

Family Job Search, Wage Bargaining, and Optimal Unemployment Insurance*

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Abstract

In this paper we develop an equilibrium search and matching model where two-person families as well as singles participate in the labor market. We show that equilibrium entails wage dispersion among equally productive risk-averse workers. Marital status as well as spousal labor market status matters for wage outcomes. In general, employed members of two-person families receive higher wages than employed singles. The model is applied to a welfare analysis of alternative unemployment insurance systems, recognizing the role of spousal employment as a partial substitute for public insurance. The optimal system involves benefit differentiation based on marital status as well as spousal labor market status.

KEYWORDS: wage bargaining, wage differentials, unemployment, unemployment insurance

*We are grateful for useful comments from Per Engström and Philipp Kircher. Thanks also to seminar participants at Uppsala and participants at the IZA workshop on unemployment insurance and flexicurity.