Letter to the author

"Working-Week Flexibility: Implications for Employment and Productivity" by Victoria Osuna, manuscript 930

1 Summary

The objective of the paper is to evaluate the steady state effects of allowing for flexibility in the workweek in a model economy where hours and workers are not perfect substitutes, and the household's endowment of hours decreases with the number of workers and there is an insurance market against the probability of not finding a job (i.e., employment lotteries). Unemployment does not affect worker's human capital.

The author finds that allowing for full flexibility of the workweek length rises labor productivity without lowering significantly employment.

2 Comments

In my view, the references to the Spanish labor market reform in the Introduction are misleading. When one thinks of the Spanish labor market one expects to see firing costs and wages set by collective bargaining. Moreover, one stars thinking why employment varies so wildly over the cycle. Nothing of that is present in this paper. As a matter of fact, the title of the paper is more consistent with the analysis of the paper than the Introduction. Moreover, the quantitative exercises conducted assume that there are no cyclical fluctuations (i.e., they assume that the economy is at its steady state).

The way I see it is the following: Typically we think of the structural unemployment rate as the frictional unemployment rate. This paper shows that the structural unemployment rate is also affected by legal arrangements that regulate the workweek length. The paper tries to quantify the importance of those legal arrangements.

I think that the calibration strategy of the firm specific productivity shock is wrong. The author calibrates it so that the distribution of effective hours worked in the model economy without workweek restrictions match that observed in the Spanish data. As a result, the firm specific shock has a very small variance and the quantitative effects of varying the legal arrangements concerning the workweek length have no significant impact on employment, output, and productivity. In my view, the firm specific productivity shock must be calibrated so that the distribution of hours in the model economy labeled 'reform 2012" matches the data.

There is another question about which the author is silent. The amount of time that can be allocated to work is $1 - \ell - \eta(N)$, where ℓ is leisure time and $\eta(N) = A_N\, N^{\lambda}$ is time spent commuting. The fact that the latter depends on the number of workers implies that there is a negative externality and the equilibrium allocation is inefficient. I guess that, since all workers take N as given, in equilibrium the number of workers is larger than the efficient number (and the workweek is shorter). It would be nice to know what the efficient allocation looks like. The comparative statics exercise changing λ suggests that there is an interesting trade-off between workweek length and number of workers. Moreover, it would be nice to know what combination of taxes/subsidies could be implemented for the competitive equilibrium to be efficient.

I am not sure that I understand the calibration strategy. Bullet 7 says that the model economy is calibrated to match the observed relative volatility of hours and employment in Spain. Is the author solving the stochastic version of the model? In that case, why the cyclical fluctuations properties of the model economy are not shown?

It would be nice that the author described the main differences between this paper and Osuna and Ríos-Rull (2003).