

Paper:

On the Efficiency of Labor Market Reforms: How to Solve the Spanish Puzzle?

The paper deals with a relevant economic policy issue, i.e. the relationship between labor market policy, entrepreneurship and youth unemployment. The A. argues that labor market and macroeconomic policies, in Spain, were largely ineffective in reducing high levels of youth unemployment after the recent global crisis. This occurred despite the new labour market reforms (2010) introduced more flexibility: this is called the “Spanish puzzle”. The key reasons are found in the downward nominal rigidity of wages and the existence of a liquidity trap. On the contrary, the more recent (2013) measures to strengthen entrepreneurial activity have been more successful in creating jobs.

A first problem with the paper refers to the approach followed to investigate the links between the mentioned variables and the focus on the chosen determinants. If the relationship between labour market reforms, policies to support entrepreneurial activity and job creation is clear – this is chiefly a structural problem – the consideration of monetary policy may be misleading and incomplete. Of course, in the short run employment and unemployment depend also on macroeconomic policies; but why does the paper deal only with monetary policy? Fiscal policies, EU rules on the budget, austerity measures are not important?

Analytically, the A. uses the simple AD-AS model to investigate the mentioned links. This is helpful to easily incorporate the liquidity trap hypothesis (vertical AD curve). However, note that the AS curve might have a positive slope even without assuming downward nominal wage rigidity (page 8). Moreover, the statement “The central bank lowers the nominal interest rate” (page 9) is unrealistic if the model refers to the Eurozone; the ECB cannot act in response to the macroeconomic situation of an individual country.

Most important, the difference between the pessimistic scenario (left graph of Figure 1) and the optimistic one (right graph of Figure 1) strictly depends on the behaviour of expectations (E), but it is not so sure that in one case they worsen and in the second case they improve.

Concerning empirical data (table on page 5), it is strange that they do not include the wage dynamics, given the strong assumption of downward wage rigidity. In the text the A. just quotes a paper arguing for nominal hourly wage increases up to 2011; but afterwards? Some different wage measures?

Furthermore, given the positive effects coming from the 2013 Decree on entrepreneurial activity, job creation and reduction of youth unemployment, some additional data would be useful. For example data on the incidence of self-employment vs. employees among young people; or also some evidence on job creation due to start-ups.

All in all, the argument proposed in the paper could benefit from presenting more complete empirical data concerning the relevant relationships (although in the conclusions the A. states that econometric investigations will be made in future research). On the other hand, the AD-AS model could be moved to an Appendix and, in any case, it should be better explained.

Minor suggestions.

It would be important a careful reading of the whole paper. In fact, there are typos, errors or some sentences are not clear. Some examples:

- “Interestingly, the level of young participants of the labor force being unemployed exceeds the total number of the unemployed workers” (page 2).
- “why we still observe an increase in (youth) unemployment — even in the current disinflation environment?” (page 3).
- “macroeconomic measures to stimulate entrepreneurship” (page 4); such measures are more structural than macroeconomic.
- “In 2008, the rate of a temporary contract is about 59% in comparison to fixed-term employees” (page 6).
- “According to the young-adult unemployment ratio, the lower bound of this value is around 2% over the past 25 years.” (page 6); it should be 2 rather than 2%.
- “the inefficiency of monetary policy under existence of lower-zero bound of the nominal interest rate” (page 7); probably “ineffectiveness” is the right word (similarly on page 10 and 12)
- “Royal Degree Act” (page 9); of course, Decree (also on page 10).