

Referee report on: Production Constraints and the NAIRU (second round)

The paper looks more clear and coherent to me now. I only have one more comment regarding some of the analysis that has been added to the paper. It is only a matter of interpretation of the empirical results, but I think this is quite important and should be clarified.

1. After performing a joint F-test, the paper concludes:
This suggests, in keeping with the discussion above that labour and capital constraints are determined by separate economic and institutional factors that operate independently..

However, this conclusion seems unwarranted. The fact that the joint Ftest does not reject parameter constancy does not mean that the two t-tests are independent or that the two factors constraints are determined independently. Exactly the opposite (as the F-test takes into account covariances, so the fact that the F-test gives a different result than two t-tests is a signal that there are important covariances that the individual tests do not take into account). Another explanation is that the joint F-test looks for a break in BOTH variables at the SAME TIME, so if the two variables changed at different times it is not clear what to expect from the Ftest (perhaps in that case a Bai-Perron test might be more appropriate? That would allow the coefficients on the factors to change at possibly different times). It may also depend on how the individual t-tests have been implemented (when doing the t-test on labor, for example, was the coefficient on capital allowed to be time varying or was it restricted to be constant? In the latter case, there is no reason for expecting the F-test to give the same result as separate t-tests..)

I would simply rephrase the conclusion of the joint test (in terms of interpretation of the results) as follows: although there is evidence of a break in each of the factors taken separately, there is no evidence of a joint break in the two factors at the same time. This might happen because... (see which one above applies to the estimation in the paper).

2. The paper should be polished before publication; there are a few grammatical mistakes and some sentences might be shortened and clarified.