

# Working time reductions and monopsony power

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*Job market paper*  
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## Abstract

This paper studies the consequences of working time reductions in general equilibrium. I use newly digitized datasets to evaluate one of the first-ever labor regulations in Belgium: a maximum 9-hour workday in coal mines in 1910. The reform substantially reduced firms' profits. On average, hourly wages and employment increased. However, these effects were size-dependent: hourly wages decreased in small firms, while all employment gains were concentrated in large firms. I argue that these results are inconsistent with three common assumptions: (i) workers choose hours, (ii) competitive wages, and (iii) jobs and hours enter multiplicatively in the production function. I rationalize these results in a directed search model where firms with heterogeneous TFP post vacancies, hours and wages internalizing workers' leisure preferences. Monopsony power leads to long hours. Either a firm reacts to the reform by increasing wages to substitute lost hours with new hires, or it cuts wages to restore markdowns. Which mechanism dominates depends on firm size, even holding monopsony power constant. Welfare analysis with sufficient statistics suggests that the 1910 reform redistributed from firms' profits to workers' welfare.

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# 1 Introduction

Today, survey data (Jarosch et al., 2025), revealed preferences (Lachowska et al., 2023) and field experiments (Mas & Pallais, 2017) suggest that some workers would like to work less at their current wage rates. Historically, governments responded to such workers' requests by imposing caps on daily, weekly, and yearly working hours. To date, working time regulations are key determinants of hours worked within countries (Bick et al., 2022; Gethin & Saez, 2025). Moreover, they are highly heterogeneous across countries: for example, France first mandated two weeks of paid vacation in 1936 and guarantees five weeks today, whereas the United States does not have any nationwide mandate on paid time off.<sup>1</sup>

This paper studies the welfare consequences of working time reductions for firms and workers. Empirically, identifying the pure effects of these reforms is challenging for at least two reasons. First, most reforms on hours are confounded by simultaneous tax and/or wage policies: the French 35-hour workweek in 2000 was voted along compensatory payroll tax cut (Chemin & Wasmer, 2009), while 1930s US workweek restrictions were accompanied by wage floors (Costa, 2000; Fishback et al., 2024). Second, their national scope typically makes it difficult to identify a control group.

By contrast, I study the Belgian 1910 law that imposed a maximum 9-hour workday in the coal mine industry. Because this policy was among the first labor regulations in the country, there is no confounding tax reform or wage regulation. Moreover, because the law only applied to underground coal workers but not aboveground coal workers, I leverage identifying variation both across firms and within firm across occupations. The reform had a sizable impact: the cap on daily hours was binding for 82% of underground workers who had to reduce their daily schedule by 10% on average.

I collected qualitative and quantitative evidence to assess the effects of this reform. On the quantitative side, I digitized and assembled administrative datasets from archival sources covering the near-universe of coal mines in the country from 1903 to 1913 which contain detailed firm-level information on yearly production price and quantities, employment and the wage bill as well as within-firm occupation-level information on hours and wages. On the qualitative side, a parliamentary commission interviewed hundreds of workers and dozens of business owners. These interviews reveal a clear labor conflict: all business owners opposed the reform while all workers supported it, with some even willing to accept pay cuts for shorter workdays.

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<sup>1</sup>Altonji and Oldham (2003) and Altonji and Usui (2007) provide descriptive facts on vacations.

To assess firm-level effects on profits and employment, I use a heterogeneous exposure design comparing post-reform outcomes of firms with different scheduling practices before the reform in a standard event-study design. I find sizable yet short-lived negative effects of the reform on profits: the reform reduced treated firms' profits by 70% on average in the first year while this effect disappears in subsequent years. I also show that firms substituted lost hours with additional workers: the reform increased treated firms' headcount employment by 45 jobs (3.4%) on average. Heterogeneity analyses suggest that all of this employment effect originated from an increase in underground jobs in relatively large firms.

To assess occupation-level wage effects, I leverage variation in the mandated daily hours reduction across occupations in an event-study design where above-ground workers serve as control. I find an elasticity of daily earnings to a 1% mandated reduction of daily hours of  $-0.28$ , which implies that the reform reduced daily earnings by 2.8% on average. Because earnings decreased less than hours worked, hourly wages must have increased on average. However, I show that this average effect masks an important heterogeneity: hourly wages decreased in small firms but increased in large firms. The elasticity of hourly wages to a mandated reduction in daily hours is  $-1.1$  for workers employed in firms of the bottom third of the firm size distribution, but  $+0.65$  in the top two thirds of the firm size distribution.

The second part of the paper argues that three standard assumptions of labor models are contradicted by these empirical findings: (i) workers choose hours worked, (ii) wages are set by perfect competition, and (iii) jobs and hours enter multiplicatively in production.

First, if workers choose hours worked as in neoclassical labor supply theory, the marginal utility of reducing hours is nonpositive, which contradicts qualitative evidence highlighting workers' unanimous support for the reform. By contrast, I show that whenever firms set hours internalizing workers' utility as in the hedonic labor supply theory, the marginal utility of reducing hours is positive in equilibrium, and workers would like to work less at the given wage rate. Intuitively, firms increase hours beyond the utility-maximizing schedule because it raises output without violating workers' participation constraint. Hence, profit-maximizing hours are longer than utility-maximizing hours.

Second, in a perfectly competitive labor market, hourly wages are equal to the marginal product of an hour and decreasing returns per hour imply that a working time reduction must increase equilibrium hourly wages. Because I find hourly wage cuts in some firms, perfect competition is rejected, which is consistent with Delabastita and Rubens (2025)

who documented extensive monopsony power in 1900s Belgian coal mines. I show that when firms have monopsony power, they compensate profit losses due to the reform by cutting hourly wages. Hence, the wage effect of the same working time reduction has opposite signs depending on the competition structure of the labor market.

Third, when hours and jobs enter multiplicatively in firms' production function as in the lump of labor theory, a mandated reduction in hours by 1% should increase employment by 1%. Indeed, before the reform, firms set contracts so as to be indifferent between a marginal decrease in hours and a marginal hire in equilibrium. The reduced form findings are inconsistent with such a production function: a reduction in daily hours by 1% increased treated occupations' employment by 0.48% in large firms and around 0% in small firms. This mirrors Carry (2024) who studies a *minimum* workweek policy in modern-day France and also documents an imperfect substitutability between jobs and hours.

Based on these claims, the last part of the paper builds a directed search model<sup>2</sup> where (i) firms post hours, (ii) monopsony power is endogenous and (iii) the elasticity of substitution between hours and jobs may be different than 1. Workers' leisure-consumption trade-off governs their participation and application behavior which is internalized by firms when posting vacancies, hours worked and hourly wages. As in Vergara (2023), because a wage increase attracts applicants but matching frictions may not convert them into employees, the labor supply curve observed by the firm is not infinitely elastic and this endogenizes some monopsony power in equilibrium. Contrary to Vergara (2023), because firms need both jobs and hours to produce, heterogeneous productivity leads them to different scheduling and headcount employment (i.e. size) choices. I derive two central analytical results.

First, I pin down the determinants of long hours. On the one hand, technology matters: workers consider that contracts display too long hours as soon as technology is such that the marginal product of an hour dominates the marginal product of a job. This is likely to happen in empirical settings where workers' on-the-job experience matters: marginally increasing hours worked by existing, experienced workers increases output more than the marginal hire. On the other hand, monopsony power also leads to long hours contracts: a larger markdown on earnings is achieved by setting both longer hours and lower hourly wages.

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<sup>2</sup>Key references include Acemoglu and Shimer (1999), Eeckhout and Kircher (2010a, 2018), Guerrieri et al. (2010), Kircher (2009), Moen (1997), and Wright et al. (2021). While matching frictions were added to hedonic wages by Hwang et al. (1998) and Lang and Majumdar (2004), they assumed random search rather than directed search. Eeckhout et al. (2024) study the importance of firm size in shaping sorting between firms and workers and wage inequality within- and across-firms.

Second, I characterize the determinants of the hourly wage and employment effects of a working time reduction. When jobs and hours are substitutable, hiring workers compensates for the lost hours, which pushes hourly wages up. However, reducing employment through lower hourly wages increases the marginal product of a job because of concavity in production. Interestingly, even if two firms offer the same contract, enjoy the same monopsony power, and have the same production function, wage effects differ by size because the strength of the substitution and concavity effects depends on pre-reform headcount employment. In particular, I argue analytically and numerically that a CES production function where the elasticity of substitution between jobs and hours is above 1 can rationalize the reduced-form empirical findings. In that case, large firms need many hires to compensate for the lost hours, while small firms prefer to cut hourly wages to restore their markdown.

Finally, the directed search model is useful to assess the net welfare effects of the reform. Given the adverse effects on earnings and profits but positive effects on leisure and employment, the effect on aggregate welfare is ambiguous *a priori*. I derive sufficient statistics to assess utilitarian welfare<sup>3</sup> and show that all utility functions concave in consumption lead to the conclusion that workers' welfare improved. Hence, the reform redistributed from firms' profits towards workers' welfare. This is less likely to happen in settings where workers choose hours or where jobs and hours are more complementary in production.

These findings in historical context are also helpful to inform policy-making today. First, working time reductions are likely to have heterogeneous effects in labor markets: firm size matters even when controlling for technology, monopsony power, and contract terms. Second, although monopsony power leads to long hours, working time reductions may be a blunt tool to fight monopsony power, as some wages may fall. Third, occupations where jobs and hours are complements in the production function are unlikely to benefit from these policies. For example, this is the case in occupations where a new colleague increases the workload of other colleagues, like in models of strategic complementarity (Milgrom & Roberts, 1990) or firms as communication networks (Bolton & Dewatripont, 1994; Garicano, 2000).

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<sup>3</sup>Interestingly, welfare may be assessed without assumptions on production nor on the degree of monopsony power in labor markets, which is known to vary significantly across contexts and industries (Azar et al., 2022; Card, 2022).

## Literature

By building an empirically-informed model of the codetermination of wages, employment and hours worked in imperfectly competitive settings, the paper contributes to three strands of literature.

**Policy evaluation of working time regulations** Most empirical evaluations of work-week reductions found zero employment effects (Batut et al., 2023; Chemin & Wasmer, 2009; Crépon & Kramarz, 2002; Goux et al., 2014; Lopes & Tondini, 2022), thereby casting doubts on the *work-sharing* arguments underlying these reforms. Fishback et al. (2024) document positive employment effects for the 1930s US reforms but there were also wage regulations in an acute recession. On the theory side, Marimon and Zilibotti (2000) and Rocheteau (2002)<sup>4</sup> model wage-hour determination as the outcome of bargaining while the present model has contract posting which has been found more relevant than bargaining empirically for low-wage jobs (Caldwell & Harmon, 2019; Hall & Krueger, 2012; Lachowska et al., 2022). The paper contributes to this literature by demonstrating empirically and theoretically that the key parameters governing employment and wage effects of working hours regulations are (i) firms' labor market power, (ii) firms' size, (iii) the substitutability of jobs and hours. Incidentally, these results may be used to evaluate other labor policies.<sup>5</sup>

**Determinants of long hours** Typically, the evidence that some workers would like to work less at their wage rates (Jarosch et al., 2025; Labanca & Pozzoli, 2022, 2023; Lachowska et al., 2023) is rationalized by assuming an exogenous mismatch between profit-maximizing hours and utility-maximizing hours in the standard model of Rosen (1974, 1986). Chetty et al. (2011) endogenizes a distribution of hours when workers have heterogeneous preferences but assumes perfectly elastic labor demand. Carry (2024) and Fishback et al. (2024) endogenizes a distribution of hours with structural assumptions on technology and utility. By contrast, the present paper pins down when one finds long-hour contracts for any preferences, technology, and labor market power.

**Amenities** The literature has focused on positive questions<sup>6</sup> such as the relationship of amenities to earnings and productivity (Mas & Pallais, 2017, 2020; Ouimet & Tate,

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<sup>4</sup>Other related papers include Fagnart et al. (2023), Lang and Majumdar (2004), Osuna and Rios-Rull (2003), and Willington and Navarro (2015).

<sup>5</sup>Di Nola et al. (2023), Gandhi and Ruffini (2022), Jardim et al. (2022), and Kim et al. (2023) documented that minimum wage hikes lead to longer hours, which can be explained by monopsony power. By contrast, Gravouille (2023) showed that an increase in low-earners wage subsidies led to an increase in hours worked but a decrease in wage rates which is consistent with competitive hourly wages. Overtime policies studied by Quach (2022, 2025) are a combination of wage and hours regulations.

<sup>6</sup>See Lavetti (2023) for a recent review.

2023; Sockin, 2022; Sorkin, 2018), monopsony power (Lamadon et al., 2022), job search (Hall & Mueller, 2018), and minimum wages (Clemens, 2021; Clemens et al., 2018). However, the normative aspects of regulating amenities have not been addressed, except by Nekoei (2023) who suggests that mandating amenities can improve efficiency if there is adverse selection à la Akerlof. The paper contributes to this literature by deriving sufficient statistics for welfare evaluation of any policy affecting wages, hours or amenities, and employment in a general equilibrium environment with heterogeneity, matching frictions, and monopsony power.

Section 2 presents a reduced-form empirical evaluation of the Belgian coal mines maximum workday introduced in 1910. Section 3 discusses claims (i), (ii) and (iii) through toy models that contrast the effects of working time reductions depending on who sets hours and wages as well as the elasticity of substitution between jobs and hours. Section 4 introduces the directed search model, describes analytically the determinants of long hours and wage effects of hours regulation, and quantifies welfare effects. Section 5 concludes.

## 2 Reduced-form policy evaluation

### 2.1 Institutional context

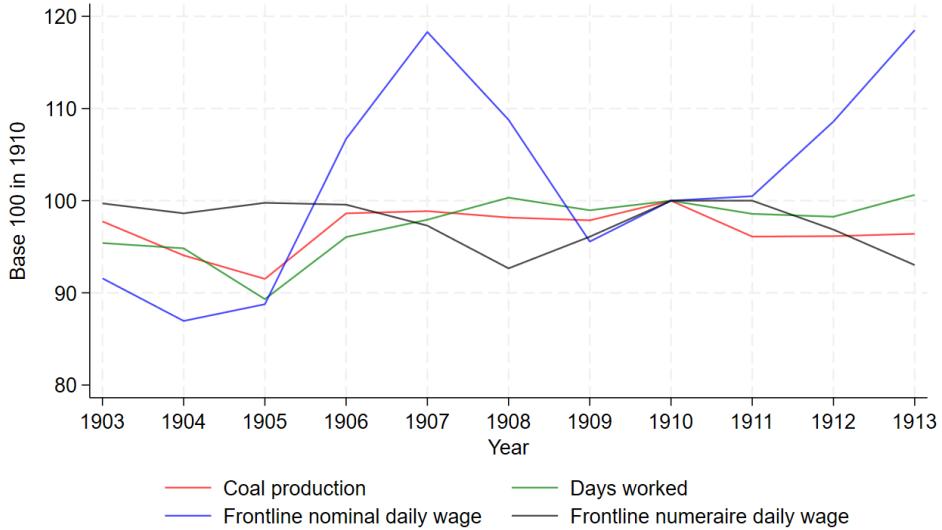
At the time of the reform, Belgium's coal industry was mature and the coal-producing provinces were among the highest GDP per capita regions in Europe (Rosés & Wolf, 2021). As the first country to industrialize on the European continent, Belgium relied heavily on coal extraction to provide manufacturing industries with cheap energy (Mokyr, 1976; Philips & Buyst, 2020).

The policy under study is the first major piece of labor regulation affecting prime-age males in the country.<sup>7</sup> Meanwhile, neighboring countries already had some form of working time regulations in the mining industry: for example, France had a maximum workday of 10 hours in 1900 and 8 hours in 1905.<sup>8</sup> Compared to their foreign competitors, Belgian coal mines were relying more on manual labor and less on mechanized extraction while wages were lower (Denoël, 1909). They also exhibited a smaller mortality risk (Leboutte, 1991) despite longer workdays (Cousot, 1908).

<sup>7</sup>Earlier regulations were only targeted to female and child labor. In the mining industry, underground labor was prohibited for women younger than 21 and male children below 12 from 1892 onward (Annales des Mines, 1907). The 1910 reform was among the first policies to break the *Laissez-faire* tradition on which Belgium was built, which consisted in low tariffs and few regulations (Abbeloos, 2008).

<sup>8</sup>In the Netherlands, the maximum workday was 8.5 hours in 1908. In Prussia, the maximum workday was 8 hours in 1905 and even limited to 6 hours in mines where temperature exceeds 28 degrees Celsius (Cousot, 1908).

Figure 1: Descriptive statistics of Belgian coal mines over the business cycle, 1903-1913.



Notes: Evolution of the cross-sectional firm average for selected outcomes. Base year is set to 100 in 1910. Coal production is measured in tons of coal while total days worked include all occupations within the firm. The blue lines are expressed in nominal currency. The black lines are expressed in units of numéraire by dividing by the price of output.

The policy was signed into law by the King on December 31, 1909 and imposed that a workday for underground workers could not exceed 9 hours 30 minutes from January 1, 1911 and 9 hours from January 1, 1912.<sup>9</sup> Importantly, the law did not regulate the schedules of above-ground workers.<sup>10</sup> Before this, there were no regulations on daily schedules.

Two institutional features are worth pointing out. First, there is no confounding policy at the same time: there was no labor income taxation and barely any other labor regulations. This contrasts with modern-day reforms on working time where these policies are typically coupled with support measures such as payroll tax reductions, rendering identification of the pure impact of working time reductions tedious. Second, there was no downward wage rigidity at the time. Figure 1 shows that wages display a striking cyclicity both in nominal and real terms for the average firm.<sup>11</sup>

<sup>9</sup>Working time must be understood as *from bank to bank*, i.e. the time from the surface at the beginning of the working day to the time at the surface at the end of the working day. Hence, it includes the time in the lift as well as time needed to walk from the lift to the work station.

<sup>10</sup>In 1909, the cross-sectional average share of workers underground was 73.1%. Exceptions to the 9-hour limit were granted for some specific underground occupations (e.g. horseman or cagers) but these exceptions may not exceed one hour per day. Violations were subject to civil fines or criminal charges.

<sup>11</sup>Appendix Figure A.2 shows that this also holds for the aggregate variables. In the sample, all occupations suffer at least once a nominal wage cut over the sample period, while the unconditional probability of wage cut over the sample period is 40%.

## 2.2 Data

I use administrative data retrieved from archival sources. The coal mining industry was closely scrutinized by the government for several reasons. First, coal mines were subject to a corporate tax (composed of a fixed fee and a linear rate), although it only raised a modest amount: 1.5 million BEF in 1903 i.e. 0.3% of the state's revenue (Chamber of Representatives of Belgium, 1903). Second, coal mines were important to the state for industrial, political, social, and economic factors. More than 120,000 workers<sup>12</sup> were directly employed in coal mining while 37% of GDP was produced by the manufacturing sector (Buyt et al., 1995). Third, as all mineral resources belonged to the state but were leased for private exploitation<sup>13</sup>, the government was keen on monitoring production.

As a result, the Mining Administration kept a consistent record of data of remarkable quality for the time. Each year, state officials<sup>14</sup> were sent to each mine to collect statistics on production, prices, employment, and wages. These reports were then collected by the administration to establish a firm-level panel dataset. In Appendix Figure A.1, I provide examples of a report in (a) and of the panel dataset in (b).

I digitized the panel dataset for the province of Hainaut while Delabastita and Rubens (2025) digitized the provinces of Liège and Namur. In 1910, the province of Hainaut accounted for 71% of national coal production and 67% of labor expenditures in the industry. The combination of these efforts yields a dataset covering the universe of mines in the country from 1903 to 1913.

This dataset contains firm-level information on annual coal production<sup>15</sup>, output prices, input costs, headcount employment, total days worked, and the wage bill. Moreover, it also contains occupation-level information on yearly employment and daily wages both for underground workers (affected by the reform) as well as above-ground workers (not affected by the reform). However, the panel dataset does not contain information on daily working time.

I retrieved cross-sectional information on working time from parliamentary proceed-

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<sup>12</sup>This corresponds to 11% of the industrial labor force of the country.

<sup>13</sup>This tradition was inherited from the French domination of Belgium rather than the Dutch domination. The Imperial Law of April 21, 1810 promulgated by Napoleon set the basis for such leasing on minerals and served as backbone of Belgian legislation on mining. By contrast, in 1900 the Dutch government still had a monopoly on two third of national production.

<sup>14</sup>These officials were public servants with a high level of education such as mine engineers. Besides collecting statistics, these officials also had a role of policing, advising and studying the mines.

<sup>15</sup>Production data is detailed for various output types such as high-quality coal and low-quality coal. As documented by Delabastita and Rubens (2025), the production process is relatively homogeneous whatever the type of coal produced as well as within a geological region.

ings. Indeed, as one of the first pieces of labor legislation, this reform was highly controversial in Parliament<sup>16</sup> which initiated a parliamentary commission. From the 3000 pages of documents, I digitized a cross-sectional dataset of hours worked at the occupation level. The dataset was collected by the Mining Administration in August 1900 and published in 1907 while noting that "*the situation has barely changed since then*" (*Annales des Mines, 1907*, p.556).

This cross-sectional dataset covers hours worked for 9 occupations working underground, while the panel dataset only contains two types of underground occupations (frontline and non-frontline underground workers). I match the two datasets such that the resulting aggregate distribution of hours in the matched dataset resembles an aggregate distribution collected by the Mining Administration on November 29, 1907. I describe the matching procedure in appendix A.2.1. In Figure 2, I report the distribution of hours worked in the matched dataset in green, together with the (exact) distribution of the Mining Administration in blue (Parliamentary Commission, 1908).

Importantly, the fraction of workers working more than 9 hours is identical in both distributions: 82% of underground workers.<sup>17</sup> The average working day lasts 9h46 in the green distribution and 9h49 in the blue distribution. Although the green distribution is less dispersed than the blue, the former represents an annual average.

The rest of the paper uses a balanced matched dataset, i.e. firms belong to the dataset if (i) I have information on their daily hours worked and (ii) they did not exit, did not participate in mergers, and were not acquired during the sample period. Appendix Table A.3 shows that requirement (i) is met by firms covering 96% of national production while Appendix Table A.4 shows that the balanced panel satisfying both (i) and (ii) covers around 86% of the industry's production and employment and contains 99 firms. In Appendix Table A.5, I show that the occurrence of mergers, acquisitions, or firm exits are relatively balanced between treated and control groups both before and after the reform.

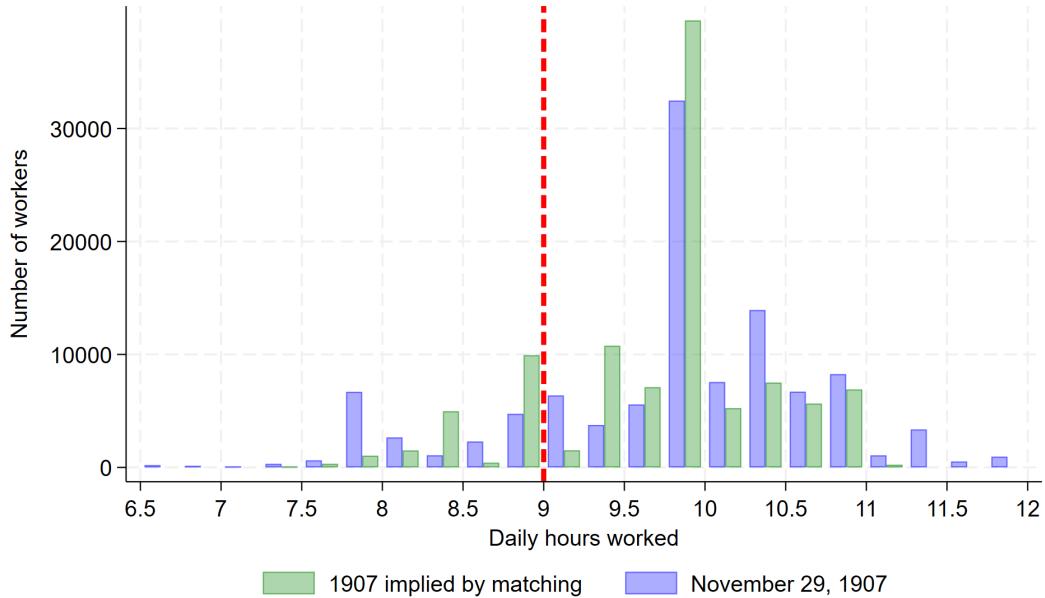
Finally, the reform allowed for deviations to the 9-hour rule for exceptional circumstances (such as urgent safety work) provided that the deviations were recorded and

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<sup>16</sup>The bill was introduced by socialist M.P. Destrée in 1903. From 1884 and until World War I and despite electoral reforms toward universal suffrage, the Catholic party had an absolute majority and initially opposed the maximum workday in the coal mines, as did King Leopold II. In 1907, some Catholic MP flipped their vote and created a political crisis which culminated in the resignation of the prime minister and mine owner Count de Smet de Nayer (Neuville, 1981). The new government initiated a Parliamentary Commission. Documents contain interviews of workers and mines owners but also technical reports from academics in economics and engineering.

<sup>17</sup>While geology seems to play a role as workdays are longer in Mons than in Liège geological regions (Vandervelde, 1911), there also exists within-region variation.

Figure 2: Aggregate distribution of hours worked underground in the dataset (green) versus on November 29, 1907 (blue).



*Notes.* In green : implied distribution of hours worked by underground workers in 1907 by my dataset matching. In blue: (exact) distribution of hours worked by underground workers on November 29, 1907 (Parliamentary Commission, 1908).

reported to the mining administration, thereby providing information on enforcement of the reform. Aggregate statistics reveal that the volume of overtime hours amounted to 143,868 hours and 157,274 hours in 1912 and 1913 respectively, which represents 0.058% and 0.064% resp. of the aggregate volume of hours of 1909. This corresponds to 1h45 and 1h53 per underground worker per year, i.e. 21 and 23 seconds per day, respectively. Moreover, the number of complaints filed by workers for employers' non-compliance is positive but negligible.<sup>18</sup> In the remainder of the paper, I assume perfect compliance to the legal thresholds for post-reform hours worked.

Besides datasets, these archival sources also provide qualitative information on the context of the reform. From firm owners' interviews, we learn that (i) all of them opposed the reform and (ii) hours worked per occupation were stable over time, set by the managers<sup>19</sup>, displayed publicly at the mine's entrance, and determined by firms' geological conditions and customs. From workers' interviews, we see that all of them were in favor of the reform holding wages constant, and some even if wages were cut while

<sup>18</sup>For the provinces of Liège and Namur, there were 15 complaints over 1912-1914 for non-compliance filed to the Administration, out of which 14 have been deemed inadmissible. Most complaints were filed by "persons outside the mines".

<sup>19</sup>In particular, all underground workers had to take a lift to go in and out of the mine. This was the same lift as the one used to extract coal output, which creates a bottleneck in the production chain that is resolved by managers' scheduling.

others opposed wage cuts (Parliamentary Commission, 1909).

## 2.3 Reduced-form estimates

### 2.3.1 Firm-level

The first empirical strategy leverages variation in pre-reform scheduling practices across firms. The object of interest will be the share of a firm's underground daily hours volume in 1909 that it needs to cut to comply with the 9-hour daily cap. More formally, I define  $\text{vol\_reduction}_j$  as

$$\text{vol\_reduction}_j = \frac{\sum_{o \in \text{underground}} \max\{h_{o,j,1909} - 9, 0\} \times N_{o,j,1909}}{\sum_{o \in \text{underground}} h_{o,j,1909} \times N_{o,j,1909}} \times 100$$

where  $h_{o,j,1909}$  and  $N_{o,j,t}$  are the daily hours worked and headcount employment of occupation  $o$  in firm  $j$  in 1909. If no underground occupation works more than 9 hours per day, a firm's  $\text{vol\_reduction}_j$  is equal to 0 and it will be part of the control group, while all firms with positive values belong to the treated group. The average  $\text{vol\_reduction}_j$  among treated firms is 9.07 with a standard deviation of 3.4. In Table 1, I report summary statistics for pre-treatment values of treated and control firms.

Unsurprisingly, treated firms produce differently than control firms : the former are on average twice as big in terms of headcount employment and rely relatively more on non-frontline underground employment. However, per-worker variables are remarkably similar in both groups. Moreover, profits and wages display a similar mean and dispersion in both treated and control groups.

The firm-level outcomes of interest are profits and employment. Our main specification is a standard event-study design where we regress an outcome  $y_{j,t}$  in levels on firm fixed effects  $\mu_j$  and time fixed effects as well as year dummies interacted with  $\text{vol\_reduction}_j$ .

$$y_{j,t} = \beta_0 + \sum_{k \neq 1909} \beta_k \times \text{vol\_reduction}_j \times \mathbf{1}_{t=k} + \mu_j + \text{TimeFE} + \beta X_{j,t} + \epsilon_{j,t} \quad (1)$$

where  $X_{j,t}$  are a set of controls and  $\epsilon_{j,t}$  are standard errors clustered at the firm level. The omitted year is set to 1909 which is the last full year before the law is passed. All the results are presented for two sets of time fixed effects: year fixed effects control for industry-wide shocks in a given year, while province-by-year fixed effects control for region-specific shocks in a given year. The coefficients  $\beta_k$  are the objects of interest. Because of the definition of  $\text{vol\_reduction}_j$ ,  $\beta_k$  can conveniently be interpreted as the

Table 1: Summary statistics for control and treated firms in 1903-1909.

	Control firms	Treated firms
<i>Profits, units of numéraire</i>	9,813.91 (21,312.46)	9,024.95 (25,661.59)
<i>TFP</i>	1.129 (0.303)	1.092 (0.129)
<i>Labor share</i>	0.558 (0.124)	0.521 (0.064)
<b>Total days worked</b>	<b>198,967</b> (342,923)	<b>391,174</b> (276,198)
<i>Headcount employment</i>	660 (1,143)	1,309 (921)
<i>Share underground employment</i>	0.780 (0.063)	0.733 (0.056)
<i>Share frontline among underground</i>	0.334 (0.158)	0.244 (0.047)
<i>Share of self-consumed production</i>	0.043 (0.039)	0.098 (0.046)
<i>Yearly days worked per worker</i>	294.51 (15.16)	298.75 (7.09)
<i>Daily product per worker, tons</i>	0.589 (0.227)	0.583 (0.108)
<i>Output, tons per m<sup>2</sup></i>	0.851 (0.214)	0.901 (0.176)
<i>Average power of coal veins, meter</i>	0.628 (0.151)	0.680 (0.136)
<i>Yearly product per frontline miner, tons</i>	809.83 (418.40)	1,027.96 (310.28)
<i>Average wage per worker, units of numéraire</i>	0.303 (0.055)	0.299 (0.041)
<b>Output price, current BEF</b>	<b>13.56</b> (2.18)	<b>14.97</b> (1.59)
<i>Investment-to-sales ratio</i>	0.092 (0.047)	0.109 (0.052)
vol_reduction <sub>j</sub>	0.00 (0.00)	9.07 (3.44)
<b>Observations</b>	<b>13</b>	<b>86</b>

Notes: This table reports treated and control group average for selected variables with standard deviations in parentheses. A row  $x$  is in bold if the p-value of the t-test  $H_0 : x_{\text{treated}} = x_{\text{control}}$  is smaller than 5%.

average effect in year  $k$  across treated firms of a 1% mandated reduction in the volume of hours.<sup>20</sup>

This strategy is standard in the policy evaluation literature (Carry, 2024; Harasztosi & Lindner, 2019; Saez et al., 2019)<sup>21</sup>. The identifying assumption is that firms with different scheduling practices before the reform would have had parallel evolution in their outcomes if the reform had not happened. This assumption could be rejected if  $\beta_k$  significantly differs from 0 in the years prior to the reform.

Controls  $X_{j,t}$  should not include variables that can be affected by the reform. I do not include controls for employment and wage outcomes while I include a TFP control for the profit outcome. This is consistent with the model presented in section 4 below: TFP is a confounder for the profit outcome as two firms with identical wage, employment, and hours decisions may have different profits due to TFP, while TFP is a mediator of the reform on wages and employment.

**Profits** Results of regression 1 for profits are reported in Figure 3. I find a large, negative yet short-lived effect on profits: in the red specification, a 1% mandated reduction in the volume of hours reduced firms' profits by 701 units of numéraire in 1911 (p-value 4.5%) while the effect is still negative but cannot be distinguished from zero after that. To understand the magnitude of the effect, recall that the average mandated reduction of 9.06% implies an ATT of  $9.06 \times (-701) = -6351$  units of numéraire, i.e. a reduction of 70% relative to the pre-treatment average profits among treated. Although this magnitude seems unreasonable for modern-day economies, profits were very volatile : the standard deviation of the year-to-year change in profits was 38,176 units of numéraire in the pre-reform period, i.e. four times larger than the mean profits.<sup>22</sup> This confirms anecdotal evidence that the reform was not anticipated and had large adverse effects on mine owners.

**Employment** Results for regression 1 for the headcount underground employment are reported in Figure 4. We see that a 1% mandated reduction in firms' hours volume increases underground employment by 5 jobs in 1911-1913, which corresponds to an ATT of  $\frac{5 \times 9.06}{954} = 4.75\%$ . In Appendix Figure A.4, I show that the overall headcount employment, which sums both underground and aboveground workers, display identical results. This suggests that firms hired treated underground workers to replace lost

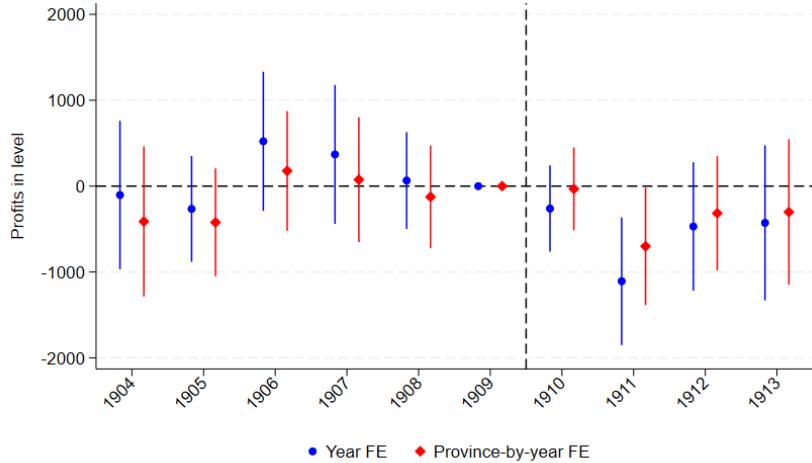
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<sup>20</sup>The average treatment effect on the treated (ATT) can be obtained by a simple average of the estimated coefficients  $\hat{\beta}_k$  for  $k > 1909$  multiplied by the average vol\_reduction<sub>j</sub>, i.e. 9.06%.

<sup>21</sup>See Dube and Lindner (2024) for a review in the case of the minimum wage.

<sup>22</sup>In Appendix Figure A.3, I confirm this volatility by showing the evolution of average profits per firm and industry profits over the business cycle.

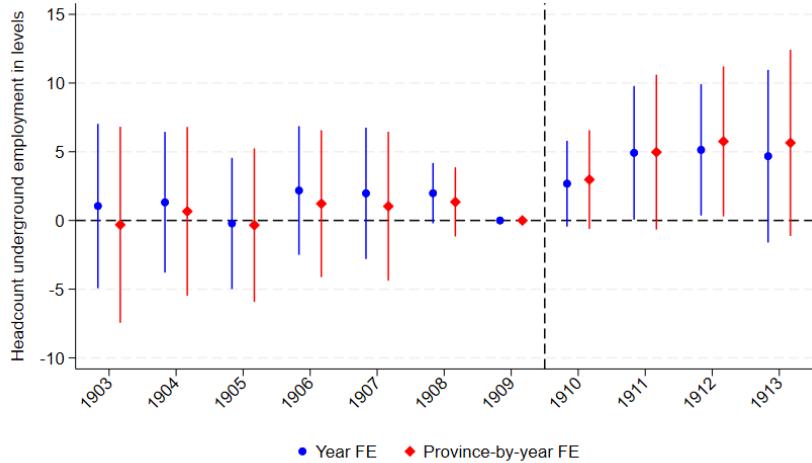
Figure 3: Event-study results for firm-level profits (in units of numéraire).



Notes : this figure reports  $\beta_k$  in regression 1 of profits in units of numéraire along with standard errors are reported at the 95% confidence level. Controls  $X_{j,t}$  are the size of the exploitation at the surface in squared meters, the fraction of self-consumed output, the price of output in current BEF, and the average power of coal veins in meters. The p-value for testing  $H_0 : \beta_k = 0 \forall k < 1909$  are 0.17 and 0.28 for the blue and red regressions, respectively. The within R-squared are 0.37 in both cases.

hours, yet there were no employment spillovers to untreated above-ground occupations.

Figure 4: Event-study results for firm-level headcount underground employment.



Notes : this figure reports  $\beta_k$  in regression 1 of headcount underground employment along with standard errors are reported at the 95% confidence level. Controls  $X_{j,t}$  are empty. The p-value for testing  $H_0 : \beta_k = 0 \forall k < 1909$  for the blue and red regressions are 0.42 and 0.83, respectively. The within R-squared are 0.008 and 0.012 respectively.

**Other outcomes** In Appendix Figure A.5, I provide evidence that the reform had a 0 effect on output prices, which suggests that firms were not able to pass on the shocks to consumers. This is consistent with a model of perfect competition in the labor market,

which was also documented by Delabastita and Rubens (2025) in the same context. I also show in Appendix Figure A.6 and A.7 that there is no discernible effect of the reform on output quantity nor digging investment, respectively.

### 2.3.2 Occupation-level analysis

I now leverage the variation in hours worked within firm across occupations in addition to variation across firms. Again, I exploit the continuous nature of the treatment and define the regressor of interest as the fraction of daily hours that occupation  $o$  in firm  $j$  works in excess of 9 hours. Importantly, recall that aboveground workers were not affected by the workday restriction. More formally, I define  $h\_reduction_{o,j}$  as

$$h\_reduction_{o,j} = \begin{cases} \frac{\max\{h_{o,j} - 9, 0\}}{h_{o,j}} \times 100 & \text{if } o \in \text{underground} \\ 0 & \text{if } o \notin \text{underground} \end{cases}$$

An underground occupation  $o$  in firm  $j$  is treated whenever it was working more than 9 hours before the reform, or equivalently when  $h\_reduction_{o,j}$  is positive. The average  $h\_reduction_{o,j}$  among treated units is 10 with a standard deviation of 3.87. Moreover, the distribution of treated and control units across firms is reported in Table 2.

Table 2: Distribution of Treated (T) and Control (C) units across occupation types and firms

$o$	Firm type				# treated $o$
Frontline underground	T	T	C	C	70
Non-frontline underground	T	C	T	C	79
Aboveground	C	C	C	C	0
# firms	63	7	16	13	$99 j \times 3 o$

Notes : the last row counts the number of firms for each possible treatment-control composition of their occupations. The last column counts the number of treated units across firms for each occupation.

Out of the 86 treated firms in the previous section, we see that 63 of them had schedules beyond the 9-hours threshold for all their underground occupations. However, 7 firms (resp. 16) had only frontline (resp. non-frontline) workers with schedules above the threshold. Each firm has 3 occupations for a total of 297 units, of which 149 units (70 frontline and 79 non-frontline) will be treated. In Table 3, we show that treated units are larger in terms of employment size and receive larger wage.<sup>23</sup>

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<sup>23</sup>I report the firm-level statistics analog to Table 1 for this new treated and control  $(o, j)$  units in Appendix Table A.6.

Table 3: Summary statistics for control and treated units ( $o, j$ ) in 1903-1909.

	Control units	Treated units
<b>Earnings<sub>o,j</sub>, units of numéraire</b>	<b>0.258</b> (0.076)	<b>0.345</b> (0.054)
<b>Earnings<sub>o,j</sub>, efficiency units</b>	<b>0.133</b> (0.083)	<b>0.217</b> (0.102)
<b>Headcount employment<sub>o,j</sub></b>	<b>324</b> (363)	<b>491</b> (445)
h_reduction <sub>j</sub>	<b>0.00</b> (0.00)	<b>9.999</b> (3.874)
Observations	148	149

Notes: This table reports treated and control group average for selected variables with standard deviations in parentheses. A row  $x$  is in bold if the p-value of the t-test  $H_0 : x_{\text{treated}} = x_{\text{control}}$  is smaller than 5%.

The identification strategy and specification follow the same line as above *mutatis mutandis* and I regress the outcome of occupation  $o$  at firm  $j$  in year  $t$  on year dummies interacted with the exposure variable h\_reduction<sub>o,j</sub> :

$$y_{o,j,t} = \beta_0 + \sum_{k \neq 1909} \beta_k * \text{h\_reduction}_{o,j} * \mathbf{1}_{k=t} + \mu_{o,j} + \nu_{o,t} + \epsilon_{j,t} \quad (2)$$

where fixed effects  $\mu_{o,j}$  control for time-invariant unit-specific characteristics,  $\nu_{o,t}$  control for occupation-specific aggregate shocks (such as weather affecting aboveground but not underground workers)<sup>24</sup> and  $\epsilon_{j,t}$  are standard errors clustered at the firm level.

One object of interest is the effect of the reform on hourly wages, denoted by  $w$ . In the data, we observe net earnings  $(1 - \tau)wl$ , the firm-specific withholding rate  $\tau^{25}$ , as well as hours worked  $l$  given perfect compliance. Hence, I will present logarithms of outcomes to capitalize on the useful identity that decomposes ATT:

$$\ln w = \ln(1 - \tau)wl - \ln l - \ln(1 - \tau) \quad (3)$$

In Figure 5, I report results of regression 2 for the three variables on the right hand-side of equation 3.

Panel (a) shows the results for the full sample. One finds a negative effect on earnings : the average treatment effect on the treated is  $-2.8\%$  and the associated elasticity

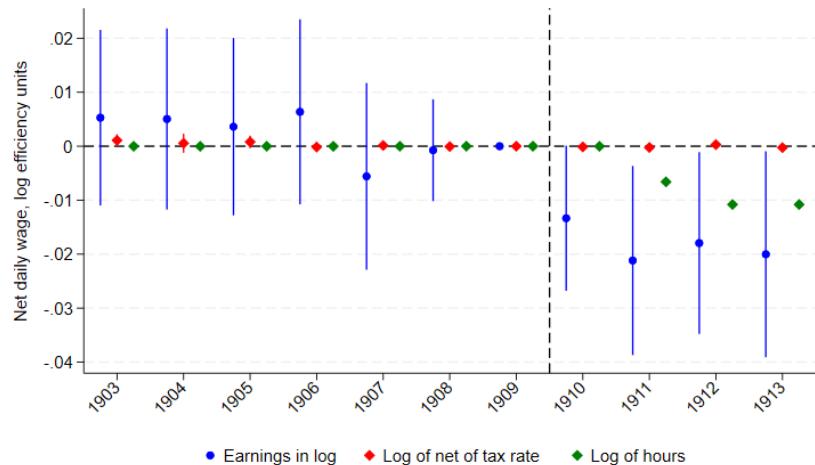
<sup>24</sup>In the remainder, I assume that hours worked  $l$  for (untreated) above-ground workers are unaffected by the reform, which is supported qualitatively by managers' interviews.

<sup>25</sup>Although there were no payroll taxes, some employers organized firm-specific withholding policies which had two purposes: fines for workers' misconduct or employer-provided life (or sometimes old-age) insurance. The majority of firms have a 0 withholding rate, and it never exceeds 3% in the sample.

Figure 5:  $\beta_k$  in regression 2 for components of net daily wage in efficiency units



(a) Full sample. P-value for  $H_0 : \beta_k = 0 \forall k < 1909$  : 0.39. Within R-squared : 0.007.



(b) Subsample of units in small firms (bottom third of the size distribution). P-value for  $H_0 : \beta_k = 0 \forall k < 1909$  : 0.15. Within R-squared : 0.054.



(c) Subsample of units in big firms (top 66% of the size distribution). P-value for  $H_0 : \beta_k = 0 \forall k < 1909$  : 0.76. Within R-squared : 0.002.

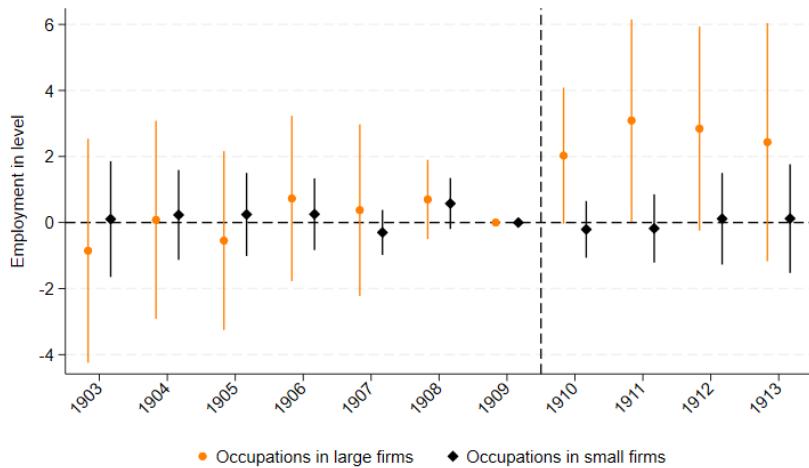
Notes : standard errors are reported at the 95% confidence level. Controls  $X_{j,t}$  are empty. I report the p-value for testing  $H_0 : \beta_k = 0 \forall k < 1909$  as well as the within R-squared for the blue regression only.

of daily earnings to a 1% mandated reduction in daily hours amounts to -0.28. Because this elasticity is larger than -1 and  $(1 - \tau)$  is unaffected by the reform, by equation 3, this implies that the average treatment effect on hourly wage is positive.

However, panels (b) and (c) show that the effect is completely different depending on the size of firms. In panel (b), we see that a 1% mandated reduction of hours worked reduces earnings by 2.1% for treated workers in small firms. Given that the net-of-tax rate is stable, this implies that the elasticity of hourly wages to a mandated reduction of daily hours is -1.1. By contrast, the ATT for daily earnings in big firms is estimated to be -0.05% which implies that the elasticity of hourly wages to a mandated reduction of daily hours is +0.65.

With respect to employment outcomes, the occupation-level analysis confirms the positive average effect documented in the firm-level analysis in Figure 4. Moreover, there is also an interesting heterogeneous response by firm size in this case. In Figure 6, I report the results of running equation 2 when the dependent variable is the level (not the log) of employment in occupation  $o$  in firm  $j$  for small and large firms.

Figure 6:  $\beta_k$  in regression 2 for overall headcount employment in levels in two subsamples defined by firm size.



Notes : standard errors are reported at the 95% confidence level. Controls  $X_{j,t}$  are empty. The p-value for testing  $H_0 : \beta_k = 0 \forall k < 1909$  is 7.53% in the red regression and 61.43% in the blue regression, while the within R-squared are 0.0053 and 0.009, respectively. A small firm is defined as smaller than 550 workers, i.e. the bottom third of the size distribution.

Interestingly, all the positive employment effects for underground workers originate from large firms: a mandated reduction of daily hours by 1% increases employment by 2.60 units which implies an average treatment effect of  $\frac{2.6 \times 10}{539.1} = 4.8\%$  in large firms. By contrast, there is no differential evolution of occupation-level employment between

treated and control groups in small firms.

Overall, these results are consistent with a story where the reform increased employment and wages in large firms, but decreased wages and kept employment stable in small firms. Qualitative evidence suggested that all workers were willing to work less before the reform. The remainder of the paper uses these insights to derive consequences for models of the labor market and welfare analysis. In particular, I will argue that the empirical evidence is inconsistent with (i) workers choosing hours worked, (ii) perfect competition in the labor market, and (iii) jobs and hours entering multiplicatively in production.

### 3 Toy model: who chooses what?

In this section, I build toy models in general equilibrium of the codetermination of wages and hours to discuss claims (i), (ii) and (iii). Let me start by discussing (i) and (ii), setting aside the determination of employment for now. We are interested in understanding the effects of working time reductions depending on *who chooses what*, i.e. who sets hours worked and who sets hourly wages.

A firm produces using only hours, denoted by  $l$ , through a production function  $F(l)$  which is assumed to be increasing and concave. Hours are bounded above by a natural constraint normalized to 1, such that the government must choose a legal maximum  $\bar{l}$  in the interval  $[0, 1]$ . The labor contract specifies a quantity of hours worked  $l$  at a unit price  $w$  and the firm's profits  $F(l) - wl$  must be nonnegative for it to participate.

Workers have a utility function  $u(c, l)$  that is increasing in consumption  $c$  and decreasing in hours worked  $l \in [0, 1]$ . They have an outside option to the labor contract that gives a reservation utility  $u_r$ . When working, their consumption is equal to their earnings  $c = wl$ . Interestingly, the marginal utility of an extra hour  $\frac{du(\cdot)}{dl} = wu'_c + u'_l$  has an ambiguous sign: at low hours, workers would like to work more at the wage rate  $w$  because the positive consumption effect dominates the negative leisure effect, while this is reverted for long hours. For regularity, I assume that the workers' preferred schedule is neither 0 nor 1<sup>26</sup>.

I have two main objects of interest. First, I will sign the marginal utility of an extra hour  $\frac{\partial u(\cdot)}{\partial l}$  before the introduction of the policy  $\bar{l}$ . When it is negative, workers would like to work less at the given wage rate such that they would welcome a working time

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<sup>26</sup>Formally, I impose that for any  $w$  we have a  $l^* \in (0, 1)$  such that  $\frac{\partial u(wl^*, l^*)}{\partial l} = 0$ .

reduction with rigid wages. Second, I study how the introduction of a small binding working time reduction  $\bar{l} < l$  affects equilibrium wage rates.

The theoretical predictions depend on the definition of strategy sets: who chooses hours and who chooses wages? I will consider four different models. In model 1, workers choose hours to maximize utility and wage rates are competitive. In model 2, workers choose hours but the firm sets wage rates. In model 3, the firm sets hours to maximize profits but wage rates are competitive. In model 4, the firm sets both hours and wage rates. Models 1 and 2 use the neoclassical theory of labor supply while models 3 and 4 use the hedonic theory of labor supply. Models 1 and 3 correspond to perfectly competitive wages while models 2 and 4 correspond to monopsonistic wages. These models are illustrated in Figure 7.

In model 1, workers choose hours to maximize utility such that one must have that  $l = \arg \max u(wl, l)$  for any given  $w$  and  $l \in [0, \bar{l}]$ . Hence, it must be that the marginal utility of working an extra hour is nonnegative  $\frac{\partial u(\cdot)}{\partial l} \geq 0$  in equilibrium and equal to 0 in interior solutions. Because wage rates are competitive, workers are paid at their marginal product and  $w = F'(l)$ . Concavity in the production function implies that the marginal product is decreasing in hours such that a binding working time reduction must increase  $F'(l)$  and hence equilibrium wage rates  $dw \geq 0$ .

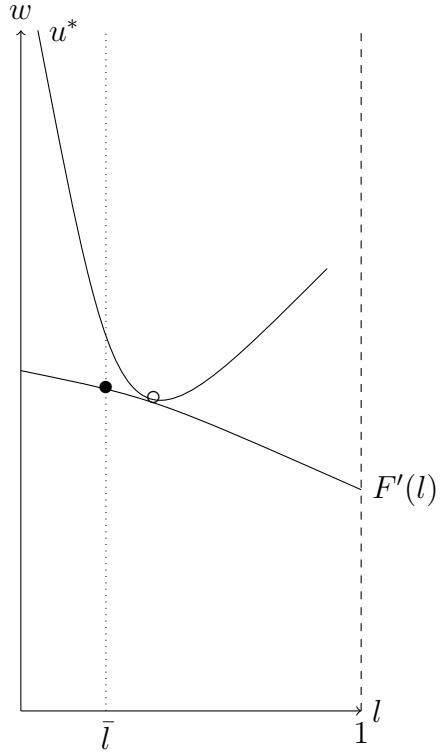
In model 2, workers set again hours such that  $\frac{\partial u(\cdot)}{\partial l} \geq 0$ . However, the firm sets monopsonistic wage rates to maximize profits internalizing the neoclassical labor supply  $l(w)$  which associates workers' choice of hours to each wage level. This gives rise to the standard Robinson (1933) monopsony equation  $F'(l) - w = \frac{l}{l'(w)}$  where  $l'(w)$  is the derivative of the labor supply function. When  $l(w)$  is increasing<sup>27</sup>, a working time reduction must necessarily be associated with a decrease in equilibrium wage rates  $dw \leq 0$ .

In model 3, the firm chooses hours to maximize profits and wages are competitive  $w = F'(l)$  such that the optimal schedule solves  $l = \arg \max F(l) - lF'(l)$ . Because  $F(\cdot)$  is concave, this objective increases in  $l$  such that the solution is a corner solution: hours will be set at their largest admissible value, that is  $l = \bar{l} \leq 1$ . When workers have no leisure and  $l = 1$ , they will welcome a working time reduction such that  $\frac{\partial u(\cdot)}{\partial l} \leq 0$ . Here again, because  $F'(l)$  is decreasing in hours, a working time reduction increases wage rates in equilibrium  $dw \geq 0$ .

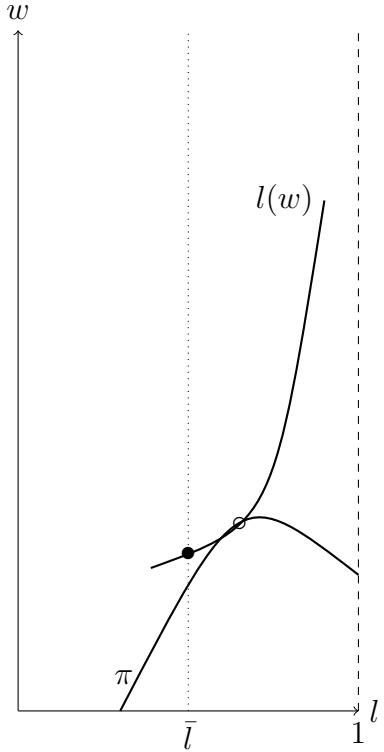
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<sup>27</sup>The fact that  $l(w)$  is increasing implies that the substitution effect dominates the income effect in the Slutsky equation of workers. This guarantees that workers are paid below their marginal product  $w < F'(l)$  which is a widely-documented empirical fact by the monopsony literature (see Card (2022) e.g.).

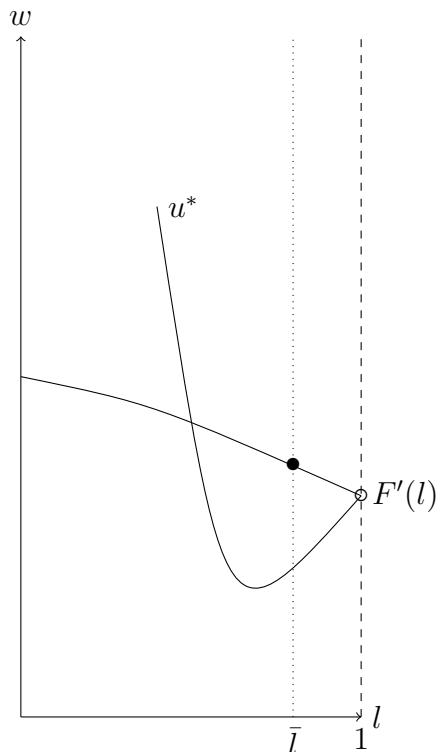
Figure 7: Equilibrium before ( $\circ$ ) and after ( $\bullet$ ) a small binding working time reduction  $\bar{l} < l$ .



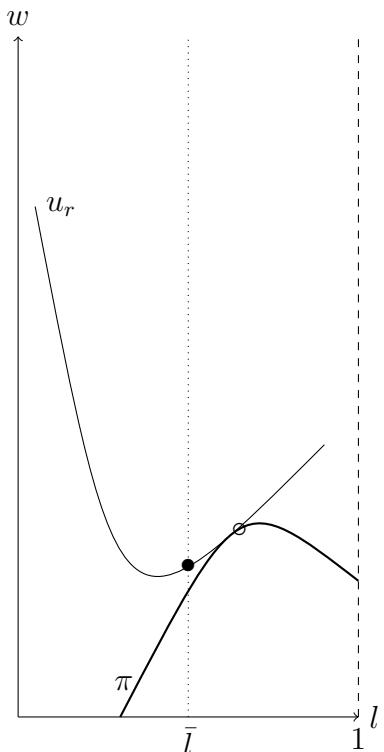
(a) Model 1: workers choose hours, competitive wage rates



(b) Model 2: workers choose hours, firm chooses wage rates



(c) Model 3: firm chooses hours, competitive wage rates



(d) Model 4: firms choose hours and wage rates

Notes:  $F'(l)$  denotes the marginal product of an hour,  $u_r$  denotes the reservation utility and  $u^*$  is the maximum utility,  $\pi$  is the iso-profit, and  $l(w)$  is the labor supply curve.

Finally, in model 4, firms choose both wage rates and hours to maximize profits. Equivalently, the firm chooses the profit-maximizing contract on the workers' reservation indifference curve  $u_r$ . Necessarily, this is a contract with long hours and low wage rates such that the marginal utility of an extra hour at that wage rate is negative  $\frac{\partial u(\cdot)}{\partial l} \leq 0$  and workers would welcome a working time reduction. However, in equilibrium they must remain on the same indifference curve  $u_r$ , such that the utility gains generated by the policy on leisure will be fully compensated by a loss in wage rates, such that  $dw < 0$ .

In Table 4, I summarize the theoretical predictions on  $\frac{\partial u(\cdot)}{\partial l}$  and  $dw$  for the four models. The main results of this section can be summarized as follows. First, if wages are rigid, workers are more likely to be favorable to government-mandated working time reductions when firms set hours.<sup>28</sup> Second, the very same working time reduction increases competitive wage rates but decreases monopsonistic wage rates<sup>29</sup>.

Table 4: Summary of theoretical predictions in the four different models.

Who sets $l$ ?	Utility-maximizing $l$		Profit-maximizing $l$	
	Competitive $w$ Model 1	Firm sets $w$ Model 2	Competitive $w$ Model 3	Firm sets $w$ Model 4
Marginal utility of $l$	$\frac{\partial u(\cdot)}{\partial l} \geq 0$	$\frac{\partial u(\cdot)}{\partial l} \geq 0$	$\frac{\partial u(\cdot)}{\partial l} \leq 0$	$\frac{\partial u(\cdot)}{\partial l} \leq 0$
Equilibrium after $\bar{l} < l$	$dw \geq 0$	$dw \leq 0$	$dw \geq 0$	$dw \leq 0$

Which model can rationalize our empirical findings in section 2? Because workers unanimously supported the reform, the marginal utility of an extra hour must have been negative, which is inconsistent with models 1 and 2 where workers choose hours. I conclude that firms must set hours to rationalize our results. This is consistent with qualitative evidence on firms' organization: because all workers and output use the same lift to go in and out the mine, managers need to organize schedules for ordered production.

Now, wages increased in large firms, which is inconsistent with model 3, while they decreased in small firms, which is inconsistent with model 4. However, in our empirical context, it is unlikely that small and large firms face different competition structure as they were sometimes located next to one another geographically. Moreover, Delabastita and Rubens (2025) documented widespread monopsony power in the same empirical context.

<sup>28</sup>It would be easy to show that models 1 and 2 imply that working time reductions are inefficient while models 3 and 4 give a redistributive role to working time reductions. Welfare when production includes employment is less obvious (and therefore more interesting) because working time reductions affect not only the quality but also the quantity of jobs. I come back to this issue in section 4.

<sup>29</sup>Interestingly, the Roosevelt administration introduced the minimum wage alongside a working time reduction, see Fishback et al. (2024).

Rather, one should remember that these toy models do not consider employment and use only hours in the production function  $F(l)$ . Equivalently, results would be identical in a model where jobs  $N$  and hours  $l$  enter the production function as  $F(N, l) = NF(l) - Nwl$ . In that case, the demand for  $N$  is perfectly inelastic and employment is unaffected by the reform in Models 1 to 4, which is rejected by our findings of section 2.

What if the firms' demand for  $N$  displays some finite elasticity? The standard model bundles labor inputs together by considering production functions where jobs and hours enter multiplicatively in production  $F(Nl)$  such that only total hours volume matters. A firm choosing schedules and headcount employment solves

$$\max_{N,l} F(Nl) - Nwl \quad \text{s.t. } N \leq N_s(w, l)$$

where  $N_s(w, l)$  is a (firm-specific) labor supply function. When firms set  $w$ , this model generalizes Model 3 while when firms take  $w$  as given that  $w = F'(Nl)$ , the model generalizes Model 4. In equilibrium, the constraint holds with equality and the first-order conditions imply that  $\frac{l}{N} \frac{\partial N_s}{\partial l} = -1$ , i.e. employment increases by 1% when hours worked are reduced by 1%. This holds whether wages are monopsonistic or competitive. This prediction is rejected by our empirical findings: we documented that the employment elasticity of hours is 0 in small firms and  $-0.48$  in large firms. This is claim (iii) of the paper: our reduced-form results are inconsistent with jobs and hours entering multiplicatively in the production function.

## 4 General model of employment, hours and wages

Based on the arguments of section 3, we need a model where employment matters and (i) firms set hours and (ii) there may be some monopsony power and (iii) the elasticity of substitution between jobs and hours may differ from 1. More precisely, the goal is to find a production function  $F(N, l)$  that rationalizes the reduced-form results of section 2 where wage and employment effects differ by firm size. We also use this model to (a) explain where long hours come from, (b) to pin down the determinants of the effects of working time reductions and (c) to assess welfare.

The model features directed search à la Moen (1997) and monopsony power like

in Vergara (2023).<sup>30</sup> Firms post<sup>31</sup> hours, wages, and vacancies while workers' leisure-consumption tradeoff governs both their participation and application decisions. The model explains the joint determination of hours, wages, and employment, which is necessary to understand the size-based responses to the reform.

## 4.1 Directed search model

**Labor market** Consider a set of measure  $L$  of workers who are each endowed with a unit of time.<sup>32</sup> Firms are posting vacancies with a pair  $m = (w_m, l_m)$  of wage rate and hours worked. All vacancies  $v_m$  at a given pair  $m$  form a submarket and there may be potentially many submarkets. Workers are applying to one vacancy among the various submarkets  $m$  and the number of applicants for a given submarket is denoted by  $a_m$ .

**Matching** There is a technology  $\mathcal{M}(a_m, v_m)$  matching applicants and vacancies in a submarket. I assume that it is constant returns to scale.<sup>33</sup> As a result, one can compute the job-finding probability as

$$p_m = \frac{\mathcal{M}(a_m, v_m)}{a_m} = \mathcal{M}(1, \theta_m) = p(\theta_m)$$

where  $\theta_m = \frac{v_m}{a_m}$  is the submarket tightness. Similarly, the job-filling probability is

$$q_m = \frac{\mathcal{M}(a_m, v_m)}{v_m} = \mathcal{M}\left(\frac{1}{\theta_m}, 1\right) = q(\theta_m)$$

and  $q_m = p(\theta_m) \times \frac{1}{\theta_m}$ . It is further assumed that the matching technology is twice continuously differentiable, increasing and concave. Hence,

$$\frac{\partial p(\theta_m)}{\partial \theta_m} > 0 \quad \frac{\partial q(\theta_m)}{\partial \theta_m} < 0$$

In other words, the tighter submarket, the higher will be the job-finding probability and the lower will be the job-filling rate.

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<sup>30</sup>The key difference with Vergara (2023) is the presence of leisure in workers' utility and hours worked, in addition to jobs in production.

<sup>31</sup>There is a long literature exploring the relevance of posting in labor market. For example, Eeckhout and Kircher (2010b) showed that price posting (sorting workers types ex-ante) emerges as an equilibrium trading mechanism rather than auctions (screening workers types ex-post) when the meeting technology is sufficiently rival. A review can be found in Wright et al. (2021).

<sup>32</sup>All the analysis in this section could be carried out in a model where workers have heterogeneous types as long as firms observe it and the labor market is segmented.

<sup>33</sup>See Hall and Schulhofer-Wohl (2018) and Petrongolo and Pissarides (2001) for empirical evidence on the matching function.

**Workers** Each worker decides whether or not to enter the labor market. Workers are only heterogeneous in their disutility of participation, denoted by  $d$  and drawn from a cdf  $G(\cdot)$ .<sup>34</sup> They have preferences over consumption and leisure represented by an ordinal utility function  $u(c, l)$ . The government grants some benefits  $B$  to all nonemployed agents, be they inactive or unemployed.<sup>35</sup> I assume that each worker may only apply to one submarket, such that the expected utility of participating to the labor market for a worker of disutility of participation  $d$  reads

$$\max_m \left\{ p_m u(w_m l_m, l_m) + (1 - p_m) u(B, 0) \right\} - d$$

An individual worker applies by taking  $p_m$  as given but the aggregate behavior of all workers will pin down  $p_m$ . Hence, in equilibrium, it must be that all agents have the same expected utility<sup>36</sup> (net of their  $d$ ) that I will denote by  $\bar{U}$ .<sup>37</sup> However, the fact that all workers of the same type enjoy the same expected utility ex-ante does not imply that they all enjoy the same ex-post utility.

The key mechanism of the model is already visible here: a worker prefers submarkets that pays higher income  $w_m l_m$  for lower hours worked  $l_m$  but their tightness  $\theta_m$  will be lower. In other words, as elsewhere in competitive search models, there is a tradeoff between favorable terms of trade and probability of trade. Observe that this equation also defines the level of tightness  $\theta_m$  on the equilibrium path. In particular, we have equilibrium tightness as an implicit function of three variables  $\theta(w_m, l_m, \bar{U})$ : in a given submarket, larger wages and higher expected utility attract more applicants and increase tightness. Longer hours may attract or repel applicants depending on their leisure preferences.

A worker of type  $d$  participates if and only if  $\bar{U} \geq d + u(B, 0)$  such that the total number of participants is given by  $G(\bar{U} - u(B, 0)) \times L$ .<sup>38</sup>

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<sup>34</sup>This ensures that the extensive elasticity of labor supply is finite.

<sup>35</sup>This formulation supposes that inactives are entitled to the same benefit coverage  $B$  than unemployed, which is realistic in the 1910's coal mines. For the value of nonemployment versus unemployment, see Jäger et al. (2020).

<sup>36</sup>Proof: assume it is not the case such that  $m'$  yields higher expected utility than  $m$ . Then some agents will move towards  $m'$ , which decreases  $\theta_{m'}$  and decreases  $p_{m'}$  in turn. This marginally reduces  $U(m')$ . The process continues until  $U(m) = U(m')$ .

<sup>37</sup>This is called the *market utility* (Wright et al., 2021).

<sup>38</sup>We can mention current endeavors in the literature to estimate  $G_i(\cdot)$ , that is to compute workers' outside options (Caldwell & Danieli, 2024; Caldwell & Harmon, 2019; Caldwell & Oehlsen, 2018; Jäger et al., 2020, 2022, 2023).

**Firms** All firms face perfect competition in the single output market whose homogeneous good is set as the numéraire.<sup>39</sup> Firms are only heterogeneous in their total factor of productivity  $\psi_j$ .<sup>40</sup> They share the same production technology<sup>41</sup>  $F(N, l)$  whose inputs are jobs  $N = qv$  and hours worked per worker  $l$ . Firms internalize workers' decisions such that their job-filling probabilities  $\tilde{q}_m$  are implicitly defined by equation (3) with  $\tilde{q}_m = q(\theta(w_m, l_m, \bar{U}))$ . Conditional on entering the labor market, a firm maximizes expected profit by choosing the number of vacancies  $v_m^j$  to post in each submarket  $m$  along with the associated wage-hours  $(w_m^j, l_m^j)$ :

$$\pi(\psi_j) = \max_{\forall m: w_m^j, l_m^j, v_m^j} \int_m \psi_j F(\tilde{q}_m v_m^j, l_m^j) - \tilde{q}_m v_m^j w_m^j l_m^j - k(v_m^j) dm$$

where  $k(v_m^j) = k_m v_m$  is a linearly increasing cost of vacancy posting. Because firms face a cost of creating vacancies independently of the hours worked in that vacancy, it is *ex-post* more costly to hire two workers each working half-time rather than one full-time worker, *ceteris paribus*. However, *ex-ante* the probability that vacancies will be filled might differ between short-hours and long-hours contracts.<sup>42</sup>

**Firms entry** A set of measure  $K$  contains capitalists who are heterogeneous in productivity  $\psi_j$  drawn from a compact set  $[\underline{\psi}, \bar{\psi}]$ . A capitalist enters the labor market if and only if their expected profit is greater than a fixed cost denoted by  $x$ . Because the profit function is monotonically increasing in  $\psi_j$ , there exists a decisive  $\psi^*$  such that  $\pi(\psi^*) - x = 0$ . All capitalists with  $\psi_j < \psi^*$  abstain from entering the labor market and remain inactive while all with  $\psi_j \geq \psi^*$  participate.

**Economy, allocation and equilibrium** The directed search economy  $e$  is a set of vNM agents of measure  $L$  with leisure preferences  $\succsim$  and disutility of participation  $d$  drawn from a cdf  $G$ , as well as a set  $K$  of firms with productivity  $\psi_j$ , the vacancy posting cost function  $k(\cdot)$ , the entry cost  $x$  and the production function  $F(\cdot)$  and the matching function  $\mathcal{M}$ .

$$e = \left\{ L, \succsim, G, \{\psi_j\}_{\forall j \in K}, k, x, F(\cdot), \mathcal{M} \right\}$$

**Definition 1.** An allocation is a **competitive search equilibrium** for  $e$  if it is characterized by the market utility  $\bar{U}$ , the zero-profit firm  $\psi^*$ , applications  $a_m$ , vacancies  $v_m = \sum v_m^j$  in

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<sup>39</sup>The assumption of perfect competition is consistent with our result in Figure A.5 where we show no effect of the reform on output prices

<sup>40</sup>The analysis in this section would be unchanged if  $\psi_j$  was assumed to be the productivity of the match between firms and workers, both of them having heterogeneous skills, as long as the skill-matching function exhibits supermodularity which implies positive assortative matching. See Eeckhout and Kircher (2010a, 2018) for a rigorous treatment.

<sup>41</sup>It is assumed that production is increasing in both inputs and it is concave in  $N$ .

<sup>42</sup>See Carry (2024) for empirical evidence of such imperfect substitutability the French case.

each submarket  $m = (w_m, l_m)$  as well as a mapping  $P(\cdot)$  from productivity to submarkets such that

**1. Firms are expected profit maximizers:**

The tuples  $(v_m^j, w_m^j, l_m^j)$  solve the FOC of firms of type  $\psi_j$  taking  $\psi^*$  and  $\bar{U}$  as given

$$v_m^j : \tilde{q}_m(\psi_j F'_N - w_m l_m) \leq k_m v_m^j \quad \text{with equality if } v_m^j > 0 \quad (4)$$

$$w_m : \tilde{q}'_{m,w}(\psi_j F'_N - w_m l_m) \leq \tilde{q}_m l_m \quad \text{with equality if } w_m > 0 \quad (5)$$

$$l_m : v_m^j \tilde{q}'_{m,l}(\psi_j F'_N - w_m l_m) + \psi_j F'_l \geq \tilde{q}_m v_m^j w_m \quad \text{with equality if } l_m < \bar{l} \quad (6)$$

where  $\bar{l} \leq 1$  the legal maximum workweek, and the partial variation of tightness with respect to wages and hours worked are denoted by  $\tilde{q}'_{m,w} = \frac{\partial \tilde{q}_m}{\partial w}$  and  $\tilde{q}'_{m,l} = \frac{\partial \tilde{q}_m}{\partial l}$ . The superscript  $j$  for  $w_m^j$  and  $l_m^j$  is omitted for brevity because all firms active in the same submarket must post the same terms of trade by definition of a submarket.

**2. Firm's entry constraints are satisfied:**

$$\psi^* \text{ solves } \pi(\psi^*) = x \quad \text{taking } \bar{U} \text{ given} \quad (7)$$

**3. Across-submarket equilibrium conditions are satisfied:**

Applications in a submarket ensure that all submarkets yield market utility

$$a_m \text{ solves } \bar{U} = p_m u(w_m l_m, l_m) + (1 - p_m) u(B, 0) \quad (8)$$

with  $p_m = p(\frac{v_m}{a_m})$ , taking  $\psi^*, v_m, l_m, w_m$  as given for  $m \in [P(\psi^*), P(\bar{\psi})]$

**4. Workers' participation constraint is satisfied:**

$$\bar{U} \text{ solves } \int_{P(\psi^*)}^{P(\bar{\psi})} a_m dm = G(\bar{U} - u(B, 0)) \times L \text{ taking } \psi^*, u, a_m \text{ given.} \quad (9)$$

## 4.2 Properties

I now turn to the properties of the competitive search equilibrium just defined.

**Firm and submarket sizes** In a single submarket, one may find vacancies from several firms. Say that we find two firms  $\psi_j > \psi_k$  in some given submarket  $(w, l)$  where the total number of vacancies is  $v = v^k + v^j$ . By equations 5 and 6 respectively, it must be that

$$\begin{aligned} \psi_j F'_N(v^j \tilde{q}, l) &= \psi_k F'_N(v^k \tilde{q}, l) \\ \frac{1}{v_j} \psi_j F'_l(v^j \tilde{q}, l) &= \frac{1}{v_k} \psi_k F'_l(v^k \tilde{q}, l) \end{aligned}$$

In other words, the marginal product of jobs must be equal for both firms, and their relative number of posted vacancies must be proportional to their relative marginal product of hours. As a consequence, their marginal rate of technical substitution must be equal. Observe that this also implies that if two firms coexist in the same submarket  $\psi_j > \psi_k$ , their employment level must be  $N_j > N_k$  to respect equation 5.

Conversely, can a single firm post vacancies in several submarkets in equilibrium? Observe that production is separable in submarkets, such that the model assumes away potential complementarities between submarkets in production. In general, firms may post vacancies in several submarkets, i.e. equation 4 may be saturated for many  $m$  in the sense that nothing prevents or guarantees it. Because firms need two labor inputs to produce, they must necessarily have  $N > 0$  and  $l > 0$  in at least one submarket to be active. In that sense, this model endogenizes a distribution of firm size.<sup>43</sup>

**Monopsony power** Although search is competitive, the labor market remuneration might not be. Indeed, this model produces an earnings markdown and workers are paid below their marginal product. If the submarket-specific wage elasticity of labor supply is  $\epsilon_m^w = \frac{\partial q_m v_m}{\partial w_m} \frac{w_m}{q_m v_m}$ , then equation 5 reads

$$\frac{\psi_j F'_N - w_m l_m}{w_m l_m} = \frac{1}{\epsilon_m^w}$$

which is the original Robinson (1933) markdown equation: the earnings markdown is inversely proportional to the submarket-specific elasticity of labor supply. It is noteworthy that the present model has two sources of monopsony power.<sup>44</sup> First, because disutilities of participation are heterogeneous, the wage elasticity of labor supply is finite. Second, there is monopsony power because of matching frictions. Indeed, observe that when matching frictions increase,  $\epsilon_m^w$  decrease and the earnings markdown increase.

Importantly, observe that two firms of unequal productivity  $\psi_j > \psi_k$  active in the same submarket  $m$  such that  $\psi_j F'_N = \psi_k F'_N$  must have the same monopsony power in that submarket. Hence, heterogeneous firms may offer identical contracts and enjoy the same monopsony power in that contract. However, a direct implication of the envelope theorem is that firms with higher productivity must have higher profits such that the sum across submarkets of a firm's monopsony power increases with  $\psi$ .

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<sup>43</sup>One cannot really call this *large firms* in the sense of Eeckhout and Kircher (2018) because that implies that several types of workers are employed in the same firm in equilibrium. In the present paper, workers are homogeneous conditional on their disutility of participation.

<sup>44</sup>Berger et al. (2024) quantifies the empirical importance of several determinants of monopsony power including preferences and search frictions. Azar and Marinescu (2024) review the literature.

**Double monopsony** Given that this model features two inputs, we can note that not only the remuneration of jobs but also the remuneration of hours worked can be marked down relative to their marginal productivity. Indeed, by equations 5 and 6 we have in interior solutions

$$\frac{\psi_j F'_l - w_m N_m^j}{w_m N_m^j} = - \frac{l_m \tilde{q}'_{m,l}}{w_m \tilde{q}'_{m,w}}$$

where the left handside measures the markdown on the hours input and the right hand-side is equivalent to workers' marginal rate of substitution between hours and wages.

This expression transparently links workers' leisure preferences with the markdown on hours worked. When workers are calling for a working time reduction, one gets  $\tilde{q}'_{m,l} < 0$ , the right handside is positive and the marginal product of an hour  $\psi F'_l$  is marked down relative to its marginal cost  $Nw$ .

Hence, an increase in workers' taste for leisure has real effects in the labor market. Although it does not affect labor supply in levels because workers do not choose hours, it affects labor supply elasticities. As a result, the firm reacts by modifying  $w_m$  and  $l_m$  according to equations 5 and 6. By the hours markdown equation, we know that hours markdown must increase, which can be achieved by decreasing  $w$  or  $l$ . These two monopsony equations allow to derive the next proposition.

**Proposition 1.** *In interior solutions, workers in submarket  $m$  would like to work less at their current wage rate if and only if*

$$\tilde{q}'_{m,l} \leq 0 \iff \frac{\epsilon_m^w}{1 + \epsilon_m^w} \leq \frac{l_m F'_l}{N_m F'_N}$$

Proposition 1 is useful because it gives the technological and preference conditions to find long hours. With respect to technology, long hours arise when the output elasticity of hours  $lF'_l$  dominates the output elasticity of hires  $NF'_N$ .<sup>45</sup> This seems relevant in settings with experience effects: marginally increasing hours of existing experienced workers yields more output than marginal increasing the size of the workforce.<sup>46</sup> Intuitively, when hours are more productive than jobs, firms will set long schedules. With respect to preferences and matching frictions, long hours arise when  $\epsilon^w$  is small and monopsony power (on jobs) is large. This is the same channel as in Model 4 in section 3: a larger monopsony power leads to longer hours and lower hourly wages.

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<sup>45</sup>For evidence that  $lF'_l < 1$ , see Collewet and Sauermann (2017) for contemporary setting and Pencavel (2015) for World Ward I context.

<sup>46</sup>Coal mining in Belgium was an occupation where on-the-job experience was an important determinant of productivity given the irregular nature of coal veins (Denoël, 1909).

**Contract dispersion and sorting** The model produces wage dispersion among (observably) identical workers<sup>47</sup> which is a long-standing finding of empirical labor studies (see Card et al. (2018)) because there is a continuum of submarkets in equilibrium. It is naturally interesting to study how heterogeneous firms are sorting in the contract space. Taking the total derivative of equation 4 in a particular submarket away from corner solutions one gets

$$dv \underbrace{(\tilde{q}^2 \psi F_N'')}_{<0 \text{ if } F_N'' \leq 0} + dw \underbrace{(\tilde{q}'_w (\psi F_N' - wl) - \tilde{q}l + \tilde{q}v \tilde{q}'_w \psi F_N'')}_{<0 \text{ by equation 5 if } F_N'' \leq 0} + dl \left( \gamma_l \right) + d\psi \underbrace{(\tilde{q}F_N')}_{>0} = 0$$

where indices are omitted for brevity. Hence, a firm with higher productivity  $\psi_j$  will post higher wages and more vacancies, thereby having a larger headcount employment in each submarket. With respect to hours worked, the coefficient  $\gamma_l$  multiplying  $dl$  is difficult to sign in the general case as it depends on the firms' size and inputs complementarity. Besides, this equation governs the within-firm correlations between endogenous variables when one sets  $d\psi = 0$ . In particular, it must be that vacancies and hourly wage covary positively within-firm.

### 4.3 Wage effects of a working time reduction

All general equilibrium effects on wages can be analyzed using solely firms' first-order conditions, as they encompass workers' reactions. Importantly, the reform has effect in all submarkets, whether or not the reform is binding in that submarket. In treated submarkets, the reform (i) reduces the quantity of hours that can be used for production and (ii) attracts applications from other submarkets. In control submarkets, the reform has effect because it diverts applicants towards treated submarkets. This workers' application behavior is the only channel of spillovers across submarkets, as I assumed production to be separable across them. In this section, I consider the wage effects in treated submarkets and relegate those in control submarkets to Appendix B.1.<sup>48</sup>

**Treated submarkets** To fix ideas, I assume that aggregate participation responses are negligible<sup>49</sup> such that  $\theta_m(w_m, l_m, \bar{U}) = \theta_m(w_m, l_m)$ . Consider firms active in treated submarkets where  $l_m > 9$  and a reform that reduces working time  $d(1 - \bar{l}) > 0$ . Taking the

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<sup>47</sup>It escapes the Diamond (1971) paradox of homogeneous contract in search models by allowing heterogeneous firms' productivities.

<sup>48</sup>I show that the sufficient conditions for wage increase (resp. cuts) in treated submarket lead to wage cuts (resp. increase) in control submarkets. As a result, the sufficient conditions for wage increase in treated submarkets also describe whether the difference-in-differences is positive between treated and control.

<sup>49</sup>This makes sense because the participation effects are scaled by the density of inframarginal workers  $g(\bar{U} - u(B, 0))$ , which may be small in our setting because the vast majority of local workforce was employed by the local mine.

total derivative of equation 4, one gets

$$\frac{dl}{d(1-l)} \left( \tilde{q}_l'(\psi F'_N - wl + \psi N^j F''_N) + \tilde{q} \psi F''_{N,l} - \tilde{q} w \right) = dv^j \left( -\tilde{q}^2 \psi F''_N \right) + dw \left( -\tilde{q}'_w N^j \psi_j F''_N \right)$$

The left handside describes the effect of the reform on firms while the right handside captures their reactions. When workers are calling for a working time reduction  $\tilde{q}'_l < 0$ , sufficient conditions for wages to increase  $dw \geq 0$  are  $\psi F'_N - wl + N^j \psi F''_N \geq 0$  and  $\tilde{q} \psi F''_{N,l} - qw \leq 0$  and inequality signs are flipped for  $dw \leq 0$ . Using the first-order condition 5, we can rewrite these sufficient conditions in a proposition.

**Proposition 2.** *If treated workers are calling for a working time reduction  $\tilde{q}'_l \leq 0$ , the wage effects in a given **treated** submarket  $m$  for firm  $j$  are governed by the following sufficient conditions:*

$$\begin{aligned} \text{If } \frac{1}{1+\epsilon^w} &\geq \frac{-N^j F''_N}{F'_N} & \text{and } \frac{\epsilon^w}{1+\epsilon^w} \geq \frac{l F''_{N,l}}{F'_N} \implies dw \geq 0 \\ \text{If } \frac{1}{1+\epsilon^w} &\leq \frac{-N^j F''_N}{F'_N} & \text{and } \frac{\epsilon^w}{1+\epsilon^w} \leq \frac{l F''_{N,l}}{F'_N} \implies dw \leq 0 \end{aligned}$$

**Determinants of wage effects** Proposition 2 highlights the driving forces for the wage effects in terms of structural parameters on both sides of the market. Technology matters on the right handside of these inequalities, but labor supply elasticity  $\epsilon^w$  matters for the left handside, which is itself determined by preferences and matching frictions.

With respect to technology, the key elements are the *change* of the marginal product of labor with respect to jobs  $\frac{d \ln F'_N}{d \ln N} = \frac{-N^j F''_N}{F'_N}$  and hours  $\frac{d \ln F'_N}{d \ln l} = \frac{-l F''_{N,l}}{F'_N}$ . When production is sufficiently concave,  $-F''_N$  is large and wages are likely to decrease because cutting wages implies that the workers' exodus increases significantly the marginal product of a job. When production displays a strong gross complementarity between jobs and hours worked,  $\frac{l F''_{N,l}}{F'_N}$  is large which pushes wage rates downward. Intuitively, when hours complements jobs in production, the firm does not want to compensate the working time reduction by hiring and will cut hourly wage. By contrast, when inputs are substitutes,  $\frac{l F''_{N,l}}{F'_N}$  is small which pushes hourly wages up as an incentive for workers to join the firm to substitute for lost hours.

When monopsony power is large,  $\epsilon^w$  is small and it has ambiguous effect on equilibrium wages. First,  $\frac{\epsilon^w}{1+\epsilon^w}$  is small such that we are more likely to be in the case where wage decreases. This is the same channel as in Model 4 of section 3 : when firms have monopsony power, they compensate the constraint on their hours worked by cutting hourly wages. However, a large monopsony power also implies that  $\frac{1}{1+\epsilon^w}$  is large which gives an opposite upward force to wages. Indeed, a large monopsony power implies

that when workers join the firm, the markdown levied on them dominates the negative effect on the firms' marginal product of job, which encourages wage increases for hiring purposes.

**Heterogeneous effects by size** I now assess whether canonical labor production functions  $F(N, l)$  can rationalize the empirical findings of section 2 where wages decrease in small firms but increase in large firms. Imagine that two firms are active in the very same treated submarkets yet have different sizes. Importantly, because they are in the same submarket, they face the same labor supply elasticity  $\epsilon^w$  and derive the same markdowns on both inputs. However, an identical working time reduction may have heterogeneous impact on these two firms because the *change* in marginal product of labor induced by the hours regulation and incoming applicants may differ by size depending on  $F(N, l)$ .

Consider a general CES  $F(N, l) = [\alpha N^\rho + \beta l^\rho]^{1/\rho}$  for  $\rho \neq 0$ . One can show that the production ratio of Proposition 2 are such that

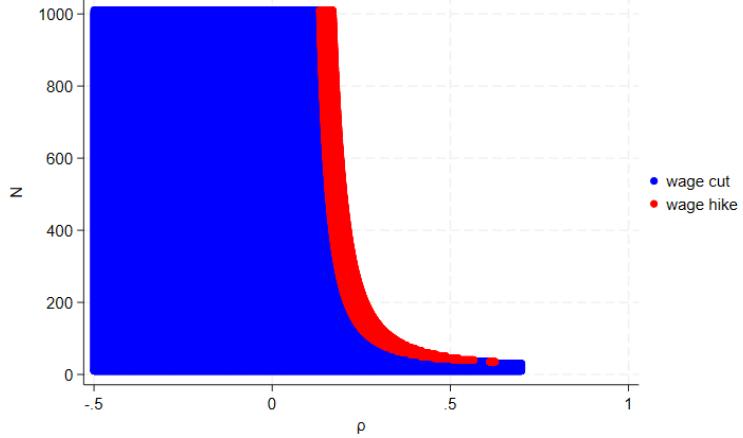
$$\frac{-NF_N''}{F_N} = \frac{\beta l^\rho}{\alpha N^\rho + \beta l^\rho} = \frac{l F_{N,l}''}{F_N}$$

In that case, the wage effects of a working time reduction may depend on  $N$ . This is true even if these two firms have the same production function parameters  $\alpha, \beta, \rho$  and are active in the same submarket  $(w, l)$ . In particular, whenever  $\rho$  is positive, one is more likely to find  $dw < 0$  for small  $N$  and  $dw > 0$  for large  $N$ , which is precisely what we documented empirically. This comes from the two opposing technological forces: the substitution effect and the concavity effect. In large firms, the gains in marginal product from firing workers are small while they are large in small firms.

To illustrate this, I numerically simulate which values of  $\rho$  would lead to a wage cut or a wage increase after a working time reduction for various submarket size in Figure 8. I set the value of the labor supply elasticity  $\epsilon_w = 10.172$  which is taken from Delabastita and Rubens (2025). I also set  $l = 10$  hours and  $\frac{\beta}{\alpha} = 2$  and consider only values that are consistent with long hours contracts using Proposition 1.

This simulation shows that whenever  $\rho$  is small and inputs are complements, firms will cut hourly wages. Moreover, small firms also cut hourly wages for any level of substitutability between inputs. Indeed, in very small firms, cut hourly wages increase the marginal product of a job by a relatively large amount which allows to restore markdowns. Yet, when  $\rho$  is midly positive and inputs are imperfect substitutes, large firms will raise hourly wages after a working time reduction in order to increase headcount employment to compensate for the lost hours. For parameters values of the numeri-

Figure 8: Simulation of the wage effects of the reform for CES values of  $\rho$  and employment size  $N$



*Notes :* This is computed using the total derivative of equation 5 for a CES production function setting  $l = 10$  hours for both firms, as well as  $\beta = 0.6$  and  $\alpha = 0.3$ . I add a constraint that workers would like to work less  $\tilde{q}'_l \leq 0$  using Proposition 1.

cal simulations, it seems that a value of  $\rho$  around 0.2 can rationalize the coexistence of wage cuts in small submarkets (below 200 workers) and wage hikes in large firms (above 200). This corresponds to a Hicksian elasticity of substitution between jobs and hours of 1.25, i.e. a 1% decrease in the marginal rate of technical substitution increases the  $\frac{N}{l}$  ratio by 1.25 %.

Importantly, I note that these results does not come from a different production function between large and small firms, nor from a difference in monopsony power. Simply put, when jobs and hours are imperfect substitutes, the larger firm needs to attract many workers to compensate for lost hours and hence increase wage rates. In the meantime, the smaller firm prefers to cut hourly wages and see some workers leaving, as this significantly increases its marginal product of  $N$ .

#### 4.4 Welfare analysis

Now that we know that the competitive search equilibrium can replicate positive empirical findings, we can study its normative implications. Interestingly, welfare effects of the policy are ambiguous here because the negative effects on wages may be offset by positive effects on leisure and employment. In this section, I quantify welfare gains and losses of the Belgian 1910 coal mine reform using the directed search model.

As discussed above, the market utility  $\bar{U}$  summarizes workers' ex-ante welfare and features a trade-off between jobs quantity and job quality. I now express it in terms of

sufficient statistics as in Vergara (2023). Recall that for each submarket  $m$  we have

$$\bar{U} = p_m u(w_m l_m, l_m) + (1 - p_m) u(B, 0)$$

$$a_m [\bar{U} - u(B, 0)] = N_m [u(w_m l_m, l_m) - u(B, 0)]$$

where  $N_m = p_m \times a_m$  is the number of workers employed in submarket  $m$ . Integrating over submarkets yields

$$[\bar{U} - u(B, 0)] \int_m a_m dm = \int_m N_m [u(w_m l_m, l_m) - u(B, 0)] dm$$

$$\bar{U} - u(B, 0) = \frac{\int_m N_m [u(w_m l_m, l_m) - u(B, 0)] dm}{G(\bar{U} - u(B, 0)) \times L}$$

where the last equation is obtained using equation 9. The denominator is simply the total number of workers participating to the labor market and the numerator is a weighted sum of utilities across submarkets whose weights are the submarkets' employment size  $N_m$ . This ratio is simply giving the average utility among active workers. To see this, observe that the last equation can be written as

$$\bar{U} - u(B, 0) = \frac{\int_m N_m dm}{G(\bar{U} - u(B, 0)) \times L} \frac{\int_m N_m [u(w_m l_m, l_m) - u(B, 0)] dm}{\int_m N_m dm}$$

$$= \mu \mathbb{E}_m [u(w_m l_m, l_m) - u(B, 0)]$$

where  $\mu$  is the employment rate and  $\mathbb{E}_m [u(w_m l_m, l_m)]$  is the average utility of a job among workers. It is straightforward to show the following result.

**Proposition 3.** *A small working time reduction<sup>50</sup>  $d(1 - \bar{l}) > 0$  has a positive impact on ex-ante welfare  $\frac{d\bar{U}}{d(1-\bar{l})} > 0$  if and only if*

$$\eta^N + \eta^u > 0$$

where  $\eta^N$  is the percentage change in employment rate due to the reform and  $\eta^u$  is the percentage change in workers' average (ex-post) utility.

Taking the total derivative of  $u(c, l)$  with respect to  $(1 - \bar{l})$  we can write the percentage

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<sup>50</sup>In order to enforce such reforms, governments must observe hours and hence contract  $(w, l)$  which contrasts with the typical assumption in public finance since Mirrlees (1971) that only income is observed. If governments observe  $(w, l)$ , why don't they use lump-sum transfers to decentralize any first-best allocation rather than using the maximum workweek? In this model, we may reconcile the second-best environment of Mirrlees (1971) with an information set that contains  $w$  and  $l$  by assuming that the government does not observe the identity of firms in a particular submarket even if it observes the contract, hence the second fundamental theorem of welfare economics may not be used.

change in utility  $\eta^u$  as a function of the percentage change in consumption and leisure:

$$\frac{du}{d(1-\bar{l})} = u'_c \frac{dc}{d(1-\bar{l})} + u'_l \frac{dl}{d(1-\bar{l})}$$

$$\eta^u = \frac{(1-\bar{l})}{u} \frac{du}{d(1-\bar{l})} = \frac{cu'_c}{u} \frac{(1-\bar{l})}{c} \frac{dc}{d(1-\bar{l})} + \frac{lu'_l}{u} \frac{(1-\bar{l})}{l} \frac{dl}{d(1-\bar{l})} = \zeta_c^u \eta^c + \zeta_l^u \eta^l$$

where  $\eta^c$  and  $\eta^l$  are the percentage change in consumption and hours worked while  $\zeta_c^u$  and  $\zeta_l^u$  are the elasticity of the utility function to consumption and hours respectively.

These sufficient statistics are strikingly simple. One can assess welfare effects of the reform simply by observing the average treatment effect of the reform on employment, earnings and leisure and postulating a cardinal utility function. In particular, it does not require to take any stance on the production side nor the extent of imperfect competition in the labor market, which is known to vary significantly across contexts and industries (Azar et al., 2022; Card et al., 2018). I note that these elasticities must be understood as macro-elasticities in the sense of Landais et al. (2018), i.e. incorporating all general equilibrium effects. The estimates derived in section 2 may be used to compute the welfare effects using these sufficient statistics. However, three caveats must be raised.

First, I must assume a cardinal utility function to derive  $\zeta_c^u$  and  $\zeta_l^u$ . Obviously, welfare assessment will be sensitive to this choice.<sup>51</sup> Second, the estimates of section 2 are ATT, not ATE. As a result, I apply the welfare analysis only on workers from treated occupations-firms. Third, despite the heterogeneity in the model and in the empirical results, only ATT, i.e. average effects are needed to compute utilitarian welfare.

Recall that the ATT are  $-2.8\%$  for daily earnings and  $-6.7\%$  for daily hours worked. Assuming away application reaction to the reform<sup>52</sup>, we estimate  $\eta^N$  to  $4.75\%$ , i.e the ATT on underground employment. One obtains that the reform improved welfare if

$$4.75\% + \frac{cu'_c}{u}(-2.8\%) + \frac{lu'_l}{u}(-6.7\%) > 0$$

Given that  $u'_l$  is negative, the last term is helping the inequality to be satisfied. A con-

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<sup>51</sup>One could have picked Boppart and Krusell (2020) utility function who show in a structural macro exercise that the functional form consistent with labor supply dynamics over the past century take the form of  $u(w, l) = w l \phi(l c^{\frac{\nu}{1-\nu}})$  with  $\phi$  a decreasing function, where  $\nu \in (0, 1)$  is such that if productivity grows by  $g$ , then hours decrease at a rate  $g^\nu$  and consumption increase at a rate  $c^{1-\nu}$ . However, 1910 mine workers were unlikely to use the preferences that lead to the decline in hours worked over the century that succeeds them.

<sup>52</sup>Observe that  $\eta^N = \frac{d\mu}{dt} \frac{\bar{l}}{\mu} = \frac{dN}{dt} \frac{\bar{l}}{N} - \frac{dA}{dt} \frac{\bar{l}}{A}$  where  $A$  is the number of applicants. Assuming the latter term to be equal to 0 pushes  $\eta^N$  upwards.

servative sufficient condition for the inequality to be satisfied is that

$$4.75\% + \frac{cu'_c}{u}(-2.8\%) > 0$$

$$\frac{cu'_c}{u} \leq 1.7$$

That the elasticity of utility to consumption is smaller than 1 is a consequence of concavity in consumption and is delivered by all standard functional forms. I conclude that this reform increased workers' welfare beyond doubt, and redistributed from firms' profits to workers' welfare.

A key question for policymakers is: would these positive effects for workers also hold today? I have argued that working time reductions are unlikely to be favorable to workers when they are able to choose their own hours because there are no utility gains from the extra leisure. Moreover, in industries where hours and jobs are more complementary, the welfare effects on employment and wages are likely to be negative. This is likely to happen when customers have a personal connection with workers, like in the service sector. Finally, monopsony power plays an ambiguous role in the desirability of working time reductions for workers' welfare. On the one hand, monopsony power leads to longer hours such that the welfare gains in leisure might be sizable. On the other hand, monopsony power may lead firms to wage cuts and negative employment effects to restore their markdowns after the reform.

## 5 Conclusion

The paper has studied theoretically and empirically the effects of working time reductions on wages, employment, profits, and welfare. The normative framework is able to study the welfare effects of any policy affecting wages, hours, and employment. The empirical application uncovered size-dependent responses to the first-ever working time reduction in Belgium: in large firms, hourly wages and employment increased, while in small firms, hourly wages decreased and there was no employment effect. We argued that the results are in contradiction with (i) workers choosing hours (ii) competitive wages and (iii) jobs and hours entering multiplicatively in production.

The policy recommendations are twofold. First, working time reductions are likely to have negative effects on workers' welfare in industries where (i) they are able to choose their hours and (ii) there is production complementarity between jobs and hours. Second, even though monopsony power leads to long hours, government-mandated hours reductions are a blunt tool to fight monopsony power which may lead to wage and em-

ployment decreases and hurt workers' welfare if it is not accompanied by wage regulations.

There are several ways in which this line of research can be extended. First, the interaction with progressive taxes is of obvious interest for public economists. Second, the characterization of optimal policy and efficiency has been left aside. Interestingly, claim (iii) implies a market failure even in perfect competition, as there is only one price (wage rates) to trade two different goods (hours and jobs), which leaves room for Pareto-improving reforms. Third, the model can be amended to allow for heterogeneous preferences for leisure, which would be relevant to discuss the desirability of gendered holidays or retirement policies. Fourth, the (counter)cyclical of working time regulations could be interesting to relate to the literature on short-time work (Giupponi & Landais, 2023). Fifth, there may be macro implications for the aggregation of labor inputs in the neoclassical production function (Baqae & Farhi, 2019; Feldstein, 1967) or the decomposition of the fall in hours over the course of devolvement (Boppart & Krusell, 2020; Pencavel, 2016) from preferences, market power and technology factors.

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## A Empirical appendix

### A.1 Data collection

### A.2 Construction of variables

#### A.2.1 Hours worked

The panel dataset contains information on three occupations : frontline underground workers, non-frontline underground workers as well as above-ground workers. However, the 1902 cross-sectional dataset on hours worked contains information on 9 underground occupations : frontline workers, first transport workers, dirt diggers, stone diggers, second transport workers, path-makers, horseman, backfillers, and lift keepers.

I assign frontline workers' hours to the panel frontline workers. For non-frontline underground workers, I assign them a weighted average of the cross-sectional occupations. The weights are chosen such that the resulting probability distribution of hours worked in the matched dataset is reasonably close to an exact aggregate distribution of hours worked retrieved from Parliamentary Commission ([1908](#)). The Mining Administration computed that aggregate distribution for hours worked on November 29, 1907, which I report in panel (b) of Figure 2 along with the implied distribution of my dataset in panel (a).

Despite the fact that cross-sectional information on hours worked underlying panel (a) were collected in 1900, we observe a strikingly close implied distribution of hours in 1907 to the one . The average hours worked in panel (a) is 9.73 while it is 9.81 in panel (b). Crucially, the proportion of workers working more than 9 hours is 82.22% in panel (a) and 82.76% in panel (b). The mode of both distribution is the interval [9.75,10].

Although both distribution are close, they differ notably at extreme values (which is the consequence of taking a weighted average of occupations). With respect to observations below 9 hours, this has no consequences for our estimations because the intensity of hours do not matter in the control group. With respect to hours worked above 10 hours, this could be affecting the results for continuous treatment specifications. However, the green distribution is on a yearly basis while the blue distribution is specific to a given date. The Mining Administration notes while providing the blue distribution that *[t]he chosen day is the Friday of the week preceding the feast of Saint Barbara; it is one of the days of the year when the number of workers is highest and daily production reaches its peak.* (page v., Parliamentary Commission ([1908](#))). Both remarks suggest that the hours worked in the matched dataset can be trusted.

(a) A report for the mine *Carabinier-Pont du Loup* in 1903.

PROVINCE et ARRONDISSEMENT MINIER	NOMS et SITUATION DES MINES.	NOMBRE DE JOURS D'EXTRACTION		Production totale en tonnes NETTO	Nombre total de mètres carrés exploités. *	Production par mètre Carré exploité. **	Puissance moyenne par couche exploitée. ***		PRODUCTION ANNUELLE BRUTE et nette.		
		MOYEN PAR SIÈGE	TOTAL PAR MINE.				Par ouvrier x heure	Par ouvrier x heure	Par ouvrier de l'intérieur	Par ouvrier de la surface réduite	
							TONNAGE NETTOIES	TONNAGE NETTO	TONNAGE NETTO	TONNAGE NETTO	
Province de Hainaut	1 Nouveaux Etangs à Hartmann et Harchimont à Roncenne à Sars-la-Buissière	1786	293	654.600	110.500	5.92	68	974	2.388	180	
-	2 Ferme Eauille à Andenne le Bellon	289	293	26.840	59.000	0.58	37	167	143	111	
Arrondissement	3 Grand Bois à Spincourt à Gosselies	579	296	198.570	223.000	0.88	65	1294	424	195	
-	4 Coteau de Jemeppe à Jemeppe	289	293	224.950	202.250	1.11	82	1380	319	213	
-	5 Amescourt à Jemeppe	301	307	274.980	302.500	0.91	67	1239	475	153	
-	6 Bayonvillers à Harchenne	282	292	133.300	109.300	0.78	52	102	172	121	
-	7 Sacré-Cœur à Tamponnage	160	295	300.000	307.600	0.98	72	1091	213	168	
-	8 Rame et Durbais à Roncq	375	298	203.370	200.500	1.01	75	1453	350	229	
-	9 Charleroi à Charleroi	205	291	605.500	634.000	0.89	66	1021	257	160	
-	10 Havinelle Nord à Havinelle	114	297	370.700	385.200	0.96	71	1091	205	133	
-	11 Bris du Coq et Baracouille et la Fosse à Baracouille	240	296	125.150	126.600	0.99	73	1356	333	173	
<i>Total et moyennes</i>		290	292	3.117.720	3.387.500	0.920	68	1056	232	168	
<i>Charleroi</i>		290	292	1.117.720	1.387.500	0.920	68	1056	232	168	

(b) A slice of the panel dataset which shows some outcomes for the 4th arrondissement in the province of Hainaut in 1913.

Figure A.1: Pictures of the data collection

### A.2.2 Profits

I construct profits as the difference between total revenue and total expenses. Total revenue is computed as the sum of sales and the change in stock of coal evaluated at the firm's market price. The variable is expressed in real terms by deflating with the price of output, such that profits are measured in tons of coal.

### A.2.3 Earnings

In the occupation-level dataset, I define daily earnings in efficiency units as follows. To obtain a real measure of wages, I deflate the daily gross wage by the output price. To convert it in efficiency units, I divide the real wage by the average daily production of a worker.

$$wl_{o,j,t}^E = \frac{\text{Daily net wage in current BEF}_{o,j,t}}{\frac{\text{Sales price in current BEF}_{j,t}}{\frac{\text{Yearly production per person}_{o,j,t}}{\text{Average days worked per worker in year}_{j,t}}}}$$

All wage results reported in the paper use net earnings. Although there was no labor income taxation at the time, a worker could see a gap between his wage and take-home pay because of firm-organized policies such as fines for misconduct or employer-provided amenities (housing, life insurance). As shown in the main text, firm-organized withholding did not react to the reform.

### A.2.4 TFP

TFP is used as control variable in various regressions. To measure it, I assume a Cobb-Douglas production function and take the log to obtain a regression equation of the form

$$\ln q_{j,t} = \beta_1 \ln L_{j,t} + \beta_2 \ln M_{j,t} + \ln \psi_{j,t} \quad (\text{A.1})$$

where  $q_{j,t}$  is the output in tons of coal and  $L_{j,t}$  and  $M_{j,t}$  are labor and non-labor expenditures, respectively and  $\psi_{j,t}$  is unobserved TFP. Estimating this equation with OLS leads to bias estimates because unobserved productivity shocks are positively correlated with observed input choices, the well known simultaneity bias.

The typical way to overcome this identification challenge is to rely on the control function approach since Levinsohn and Petrin (2003) and Olley and Pakes (1996). Delabastita and Rubens (2025) estimate production functions of Belgian coal mines in that

spirit. I pinpoint two differences with their estimation. First, the present paper has a much smaller set of years but a larger number of firms. Second and related, the present paper does not have information on capital. As a result, these methods may not be used.

I assume that  $\ln \psi_{j,t}$  is a Markov process of order 1 with productivity shocks  $\epsilon_{j,t}$ . I consider the following moment restriction:

$$E[\epsilon_{j,t} | \ln L_{j,t-1}, \ln M_{j,t-1}] = 0$$

This moment restriction allows us to retrieve  $\beta_1$  and  $\beta_2$  by GMM estimation. The results are reported below.

Outcome	$\ln \text{production}_{j,t}$	$\ln \text{production}_{j,t}$	$\ln \text{production}_{j,t}$
$\ln \text{labor expenses } \beta_1$	0.745 (0.026)	<b>0.654 (0.052)</b>	0.661 (0.041)
$\ln \text{nonlabor expenses } \beta_2$	-0.070 (0.021)	<b>0.315 (0.050)</b>	0.237 (0.080)
$\ln \text{capital}$	n/a	n/a	0.102 (0.088)
Serial corr $\ln \psi_{j,t}$ if AR(1)	0.967 (0.008)	0.879 (0.018)	0.853 (0.157)
Years covered	1903-1913	1903-1913	1845-1913
Firms covered	Near universe	Near universe	Liège, Namur
Method	OLS (biased)	GMM (own)	Delabastita and Rubens (2025)

Table A.1: Production function estimation

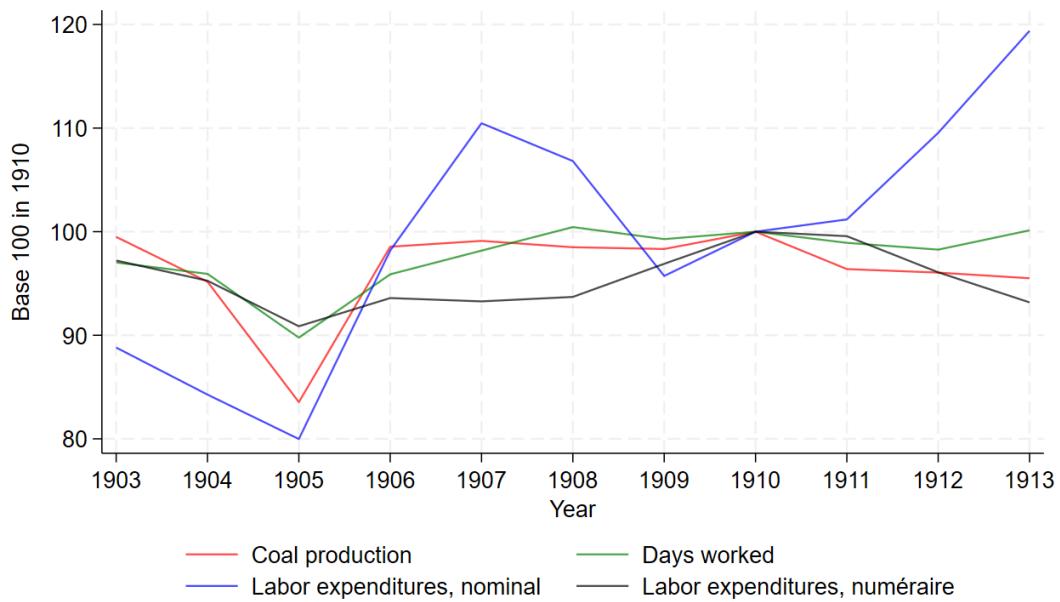
Despite differences in samples and in methodology, the estimates obtained by the GMM approach in the present paper are remarkably similar to those of Delabastita and Rubens (2025) both in their magnitudes and in their precision. The present paper computes  $\psi_{j,t}$  for each firm-year cell by predicting equation A.1 using the GMM estimated  $\hat{\beta}_1, \hat{\beta}_2$ . The use of lags implies that TFP cannot be estimated for 1903 such that the main results only show 1904-1913. For firms with positive production in year  $t > 1903$  but zero production in  $t - 1$ , I set the value of  $\psi_{j,t}$  equal to the one of  $\psi_{j,t+1}$ .

### A.3 Additional empirical context

Figure complements Figure 1 from the main text. It shows how aggregate variables evolves over the business cycle. Here as well, we see no downward wage rigidity both in nominal and real terms.

Table A.2 reports summary statistics for this cross-sectional data on hours worked by geological region.

Figure A.2: Descriptive statistics of Belgian coal mines over the business cycle, 1903-1913.



Notes: Evolution of the aggregates for selected outcomes. Base year is set to 100 in 1910. Coal production is measured in tons of coal while total days worked include all occupations within the firm. The blue lines are expressed in nominal currency. The black lines are expressed in units of numéraire by dividing by the price of output.

Figure A.3: Profits in tons of coal over the business cycle for the average firm and the industry



<b>Hours</b>	<b>Mons</b>	<b>Centre</b>	<b>Charleroi</b>	<b>Namur</b>	<b>Liège</b>	<b>Total</b>
(7.5, 9]	2	2	0	5	30	39
(9, 9.5]	2	0	4	1	9	16
(9.5, 10)	1	0	0	0	2	3
[10, 12]	13	8	31	5	4	61
<b>Total</b>	<b>18</b>	<b>10</b>	<b>35</b>	<b>11</b>	<b>40</b>	<b>114</b>

Table A.2: Firm-level average daily hours worked for frontline workers before the reform, by geological region.

Table A.3: Unbalanced sample selection

Year	Matched	Population	Share of Covered (%)	
			Output	Days Worked
1903	114	124	99.51	99.33
1904	113	122	99.24	98.98
1905	112	121	99.26	98.74
1906	111	122	98.70	98.53
1907	111	125	98.37	98.11
1908	111	126	98.30	98.23
1909	111	125	98.16	98.03
1910	110	129	97.73	97.47
1911	110	132	97.44	97.12
1912	109	132	96.95	96.57
1913	108	132	96.86	96.17

Notes: unblanced sample with information on hours worked versus the total number of firms in the country (*Population*) by year. The last three columns report the share of total output and days worked captured by the matched sample.

Table A.4: Balanced sample selection

Year	Balanced sample	Population	Share of Covered (%)	
			Output	Days Worked
1903	99	124	86.80	86.68
1904	99	122	86.65	86.16
1905	99	121	86.63	86.12
1906	99	122	86.39	85.88
1907	99	125	87.05	86.09
1908	99	126	86.82	86.46
1909	99	125	86.89	86.66
1910	99	129	86.26	86.13
1911	99	132	86.07	85.99
1912	99	132	85.57	85.56
1913	99	132	85.74	85.33

Notes: balanced sample with information on hours worked versus the total number of firms in the country (*Population*) by year. The last three columns report the share of total output and days worked captured by the matched sample.

Year	Merger or acquisition		Exits	
	Treated	Control	Treated	Control
1903				
1904		1		1
1905	1			
1906	1			
1907				
1908				
1909			1	
1910	1			
1911			1	1
1912	1	1		
1913		1		

Table A.5: Count of mergers & acquisitions and firm exits per year. A firm exit is defined as a zero coal production in the calendar year. Control or treatment status is counted on the consolidated entity after merger or acquisition.

Observe that there are 7 events of mergers and acquisitions in Table A.5 while there are only 6 firms less in 1913 than in 1903 in Table A.3. This comes from the fact that one firm, *Charbonnages de Haine Saint Pierre, La Hestre et Houssu*, was divided in 2 parts merged with two different firms in 1912: the *Houssu* merged with *Ressaix* while the *Haine-Saint-Pierre et La Hestre* merged with *Mariemont*.

Table A.6: Summary statistics for control and treated units ( $o, j$ ) in 1903-1909.

	Control units	Treated units
<i>Profits, units of numéraire</i>	8,999.66 (24,673.12)	9,256.57 (25,309.15)
<i>TFP</i>	1.111 (0.190)	1.093 (0.130)
<b><i>Labor share</i></b>	<b>0.602</b> (0.050)	<b>0.598</b> (0.043)
<b><i>Total days worked</i></b>	<b>327,758</b> (302,805)	<b>403,856</b> (272,987)
<b><i>Headcount employment</i></b>	<b>1,094</b> (1,011)	<b>1,353</b> (908)
<b><i>Share underground employment</i></b>	<b>0.751</b> (0.059)	<b>0.727</b> (0.055)
<b><i>Share frontline among underground</i></b>	<b>0.267</b> (0.098)	<b>0.244</b> (0.044)
<b><i>Share of self-consumed production</i></b>	<b>0.083</b> (0.052)	<b>0.099</b> (0.044)
<i>Yearly days worked per worker</i>	298.31 (9.98)	298.08 (6.90)
<i>Daily product per worker, tons</i>	0.586 (0.147)	0.582 (0.106)
<i>Output, tons per m<sup>2</sup></i>	0.885 (0.193)	0.904 (0.167)
<i>Average power of coal veins, meter</i>	0.662 (0.143)	0.684 (0.132)
<i>Yearly product per frontline miner, tons</i>	809.83 (418.40)	1,027.96 (310.28)
<b><i>Output price, current BEF</i></b>	<b>14.56</b> (1.87)	<b>15.00</b> (1.56)
<b><i>Investment-to-sales ratio</i></b>	<b>0.102</b> (0.051)	<b>0.110</b> (0.051)
<i>h_reduction<sub>j</sub></i>	<b>0.00</b> (0.00)	<b>1.02</b> (0.44)
<b>Observations</b>	148	149

Notes: This table reports treated and control group average for selected variables with standard deviations in parentheses. A row  $x$  is in bold if the p-value of the t-test  $H_0 : x_{\text{treated}} = x_{\text{control}}$  is smaller than 5%.

## A.4 Additional empirical results

### A.4.1 Firm-level outcomes

**Employment** Results for regression 1 for several employment outcomes are reported in Figure A.4. In panel (a), we report mildly positive effects : a 1% mandated reduction in a firm's volume of hours increases total days worked by 2484 units in 1912 (p-value 4.3%) in the red specification, while the other estimates cannot be distinguished from zero. To understand the magnitude of this effect, given the 9.06% average reduction in hours volume among treated firms, this effect corresponds to a  $\frac{9.06 \times (2484)}{391,174} = 5.75\%$  increase in employment relative to treated firms' pre-treatment average. Panel (b) suggest that this effect comes almost entirely from an increase in headcount employment. Indeed, panel (b) suggests that a 1% mandated reduction in a firm's hours volume increases employment by 5 jobs in 1911-1913. The main text Figure 4 showed that all of these jobs are underground. This suggests that firms reacted to the reform by hiring underground workers (affected by the reform) without changing the number of above-ground workers (not affected by the reform). The estimated ATT is  $\frac{5 \times 9.06}{1309} = 3.4\%$  for overall employment and  $\frac{5 \times 9.06}{954} = 4.75\%$  for underground employment.

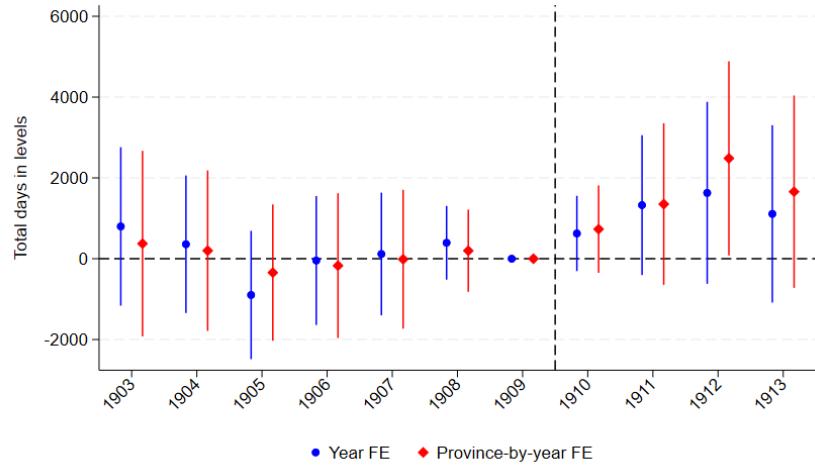
I report the results for the regression equation 1 when the dependent variable is the firm's output price in Figure A.6 while Figure A.6 shows the output quantity. Panel (a) shows the outcome in levels while panel (b) shows the same outcome in logs.

We can see that the reform has barely any effect on output prices: the point estimates are close to 0 and relatively precisely estimated. We also obtained a zero effect on output quantities, although this effect is much less precisely estimated.

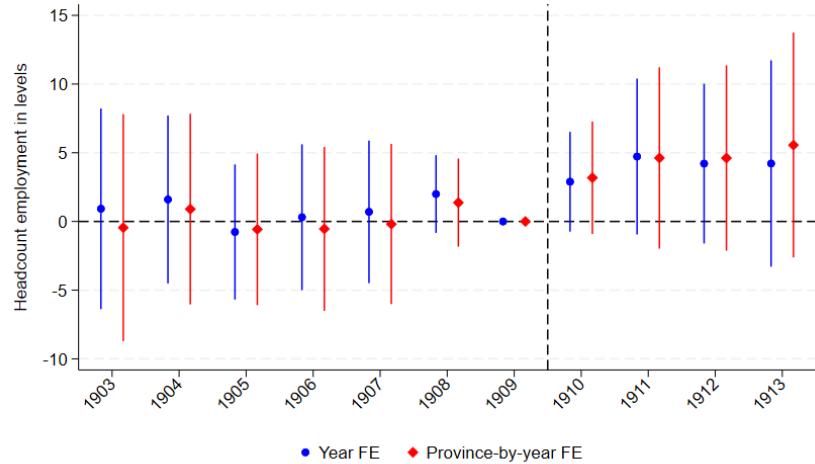
In terms of firms' investment and capital, the only information in the dataset are digging expenditures. I report in Figure A.7 the results of regression 1 for digging investments in units of numéraire. We observe no discernable effect of the reform on this outcome.

### A.4.2 Occupation-level employment

Figure A.4:  $\beta_k$  in regression (1) of various employment outcomes in levels.



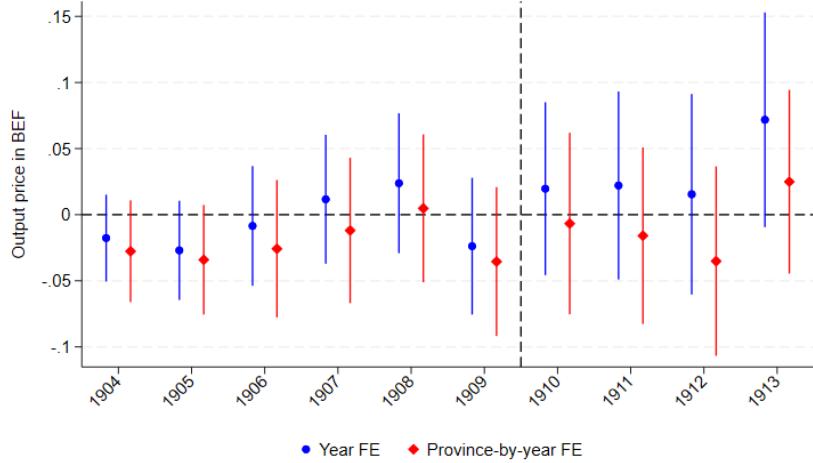
(a) Total days worked over the year. P-values are 0.43 (blue) and 0.97 (red) while within R-squared are 0.008 and 0.012 respectively.



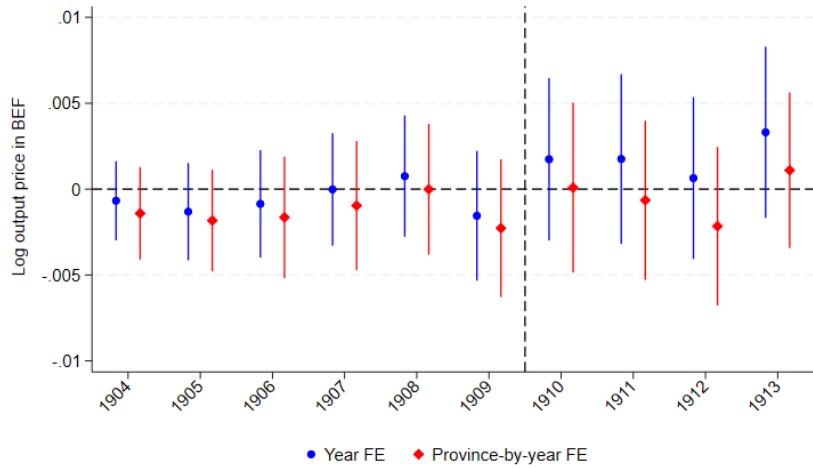
(b) Headcount employment. P-values are 0.51 (blue) and 0.82 (red) while within R-squared are 0.005 and 0.008 respectively.

Notes : standard errors are reported at the 95% confidence level. Controls  $X_{j,t}$  are empty. I report the p-value for testing  $H_0 : \beta_k = 0 \forall k < 1909$  for the blue and red regressions, respectively as well as the within R-squared.

Figure A.5:  $\beta_k$  in regression (1) of output price



(a) In levels. P-values for  $H_0$  are 0.41 (blue) and 0.44 (red) while within R-squared are 0.11 and 0.12 respectively.



(b) In logs. P-values for  $H_0$  are 0.77 (blue) and 0.66 (red) while within R-squared are 0.13 and 0.14 respectively.

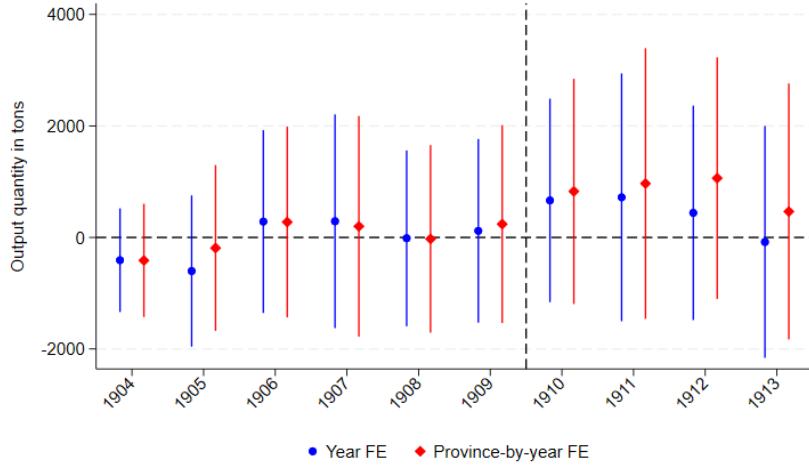
Notes : standard errors are reported at the 95% confidence level. Controls  $X_{j,t}$  include only TFP. I report the p-value for testing  $H_0 : \beta_k = 0 \forall k < 1909$  for the blue and red regressions, respectively as well as the within R-squared.

## B Theory Appendix

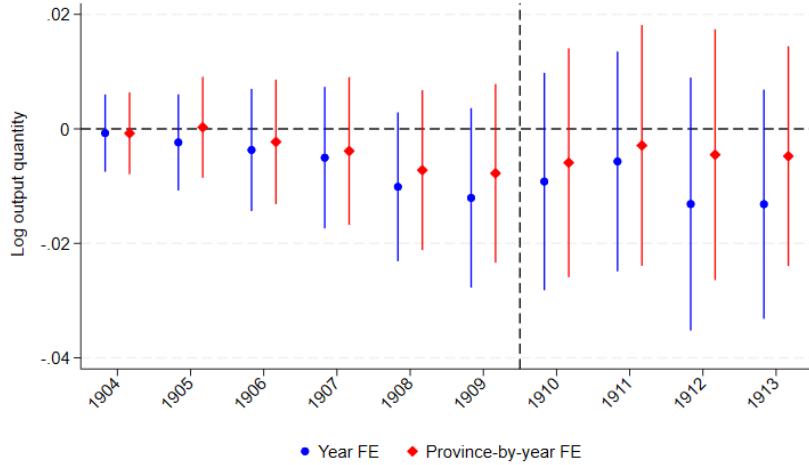
### B.1 Wage effects in control submarkets

Consistent with qualitative evidence, I assume that control firms do not modify schedules after the reform. Consider firms active in submarkets when  $l_m < 9 = \bar{l}$ . As explained in the main text, the only effect of the reform on control firms is a perturbation of their applications, which are shifted to treated submarkets all else being equal. Taking the

Figure A.6:  $\beta_k$  in regression (1) of output quantity



(a) In levels. P-values for  $H_0$  are 0.38 (blue) and 0.60 (red) while within R-squared are 0.01 and 0.01 respectively.



(b) In logs. P-values for  $H_0$  are 0.38 (blue) and 0.81 (red) while within R-squared are 0.02 and 0.01 respectively.

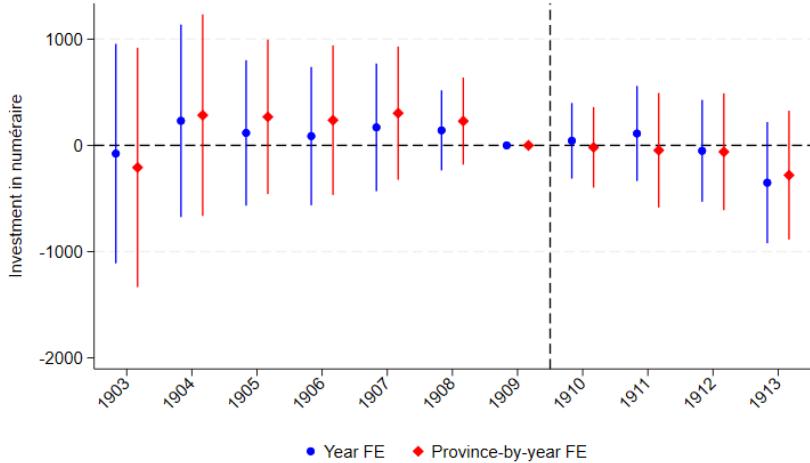
Notes : standard errors are reported at the 95% confidence level. Controls  $X_{j,t}$  are empty. I report the p-value for testing  $H_0 : \beta_k = 0 \forall k < 1909$  for the blue and red regressions, respectively as well as the within R-squared.

total derivative of the vacancies' first-order condition equation 4, one gets

$$\frac{d\theta}{d(1-\bar{l})} \left( \psi F'_N - wl + N^j \psi F''_N \right) \frac{\partial q}{\partial \theta} = dv^j \left( -\tilde{q}^2 \psi F''_N + k''(v^j) \right) + dw \left( -\tilde{q}'_w N^j \psi_j F''_N \right)$$

where I use the fact that equation 5 holds with equality to simplify the factor multiplying  $dw$ . The left handside describes workers' reactions to the reform which occurs through equilibrium tightnesses, while the right handside governs how firms' decisions variables should react to the reform. Because the within-firm covariance between vacancies and wages is positive,  $dv^j$  and  $dw$  must have the same sign.

Figure A.7:  $\beta_k$  in regression 1 for digging investment in units of numéraire



Notes : standard errors are reported at the 95% confidence level. Controls  $X_{j,t}$  are empty. The p-value for testing  $H_0 : \beta_k = 0 \forall k < 1909$  is 80.91% in the red regression and 93.63% in the blue regression, while the within R-squared are 0.0051 and 0.0032, respectively.

To fix ideas, imagine that the reform implies that workers redirect applications from control submarkets to treated submarkets such that the tightness in control submarkets increases  $\frac{d\theta}{d(1-l)} > 0$ . This has a positive effect on equilibrium wages  $dw$  if  $\psi(F'_N + N^j F''_N) - wl \leq 0$ . Using the markdown equation to substitute out for  $wl$ , one gets that this condition is equivalent to

$$\begin{aligned} \frac{N^j F''_N}{F'_N} &\leq -\frac{1}{1 + \epsilon^w} \\ -N^j \psi F''_N &\geq \psi F'_N - wl \end{aligned}$$

In other words, when this exodus of workers increases the marginal product of a job by a amount larger than the wage markdown, firms will increase hourly wage in control submarkets. This is more likely to happen when  $\epsilon^w$  is large and the wage markdown is small, or when the production function is sufficiently concave in  $N$ . Recall that one can find firms of any sizes  $N_m^j$  in these control submarkets which must have the same marginal product of job i.e.  $\psi_j > \psi_k$  implies that  $N^j > N^k$ . The wage effect can differ between these two firms, even if they were in the same submarket initially, because the ratio  $\frac{N^j F''_N}{F'_N}$  changes with  $N$ .

**Proposition 4.** *If the reform shifts workers' applications from control to treated submarkets, the wage effects of a working time reduction in a given **control** submarket  $m$  for firm*

$j$  for which  $\frac{d\theta}{d(1-l)} > 0$  are

$$\text{If } \frac{1}{1+\epsilon^w} \leq \frac{-N^j F_N''}{F_N'} \implies dw \geq 0$$

$$\text{If } \frac{1}{1+\epsilon^w} \geq \frac{-N^j F_N''}{F_N'} \implies dw \leq 0$$

Now, our reduced form estimates are  $ATT_w = \mathbb{E}_{j \text{ treated}}[dw| \text{ is treated}] - \mathbb{E}_{j \text{ control}}[dw| \text{ is control}]$ . Consider two firms of equal size  $N_j = N_k$  but  $j$  is active in a treated submarket and  $k$  is active in a control submarket.

**Workers' reactions** When the government reduces working time of long hours contracts  $d(1-\bar{l}) > 0$ , workers will react along two channels. First, ex-ante utility is affected in each submarket.

$$\frac{d\bar{U}}{d(1-\bar{l})} = \frac{\partial p_m}{\partial \theta_m} \frac{d\theta_m}{d(1-\bar{l})} u(w_m l_m, l_m) + p_m \frac{du(w_m l_m, l_m)}{d(1-\bar{l})}$$

In 'treated' submarkets where hours were long and the reform is binding, the second term is positive: the reform increases leisure which is unambiguously good for a fixed wage rate. Because ex-post utility increases in these submarkets, more workers apply to them. This effect is captured by the first term, which is negative: job quality has increased at the cost of job-finding probability.

In 'control' submarkets where hours were below the threshold, the second term of this equation cannot be signed, yet the first term is positive: the exodus of workers towards treated submarkets increases the probability of finding a job in control submarkets.

Second, the extensive margin reaction in equation 9 in equation implies that some workers will join the labor market when  $d\bar{U}/d(1-\bar{l}) > 0$ . However, this effect is scaled by  $g(\bar{U} - u(B, 0))$ , i.e. the mass of agents being indifferent between working in the mines and the outside option. Our empirical setting is unable to identify that quantity, but we may assume it is small given that an industry-specific regulation should have moderate aggregate effects.

## B.2 Numerical simulation

The numerical simulation reported in Figure 8 assumes that all firms have the same CES production technology. First, let us take the total derivative of equation 4 in the case of

treated submarkets.

$$\frac{dw}{w} + \gamma_v dv = \frac{1}{l} \frac{dl}{d(1-\bar{l})} \left[ \frac{\beta l^\rho}{\alpha N^\rho} \frac{\epsilon^w}{1+\epsilon^w} - 1 + \frac{1}{\epsilon^w} \frac{\rho}{1-\rho} \right]$$

This tells us that the term between brackets determines the sign of the wage effect. In main text Figure 8, I plot the regions where  $dw > 0$  in red and the regions  $dw < 0$  in blue in the space  $(\rho, N)$ . This is achieved by determining the sign of the bracketed term when one assumes some values for  $\alpha, \beta$  and  $\epsilon^w$ .

Rather than plotting all the points in the  $(\rho, N)$  space, I restrict my attention to those that are compatible with workers calling for a working time reduction  $\hat{q}'_l < 0$ . This is achieved by using Proposition 1.