the labor force (for instance in the case of adapted work schedules).

In practice, when children are not looked after at home by their parents, most of the paid childcare for them is provided by qualified childminders who care for children in their own homes. These professional childminders are regulated by the state and must be certified; they are also regularly inspected and must attend professional training classes. The cost of this form of daycare is set privately, through agreement between the provider and the family. In 2007, the average cost for full-time daycare varied across counties (French *département*) depending on the local density of slots: the gross cost (before subsidies and tax cuts) was on average 477 euros a month in counties with more than 41 places per 100 children under 3, and 653 euros a month in those with less than 18 places ([Blanpain, 2009](#)). The number of slots available corresponds to around one third of the total number of young children in 2007. Additionally, publicly funded nurseries provide high quality childcare for children as young as three months. As the cost is quite modest for low-income families (it is a function of the parents' wage: for one child, it is generally 0.6% of their monthly wages for each day of care)<sup>2</sup> for a high quality of service, such nurseries are regarded as the number one childcare option by French families. However, the supply falls far short of the demand.<sup>3</sup> On average, the number of slots is 14 per 100 children aged 3 or less, but may be as low as 4 per 100 children in some French counties.

Several public programs alleviate the financial burden of child care for families. This alleviation consists of direct subsidies and tax credits. Firstly, a monthly subsidy is provided for low-income families with young children whatever daycare system is used, and even if the child is cared for at home by his or her parents. This so-called “base subsidy” amounted to 165 euros per month in 2005, provided that the total family income lay below a set threshold. This threshold was around 24,000 euros in 2003 for one-child double-income families (it increases with the number of children in the family, see [Table A.1](#) in the online appendix for details). In addition, an extra subsidy (“childcare subsidy”) is given to families that employ a qualified childminder or an in-home nanny. This subsidy ranged from 155 to 362 euros per month in 2005 depending on family income, family size and age of children. The

<sup>1</sup> Schools must accept all children who are three years old by December 31 of the current school year. Children aged two may be admitted provided they are sufficiently mature and “socialized”, and that the school has space.

<sup>2</sup> The average cost is 166 euros a month for households whose standard of living is under 1,100 euros and 393 euros if their standard of living is higher than 2300 euros a month, (see [Blanpain, 2009](#)). It can be far higher for high-income families. These figures do not take into account tax credits.

<sup>3</sup> No general rule exists on the allocation of these places, which depends on local authorities. In general, it considers a set of criteria (in most cases, single parents, as well as disabled, adopted or twin children are given priority) and officially states an objective of promoting “social diversity”. In practice, a rule of “first-come, first-served” prevailed and the calendar month of birth is important (as most of the spots are freed on September, with the beginning of preschool year for children age of three years). A description of the final repartition of the allocation of the families is available in [Le Bouteillec et al. \(2014\)](#).

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