

# Childcare Subsidies, Home Production, and Extended Income

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## **Paper Abstract:**

Prior studies have suggested that home production is able to substitute market consumption. Hence, home production should be taken into account when examining whether an income shock makes people worse or better off in terms of their income and consumption possibilities. This particularly holds for people who spend relatively many hours in home production, such as mothers. Whilst studies found high responsiveness to market work and household work decisions among this group, this paper is the first to study the causal effect of changes in childcare subsidies on extended income of mothers, where we add the monetized amount of home production to the money income of mothers. For causal identification, we exploit a substantial cut in childcare subsidies in the Netherlands in January 2012, using a differences-in-differences strategy. The treatment group consists of mothers with a youngest child 0 to 12 years of age. The control group consists of mothers with an older youngest child. We find that the reform significantly increased time spent in home production (excluding child care) for the treatment group compared to the control group, but it did not significantly affect gross (and net) income. Using several methods for monetization of home production we find that the cut in childcare subsidies increased total extended income of mothers. This seems to suggest that the policy change actually made mothers better off in terms of their total consumption possibilities. It could mean that mothers overcompensate their loss in benefits by substantially increasing their home production.