

## **Excess worker turnover in two-tier systems: Firm and match heterogeneity**

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The literature on job and worker flows has established a set of stylized facts common across labor markets. Most notably, filling a vacancy requires the hiring and separation of more than one worker. Labor legislation influences the intensity of such flows, but it is not enough to curtail the rate at which workers rotate. Our analysis of labor market flows in the Portuguese economy adheres to these stylized facts. Labor market flows in Portugal, however conditioned by the perceived rigid labor code, are conducive to an intense reallocation of workers.

Abowd et al. (1999) and Boeri (2010) highlight the role of fixed-term contracts in two-tier systems, as an instrument of adjustment. Motivated by these frameworks and the increase in the share of fixed-term contracts in Portugal, we study their role in the determination of excess worker turnover.

As predicted by the models, fixed-term contracts and excess worker turnover correlate positively in the Portuguese economy. In the long run, this association is strong, with a larger influence attributable to fixed-term contracts among firms with higher levels of churning. Quantile regression suggests that fixed-term contracts result not only in higher excess worker turnover, but also in more variability of churning observed among firms. The short-term dynamics point towards a weaker, but still significant, association between fixed-term contracts and excess turnover, which reflects the discrete nature of employment adjustment costs.