

Abstract

In this article we present quasi-experimental evidence on the relation between child care subsidies and child care quality. We exploit the difference in funding of private and public centers in the Netherlands. A recent subsidy cut reduced funding for private centers while funding for public centers was unaffected. The quality measurements are from a panel survey in which centers' quality was evaluated through classroom assessments by trained observers. Using differences-in-differences we find that the subsidy reduction caused a statistically significant decrease in quality of one fifth of a standard deviation. We also present results for nonlinear differences-in-differences estimators. The decline in quality is robust across specifications and appears to be driven by a decline in the middle of the distribution. A limitation of our data set is that our pre-reform period is short, so that we cannot perform pre-reform placebo tests.