
A Longitudinal Study of the Effect of Subsidized Child Care on Maternal Earnings

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Abstract

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The effect of subsidized child care on maternal employment has been widely studied focusing primarily on the extensive margin response. However, subsidies can affect earnings of mothers who do return to work after giving birth. To reconcile work with child care, a mother can reduce working hours or choose "mother-friendly" work in response to high child care costs. This can decrease maternal earnings in the short term, and in the long term by negatively effecting accumulation of human capital. Using a unique panel database on actual subsidy receivers in Israel, estimates show that subsidized care for working mothers with children up to age 3 increases earnings in the short run (years of subsidy receipt), but has no significant effect on future earnings of mothers. The results suggest that reducing hours worked or choosing "mother-friendly" work in the years of treatment do not harm human capital accumulation to the extent that affects later earnings, and other explanations should be sought for the motherhood wage gap in the long run.

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