TITLE: Reducing severance costs or subsidizing permanent job creation: which policy is more effective to reduce duality?

I believe that the paper needs many changes before the paper approaches a publishable state. I include some suggestions.

General Comments.

1) Problems of originality:

Some more efforts should be devoted to show what is the paper's position in the existing literature? I find it difficult to fully measure the originality of your work. What this paper adds to the International literature? Is is only an extension of the paper of García-Pérez and Osuna (2014)?

I think that the paper is an extension of the paper:

García-Peréz and Osuna, (2014), "Dual labour markets and the tenure distribution: Reducing severance pay or introducing a single contract", Labour Economics 29, 1–13.

In fact, this current version contains many pages of the paper cited above. For example, pages 4-11 (of this version) are the same that pages 3-6 of the paper published in Labour Economics (mentioned above).

2) Section 2 "The model" should be deleted because it is published in Labour Economics. It is not new and it is a copy of the paper cited above.

3) The model in section 2 should incorporate the Out of Labour Market State (OLF). It is relevant in the Spanish Labour Market. From 2007 the levels of inactivity in workers under 35 years old have decreased a lot. For example, from 2007 to 2014 the level of OLF decreased one million in workers under 25 years old, another million in workers between 25-29 years old , and half a million in those between 30-34 years old.

4) Problems with the database: You should give more information about the representative dataset that you use in your paper. There are not many information about it. For example you mention that you have a sample of more than 700,000 workers for the 2004 to 2011 period. All the employment and unemployment spells lasting more than six months are used.

I have the MCVL dataset for the same sample selection and I have 2.889.541 spells (period 2004-2011) lasting more than 6 months, and 1.055.083 workers for the same period and same spells duration (greater than 6 months). Please, let me know: Why do I have more information in terms of spells and workers? I would like to see a table with descriptive statistics to understand the use of your data.

5) Problems in terms of modelling: There are many assumptions.

For example:

Page 12: Assuming that the expected duration of good and bad idiosyncratic shocks coincides.

Page 13: Assumption about the matching technology, the unemployment benefits, the social security, the minimum wage, etc.

6) I think that it is necessary to explain more tables 1, 3 and 4, to understand the paper.

7) Conclusions: Authors conclude that "short-time work schemes, if properly subsidized further reduces unemployment and the degree of segmentation between TCs and PCs". This result should be taken with caution because STW schemes avoid dismissals (I agree) but 85-90 per cent of STW schemes are in permanent contracts.