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

September 2015

Reply to the Referee No. 2

First of all I would like to express my thanks to the referee for her/his effort, comments and suggestions which lead to an improvement of the paper. In the following I paste specific points from the referee reports (in italics) and state how I react to them. Based on the referee report, a revised version of the paper (including all changes with respect to the minor comments) will be uploaded as soon as possible to the journal's home page.

Comment 1: 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).

I have to admit that the motivation could be more pronounced by transferring sentences from the conclusion to the introduction. I will do so by taking out some content of the last paragraph on page 17 and putting it into the last paragraph on page 3.

Comment 2: 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:

The sentence refers directly to the content of the whole paragraph on page 6. Here I state that a market barrier exists due to a high possibility of turnovers of young employees together with a high degree of firing costs. Hence, it seems not very attractive to hire young people given these circumstances. I agree with the referee that the sentence has to be changed for more clarification and I will do so in the revised version of the paper.

Comment 3: 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).

I totally agree with the referee on this point. Data, which shed a light on the (in)effectiveness of the Entrepreneurs Act in 2013, would be really helpful in this respect. Unfortunately, it is not available yet. However, in Section 4, I emphasize that the Entrepreneurs Act should lead to an improvement of the situation for start-ups given the measures discussed here. In addition, in the revised version of the paper I will include data on real investment growth until 2014. Given a high growth rate, I claim that the Entrepreneurs Act might account for this development.