

## Abstract:

Replacement hiring—recruitment that seeks to replace positions vacated by workers who quit—plays a central role in establishment dynamics. We document this phenomenon using rich microdata on U.S. establishments, which frequently report no net change in their employment, often for years at a time, despite facing substantial gross turnover in the form of quits. Motivated by this, we devise a novel theory of the interaction of firm dynamics with on-the-job search, and study its analytical implications. To generate the extent of replacement hiring suggested by the data, we then extend the model to incorporate a putty-clay production structure among establishments. Replacement hiring induces a novel positive feedback channel through which an initial rise in vacancy posting induces still more vacancy posting to replace employees who are poached. This vacancy chain in turn induces volatile responses of vacancies, and thereby unemployment, to cyclical shocks.