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# Modes of child care

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## Abstract

We model choices between caring for an infant at home or through some market provision of child care. Maternal labor supply necessitates child care purchased in the market. Households are distinguished along three dimensions: (i) Exogenous income, (ii) the wage rate of the primary care giver and (iii) the quality which the primary caregiver provides for child care. The market can supply child care at varying qualities and in continuous amounts. All households value consumption and child care quality. Sources of market failure comprise taxation of labor and productivity impacts on child care not fully taken account of by parents. Optimal corrective subsidies are highly correlated with taxed paid by secondary earners. In a second-best environment, typical policies of subsidizing child care will also distort quality choices. Employing no-use subsidies mitigates such distortions and can also counter excessive levels of subsidies for external child care.

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