

## Referee Report

MS 1543

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

### Abstract (summary and contribution)

This paper examines the question why in a situation with low inflation rates, an increase in (youth) unemployment had been observed. After explaining the motivation regarding Spain and youth unemployment, the macroeconomic development in Spain is shown. The existence of downward nominal wage rigidity, the amount of temporary jobs for youth and a liquidity trap are observed. In a theoretical framework, the effects of the Spanish Labor Market reform and the Entrepreneur's Act are examined in an AD-AS-framework. The business environment of entrepreneurial activities is shown including the indices related to entrepreneurship in Spain over the last years. Before concluding, proposals for policy interventions are given, related to the observed mechanism.

### Major comments

Introduction (page 3): Why should entrepreneurial activity in the mentioned sectors provide a new stimulus to employment of young (high-skilled and low-skilled) adults? This is mentioned in the paper in the Conclusion, but I would prefer to read that in the Introduction (as motivation).

Macroeconomic Development in Spain (page 6-7): The sentence "Hence, employers will expect to lose experienced (and thus productive) workers after the contract lengths had been expired and there is no need or even possibility to transfer the job into a permanent one." I would suggest that there IS a need to transfer the job into a permanent one if the employer is losing productive workers. Otherwise I could understand that employers are not training employees, because they lose them anyway after the contract length. This sentence should be reworked to make the statement clear.

On the Business Environment of Entrepreneurial Activity (page 13): The indices for the business show improvements, but unfortunately figure 2 include only numbers until 2012 and show a negative trend. To really claim that this helps the Spanish economy to reduce youth unemployment, I would like to see any numbers to show the success of those improvements (but can be in the next paper maybe as a follow-up).

### Minor comments

Introduction (page 1, first paragraph): Please delete the sub phrase "which has its origin ...", because it is not needed here for the content.

Labor Market Reform and Entrepreneur's Act (page 10): The AS-AD-framework for the Entrepreneur's Act is not shown in Figure 2, but in the right picture in Figure 1.

Proposals for Policy Intervention in the Future (page 17, paragraph 1): If there is OECD mentioned as source for data, why should the reader check <http://www.allthatstats.com>?

Overall, there are some typing errors, missing articles, etc., such as

- Page 2, first paragraph: "- such *as* government spending programs ..."
- Page 3, first paragraph: "is not a recent phenomenon *in* modern economies."

There are also some errors in the expressions:

- Page 2, second paragraph “Our emphasis is on the analysis lies of Spain” – delete “lies”
- Page 3, paragraph 1 and 3: “it goes without saying that” – please delete this sub phrase (also in page 12)
- Page 4, paragraph 1: “Our paper is closely related to...” – this sentence is too long and should be rephrased
- Page 12, paragraph 2: “someone would prefer...” – maybe better: “a stimulus would be preferred...”
- Etc.

There is only one author, but the text is written as if there are more than one author included.

Overall, please check the footnotes again – they are always disturbing while reading and should be either included in the text or deleted at all.

References (page 20): Nickell, S. (2003) is listed here, but is not used in the text.