

Abstract

The female labor force participation rate in the United States leveled off around 1990 and began to decrease in the late 1990s. This paper shows that structural changes in the child care market play a substantial role in influencing the evolution of female labor force participation. I first provide new estimates of long-term trends in prices and hours of child care using the Survey of Income and Program Participation. Hourly expenditures on child care rose by 32% and hours of daycare used declined by 27%. Then, I build a life-cycle model of married couples that features a menu of child care options to capture important features of reality. The calibrated model predicts that the rise in child care costs leads to a 5% decline in total employment of females, holding all else constant. Finally, this paper provides two hypotheses and their supporting evidence about the causes of rising child care costs: (i) restrictive licensing to home-based child care providers, and (ii) the negative effect of expanded child care subsidies to lower income households on the incentives for those individuals to operate the home-based daycare.