

Labor Market Fluidity and Aggregate Productivity*

Noritaka Kudoh[†] Hiroaki Miyamoto[‡]
Nagoya University Hitotsubashi University

April 27, 2026

Abstract

This paper studies how job-security provisions affect labor market fluidity and, through it, aggregate productivity and wages. We develop a search-matching model with multi-worker firms in which redundant workers can be dismissed only gradually, slowing the replacement of unproductive matches. The novel component is the presence of unproductive employees who are protected and receive equal treatment in wage setting, generating forced labor hoarding within firms. Quantitative analysis shows that easing dismissal restrictions, i.e., increasing the probability that unproductive matches can be dissolved, raises labor productivity, output, and wages, while the unemployment rate responds only modestly because higher separations are largely offset by stronger vacancy creation and faster job finding.

JEL classification: E32, J20, J64.

Keywords: labor market fluidity, dismissal restrictions, labor hoarding, search and matching, multi-worker firms.

*We acknowledge that part of this research is financially supported by KAKENHI (25H00542).

[†]E-mail: kudoh.noritaka.k1@f.mail.nagoya-u.ac.jp

[‡]E-mail: h.miyamoto@r.hit-u.ac.jp