

**Referee Report on MS 930**  
**«Working-week flexibility: implications for employment and productivity»**

## **Summary**

The paper builds on Osuna and Rios-Rull (2003) and presents a calibration of their model tailored to the recent Spanish labor market «2012 reform». The goal of the paper is to evaluate the implications of an increase in the flexibility in the choice of the workweek. The results suggest that such an increase in flexibility substantially increases productivity.

## **Comments**

The paper is sufficiently well written, and competently executed, even if the exposition is sometimes a little bit too summarized: one cannot grasp all the details without a previous careful reading of Osuna and Rios-Rull (2003), and this can become frustrating. The main question of the paper is interesting, and the provided answers suggestive, but there are some important issues that remain to be addressed. Let me list my comments below, in no particular order:

- The model is identical to the one discussed in Osuna and Rios-Rull (2003): I quickly compared them, and was not able to find any substantial difference. Hence, I will not comment further on the model, given that it has been already published. Let me stress, however, that this paper looks quite often like a copy & paste exercise: this is understandable, but should be avoided if possible.
- The previous point implies that the paper under review is essentially an application of Osuna and Rios-Rull (2003), characterized by a different calibration, that reproduces and reinforces their conclusions. The value added of the paper is, from this point of view, quite limited, in my opinion.
- Now, the relevant questions are:
  - Does the Osuna-Rios-Rull model represent the Spanish institutional setting sufficiently well? This is very important, because, as the author points out clearly in the paper, the Spanish labor market is far from being competitive, being instead heavily unionized, even after the recent reform.
  - Given that the main point of the paper is a careful calibration exercise on Spanish data, is this exercise properly done? More precisely, does the exercise provide a proper answer to the questions at hand?
- I'm afraid that my personal answers to both questions is negative. Let me articulate my opinion:
  - The Osuna and Rios-Rull (2003) paper was focused on the US labor market, a very competitive one. The Spanish labor market, instead, was dominated by collective bargaining and strictly regulated until the “2012 reform.” Even after the reform, it can hardly be considered competitive. Hence, in my opinion the Osuna-Rios-Rull setting is not the best one if the goal is to understand the workings of the Spanish labor market before the reform, and remains not perfectly tailored even to the current labor market status. The main point of the paper, however, is the comparison of pre- and post-reform simulation results obtained from the same model, even if the reform can be considered an important institutional break point.

- In order to calibrate the heterogeneous workweek version of the model, the author uses the empirical distribution of workweeks reported by the Spanish labor force survey for the 2005-2011 period, i.e. for the years before the “2012 reform”. These data are used to calibrate the idiosyncratic shocks to productivity that generate heterogeneous workweeks in the model. But if I understand things correctly, and this is not guaranteed, during the 05-11 period the Spanish labor market was still strictly regulated; let me quote the author: “hours and wages ... cannot be easily changed since they are governed by collective agreements and are independent of a firm’s economic conditions.” (p. 2). If my understanding is correct, the distribution of workweeks during that periods would hardly represent the distribution of underlying idiosyncratic shocks to productivity.
- The first issue discussed could probably be addressed by simply changing a bit the focus of the paper, and by selling it more as a theoretical exercise: this would not be optimal (because at that point the author should really find something in order to differentiate this paper from the previous one), but a step in the right direction. The second one is more serious, in my opinion, and some work is needed in this direction.