

Job Search Under Low Pay, Low Security, and High Unemployment

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Abstract

The post-Covid shutdown U.S. labor market is characterized by many open jobs and substantial unemployment. Despite numerous hypotheses regarding this paradoxical situation, existing models in labor economics lack the features necessary to adequately evaluate the potential policy remedies or causes. I construct a search model to reproduce the prevailing dynamics, which I then use to evaluate the employment impact and effect on the welfare of low-income workers from large-scale transfers, unemployment benefits, and an earnings subsidy. One-off transfers hardly affect employment in a downturn. Raising unemployment benefits by \$300 per month leads to a 0.6 point increase in the unemployment rate. Adding an earnings subsidy to unemployment benefits raises employment by 7 percentage points at a 23% lower level of inequality, yet increases costs by only 16-30%. In contrast to a compensating differentials framework, the model shows that lower earners tend to be more at risk for layoffs, and that this effect is stronger following a negative aggregate shock. Following a simulated shock, mean consumption falls by 5% yet consumption at the 10th percentile drops by 16%. Although the risk borne by lower earners is often greater, their savings are often lower, because they have less consumption to seek to smooth and less opportunity to accumulate savings.