

Equity and Efficiency of Childcare Subsidies: A Dynamic Structural Approach*

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Abstract

Governments use different instruments to redistribute income: besides incomes taxes, different forms of income-contingent subsidies are provided. In this paper, we compare the efficiency of two large redistribution instruments in Germany: childcare subsidies and the income tax. We quantify this comparison in a dynamic discrete choice model that accounts for the endogenous dynamics of mothers' lifecycle earnings.

JEL Code: H23, H31, J13, J22, J24

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