Working time reductions and monopsony power

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September 9, 2025

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 9h workday in 1910's coal mines. I find that the policy had sizable yet short-lived negative effects on firms' profits. Hourly wages decrease in small firms but increase in large firms while employment gains are concentrated in large firms. I argue that these results contradicts three standard tenets of labor models: (i) neoclassical labor supply theory (ii) perfect competition in the labor market and (iii) jobs and hours entering multiplicatively in production. I rationalize these results in a directed search model where firms with heterogeneous TFP post hours, vacancies and wages internalizing matching frictions and workers' leisure preferences. When hours are reduced, monopsony power induces a downward pressure on hourly wages for any firm size, but imperfect substitution between jobs and hours pushes up hourly wages in large firms. Welfare analysis with sufficient statistics suggests that the 1910 reform unambiguously 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 hours regulations remain binding, important, and highly heterogeneous across countries. For instance, in France minimal paid time off was set at two weeks in 1936 and amounts to five weeks today, while the United States do not have any nationwide mandate on vacations.

This paper studies the consequences of working time reductions for wages and welfare in general equilibrium. 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-hours workweek in 2000 was voted along compensatory payroll tax cut (Chemin & Wasmer, 2009) while 1930s US workweek restrictions were accompanied with wage floors (Costa, 2000; Fishback et al., 2024). Second, their national scope typically makes it hard to identify a control group.

By contrast, I study the Belgian 1910 law that imposed a maximum 9h workday in the coal mine industry. Because this policy was among the first labor regulation 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 variation both across firms and within-firm across occupations.

I collected qualitative and quantitative evidence to assess the effects of this reform. 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. 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 average, 82% of underground workers were treated by the reform and reduced their daily schedule by 10% on average.

At the firm level, I compare 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 hours for jobs: the reform increased treated firms' headcount employment by 45 jobs (3.4%) on average. Heterogeneity analyses suggest that all of this employment effect originates from an increase in underground jobs in relatively large firms.

To assess wage effects, I leverage variation in the mandated daily hours reduction across occupations. I estimate that the reform reduced daily earnings by 2.8% on average with an implied elasticity of daily earnings to a 1% mandated reduction of daily hours amounting to -0.28. Because earnings decrease less than hours worked, hourly wages must have increased. 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 third of the firm size distribution.

The second part of the paper argues that three standard assumptions of labor models are rejected 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.

Second, in a perfectly competitive labor market, hourly wages are equal to the marginal product of an hour and decreasing returns per hour implies 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 the profit loss due to the reform by cutting hourly wages. Hence, the wage effect of the same working time reduction has opposite sign depending on the competition structure of the labor market.

Third, when hours and jobs enter multiplicatively in production as in the lump of labor theory, the effect of a working time reduction on hourly wages should be 0. Indeed, in such case both firms and workers are indifferent between a marginal decrease in hours and a marginal hire in equilibrium. Hence, a working time reduction by 1% increases labor supply by 1%, which has no impact on firm's production and labor expenditures, such that hourly wages are constant. This is rejected by our reduced-form findings: the lump theory of labor cannot rationalize hourly wages reacting to the reform.

Based on these claims, the last part of the paper builds a directed search model à la Eeckhout and Kircher (2010a) and Moen (1997) where (i) firms post hours, (ii) monopsony power is endogenous and (iii) firms use both hours and jobs to produce which may be imperfectly substitutable. Workers' leisure-consumption trade-off governs their participation and application behavior which is internalized by firms when they post 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. I derive two central analytical results.

First, I pin down the determinants of long hours. One the one hand, technology matters: workers consider that contracts display too long hours as soon as the output elasticity of hours dominating the output elasticity of jobs. 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 plays a role: a large markdown on earnings is achieved by setting both long hours and low hourly wages.

Second, I characterize the determinants of the hourly wage effect of a working time reduction. Interestingly, even if two firms offer the same contract and enjoy the same monopsony power, wage effects might be of opposite sign depending on their size and the substitutability between jobs and hours in production. I show analytically that one can rationalize the empirical reduced-form findings by a CES production where jobs and hours are weakly substitutable inputs. Numerical simulations define the ranges of monopsony power and elasticity of input substitution that are consistent with reduced-form findings.

Finally, the directed search model is useful to assess the net welfare effects of the reform. Given the adverse effects on some hourly wages 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[1] and show that all reasonable utility functions 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, the labor market is more competitive, and jobs and hours are more complementary in production.

Overall, the paper makes two sets of contributions. On the positive side, the paper models the codetermination of wages, employment and hours worked in imperfectly competitive settings while showing that the effects of hours regulations depend on (i) who controls schedules, (ii) who sets hourly wages and (iii) firm size and the labor production technology. On the normative side, the paper derives sufficient statistics for welfare evaluation of any policy affecting wages, hours and employment in a general equilibrium environment with heterogeneity, matching frictions and imperfect competition in the labor market.

Section 2 discusses the relationship with the literature. Section 3 presents a reduced-form empirical evaluation of the Belgian coal mines 1910 maximum workday. Section 4 presents toy models without employment which contrast the effect of working time reductions on marginal utility and wage rates depending on who sets hours and wages and discuss claims (i) and (ii). Section 5 introduces the directed search model with employment, discusses claim (iii), describes analytically the determinants of long hours and wage effects of hours regulation, and quantifies welfare effects. Section 6 concludes.

2 Literature

Canonical labor models This paper merges two standard models in labor economics. On the one hand, leisure-consumption trade-offs determines labor market equilibrium like in Rosen (1974, 1986)'s hedonic theory of wages. On the other hand, the model features directed search and competitive search equilibrium[2]. 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. The present paper adds working time and hedonic wages to Vergara (2023) who studied minimum wages in a competitive search equilibrium. As a result, labor supply is not derived from utility-maximization but from profit maximization under a utility constraint.

[1]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).

[2]Key references include Acemoglu and Shimer (1999), Eeckhout and Kircher (2010a, 2018), Guerrieri et al. (2010), Kircher (2009), Moen (1997), Vergara (2023), and Wright et al. (2021)

Working time regulations Gethin and Saez (2025) provide descriptive facts on working hours over time across the globe while descriptive facts on vacations can be found in Altonji and Oldham (2003) and Altonji and Usui (2007). Marimon and Zilibotti (2000) and Rocheteau (2002)[3] considered that a working time reduction is desirable if it reduces unemployment. In the present paper, social welfare encompasses the tradeoff between jobs' quality and jobs' quantity. Carry (2023) studied a unique minimum workweek policy in France and builds a model with quasilinear utilities and random search. All of these papers model wage-hour determination as the outcome of bargaining while the present model has contract posting which features two advantages. First, it allows to escape the assumption that bargaining power is invariant to policy changes, which seems implausible in the present context. Second, posting has been found more relevant than bargaining empirically for low-wage jobs (Caldwell & Harmon, 2019; Hall & Krueger, 2012; Lachowska et al., 2022).

Importantly, Fishback et al. (2024) studied the effect of the introduction of the maximum workweek in the US during the Great Depression which was accompanied with wage and earnings floors. There are several important differences with the current paper. First, the policy in the US was motivated by work-sharing arguments in a acute recession where unemployment was plaguing the economy. This is not the case in the Belgian 1910 context: the business cycle was neither booming nor recessionary. Second, they study a perfectly competitive labor markets with voluntary unemployment, while we allow for the possibility of monopsony power and involuntary unemployment.

Hours and employment Empirical studies found conflicting effects of wage and hours regulations. Some papers documented that increases in minimum wages lead to decreases in hours worked (Di Nola et al., 2023; Gandhi & Ruffini, 2022; Jardim et al., 2022; Kim et al., 2023) but Vergara (2023) finds no effect. Most minimum wage studies finds no effect on employment (Cengiz et al., 2019; Dube & Zipperer, 2024; Manning, 2021). Gravoueille (2023) showed that an increase in low-earners wage subsidies led to an increase in hours worked but a decrease in wage rates. Carry (2023) finds that low-hours contract restrictions led to a decrease of low-hour jobs at the extensive margin and an increase in the intensive margin of full-time jobs. The present paper provides a unifying theory for such results. Its key elements are the degree of monopsony power as well as the production complementarity between jobs and hours.

[3] Other related papers include Fagnart et al. (2023), Lang and Majumdar (2004), Osuna and Rıos-Rull (2003), and Willington and Navarro (2015).

Amenities The literature has focused on positive questions[4] such as the relationship of amenities to earnings and productivity (Mas & Pallais, 2017, 2020; Ouimet & Tate, 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 such that the present paper complements this literature. A notable exception is Nekoei (2023) who suggests that mandating amenities can improve efficiency if there is adverse selection à la Akerlof. Yet, in Nekoei (2023) amenities do not have productive value for the firm per se, contrary to hours worked in the present paper.

3 Reduced-form policy evaluation

3.1 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 (Philips & Buyst, 2020).

The policy under study is the first major piece of labor regulation affecting prime-age males in the country.[5] 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.[6] Compared 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).

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.[7] Importantly, the law did not regulate

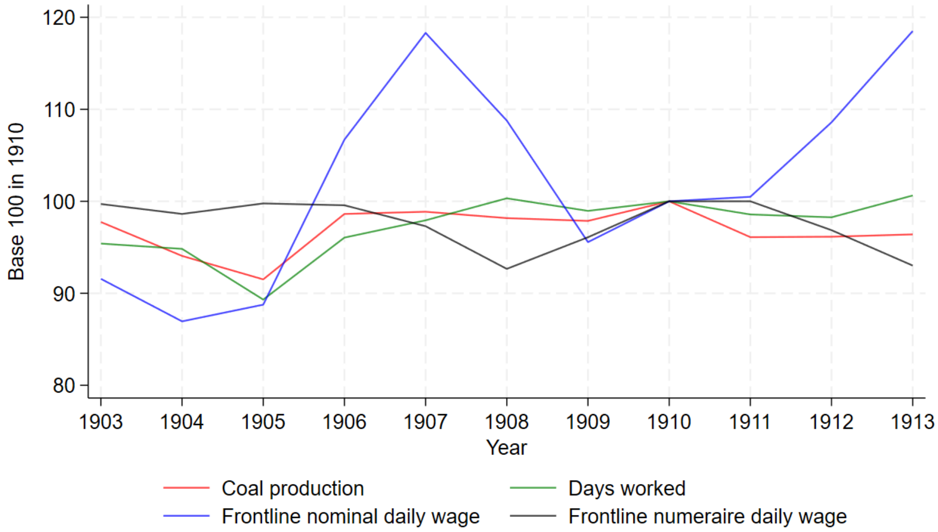
[4] See Lavetti (2023) for a recent review.

[5] 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 refrom 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).

[6] 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).

[7] 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.

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 schedules of above-ground workers.[8] Before this, there was no regulations on daily schedules.

Two institutional features are woth 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 cyclicality both in nominal and real terms for the average firm.[9]

3.2 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, 1903). Second, coal mines were important to the state for indus-

[8]In 1909, the cross-sectional average share of workers underground was 73.1%. Exceptions to the 9h 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.

[9]Appendix Figure A.2 shows that this also holds for the aggregate variables.

trial, political, social, and economic factors. More than 120,000 workers[10] were directly employed in coal mining while 37% of GDP was produced by the manufacturing sector (Buyst et al., 1995). Third, as all mineral resources belonged to the state but were leased for private exploitation[11], 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[12] 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[13], 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 dataset does not contain information on daily working time.

Yet, as one of the first piece of labor legislation, this reform was highly controversial in parliament[14] which initiated a parliamentary commission. This commission produced over 3000 pages of documents and requested information on daily hours worked to the

[10]This corresponds to 11% of the industrial labor force of the country.

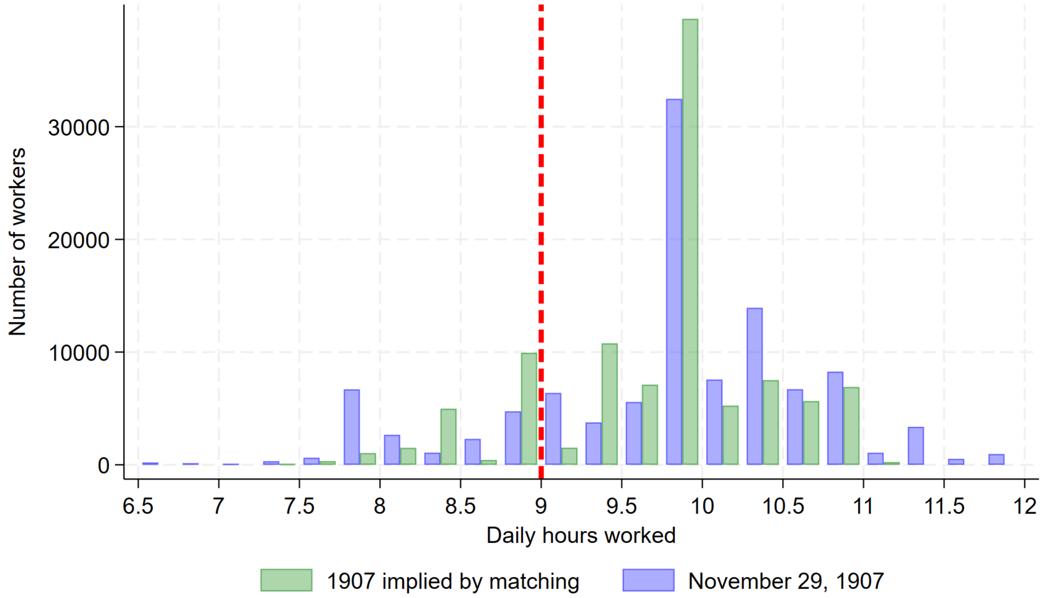
[11]This tradition was inherited from the French domination of Belgium rather than the Dutch domination. The Imperial Law of April 21, 1810 promulgated by Napoleon set the basis for such leasing on minerals and served as backbone of Belgian legislation on mining. By contrast, in 1900 the Dutch government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

[12]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.

[13]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.

[14]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.

Figure 2: Validation of hours worked variable



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).

Mining Administration. The latter collected occupation-level hours worked in August 1900 and published the data in parliamentary proceedings 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 worked 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.[15] 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.

[15]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.

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 merger, 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 this deviation was recorded and reported to the mining administration. This allows to observe 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. 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[16], 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 others opposed wage cuts (Parliamentary Commission, 1909).

3.3 Reduced-form estimates

3.3.1 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 is composed of schedules above the 9 hour cutoff. More formally, I define

[16]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.

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 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 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 bigger 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 μ_j and time fixed effects as well as year dummies interacted with vol_reduction_j.

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

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 β_k are the objects of interest. Because of the definition of vol_reduction_j, β_k can conveniently be interpreted as the average effect in year k across treated firms of a 1% mandated reduction in the volume of hours.[17]

This strategy is standard in the policy evaluation literature (Carry, 2023; Harasztosi & Lindner, 2019; Saez et al., 2019). The identifying assumption is that firms with different scheduling practices before the reform would have had parallel evolution in

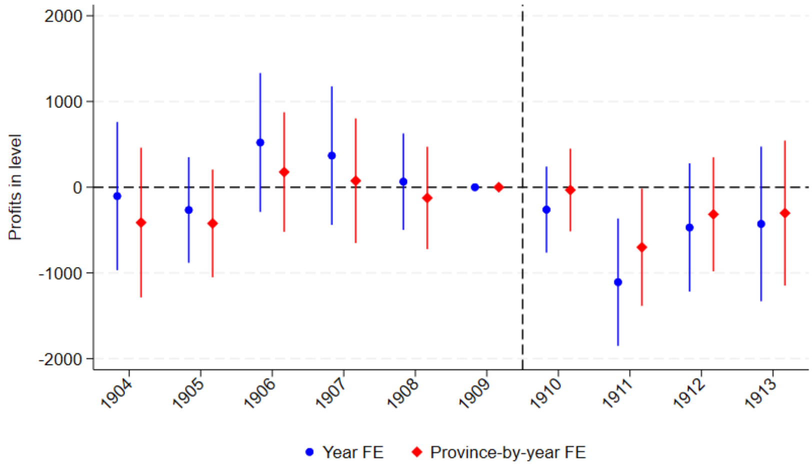
[17] The average treatment effect on the treated (ATT) can be obtained by a simple average the estimated coefficient $\hat{\beta}_k$ for $k > 1909$ multiplied by the average vol_reduction_j, i.e. 9.06%.

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

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

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%.

Figure 3: β_k in regression (1) of profits in units of numéraire.



Notes : 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.

their outcomes if the reform had not happen. This assumption could be rejected if β_k significantly differ from 0 in years prior to the reform.

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, one ought to remember that the year-to-year change in profits was particularly large at that time. This confirms anecdotal evidence that the reform was not anticipated and had large adverse effects on mine owners.

Employment Results for regression 1 for several employment outcomes are reported in Figure 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) and (c) suggest that this effect comes almost entirely from an increase in headcount underground employment. Indeed, panel (b) suggests that a 1% mandated reduction in a firm's hours volume increases employment by 5 jobs in 1911-1913 while panel (c) shows that all of these jobs are underground jobs. 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 $\frac{5\times9.06}{1309} = 3.4\%$ for overall employment and $\frac{5\times9.06}{954} = 4.75\%$ for underground employment.

3.3.2 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 $\text{h\_reduction}_{o,j}$ as

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

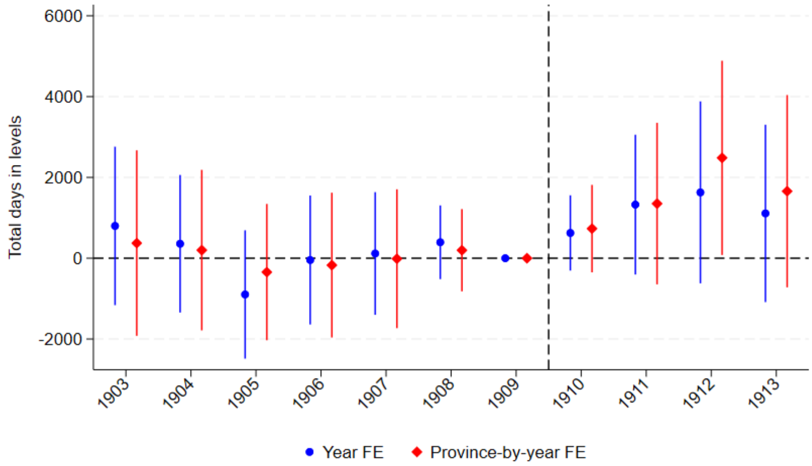
An underground occupation o in firm j is treated whenever it was working more than 9 hours before the reform, or equivalently when $\text{h\_reduction}_{o,j}$ is positive. The average $\text{h\_reduction}_{o,j}$ among treated units is 10 with a standard deviation of 3.87 . Moreover, the distribution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

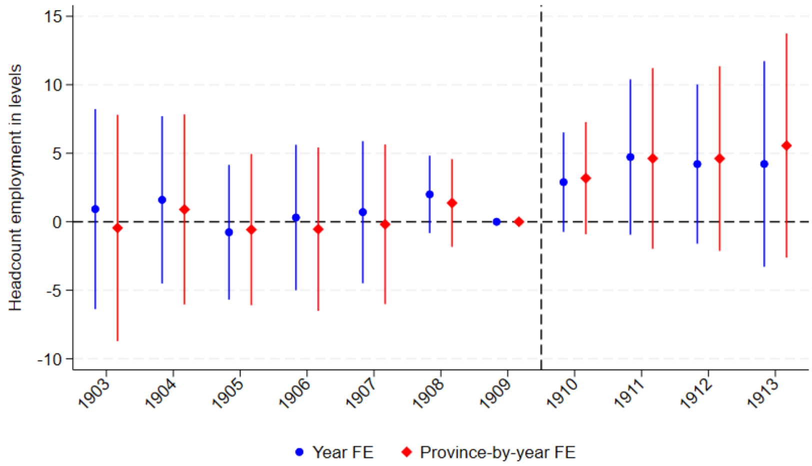
o	Firm type				# treated o
Frontline underground	T	T	C	C	70
Non-frontline underground	T	C	T	C	79
Aboveground	C	C	C	C	0
# firms	63	7	16	13	$99\ j \times 3\ o$

Out of the 86 treated firms studied 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. We have 3 occupations in each firm for a total of 297 units, of which 149 units (70 frontline and 79 non-frontline) will be treated and 148 units will be part of the control group. In Table 3, we show that treated units are larger in terms of employment

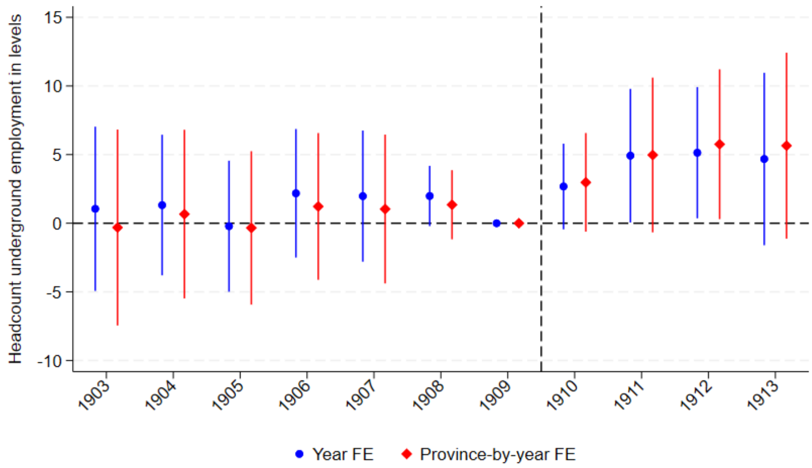
Figure 4: β_k in regression (1) of various employment outcomes in levels.



(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.



(c) Headcount underground employment. P-values are 0.42 (blue) and 0.83 (red) while within R-squared are 0.008 and 0.012 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.

size and receive larger wage.[18]

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

	Control units	Treated units
Earnings$_{o,j}$, units of numéraire	**0.258**	**0.345**
	(0.076)	**(0.054)**
Earnings$_{o,j}$, efficiency units	**0.133**	**0.217**
	(0.083)	**(0.102)**
Headcount employment$_{o,j}$	**324**	**491**
	(363)	**(445)**
h_reduction$_j$	**0.00**	**9.999**
	(0.00)	**(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%.

Our main object of interest is the effect of the reform $d(1 - \bar{l}) > 0$ on hourly wage denoted by w. Observe that the ATT on the log hourly wage is a linear combination of the following :

$$\begin{aligned} \frac{dln((1-\tau)wl)}{d(1-\bar{l})} &= \frac{dln(w)}{d(1-\bar{l})} + \frac{dln(l)}{d(1-\bar{l})} + + \frac{dln(1-\tau)}{d(1-\bar{l})} \\ \frac{dln(w)}{d(1-\bar{l})} &= \frac{dln((1-\tau)wl)}{d(1-\bar{l})} - \frac{dln(l)}{d(1-\bar{l})} - \frac{dln(1-\tau)}{d(1-\bar{l})} \end{aligned} \tag{2}$$

where τ is the (observed) firm-specific withholding rate[19] and l are actual hours worked. The identification strategy and specification follow the same line as above *mutatis mutandis*:

$$y_{o,j,t} = \beta_0 + \sum_{k \neq 1909} \beta_k * \text{h\_reduction}_{o,j} * \mathbf{1}_{k=t} + \mu_{o,j} + \nu_{o,t} + \epsilon_{j,t} \tag{3}$$

where $\mu_{o,j}$ 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)[20] and $\epsilon_{j,t}$ are standard errors clustered at the firm level.

[18] I report the firm-level statistics analog to Table 1 for this new treated and control (o, j) units in Appendix Table A.6.

[19] Although there was 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.

[20] In the remainder, I assume that hours worked l for (untreated) above-ground workers are 10 hours before and after the reform. All results are numerically insensitive to this assumption thanks for occupation-by-year fixed effects. What is important is that aboveground hours are unaffected, which is backed up qualitatively by managers' interviews.

In Figure 5, I report results for three dependent variables in logs : the net daily earnings $\ln(1-\tau)wl$, hours worked $\ln(l)$ and net-of-tax withholding rate $\ln(1-\tau)$. Panel (a) shows these effects 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 of daily earnings to a 1% mandated reduction in daily hours amount to -0.28. Because this elasticity is is larger than -1 and $(1-\tau)$ is unaffected by the reform, by equation 2, 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 of hourly wages to a mandated reduction of daily hours is +0.65.

I show that the occupation-level analysis on employment follows the same line as the firm-level analysis in Appendix Figure A.3. Interestingly, all the positive employment effects for underground workers originates from large firms. Overall, these results are consistent with a story where the reform pushed up hourly wages and leisure in large firms which increased employment while small firms compensated the increase in leisure by cutting hourly wages and keeping employment constant. 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 these empirical evidence are inconsistent with (i) workers choosing hours worked, (ii) perfect competition in the labor market and (iii) jobs and hours entering multiplicatively in production.

4 Toy model: who chooses what?

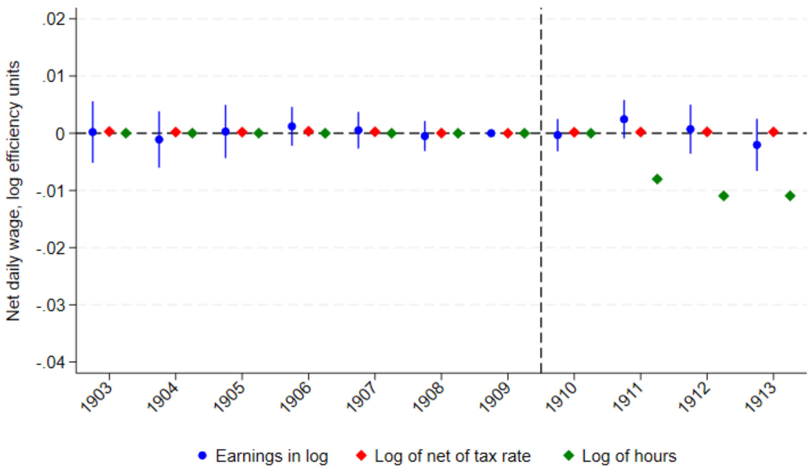
In the present section, I focus on claims (i) and (ii) by building a toy model in general equilibrium of the codetermination of wages and hours, setting aside the determination of employment for now. In that model, I vary predictions depending on *who chooses what*, i.e. who sets hours worked and who 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

Figure 5: β_k in regression 3 for components of net daily wage in efficiency units

(a) Full sample. P-value : 0.39. Within R-squared : 0.007.

(b) Subsample of units in small firms (bottom third of the size distribution). P-value : 0.15. Within R-squared : 0.054.



(c) Subsample of units in big firms (top 66% of the size distribution). P-value : 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.

constraint, normalized to 1 such that the government must chose 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 such that 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[21].

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

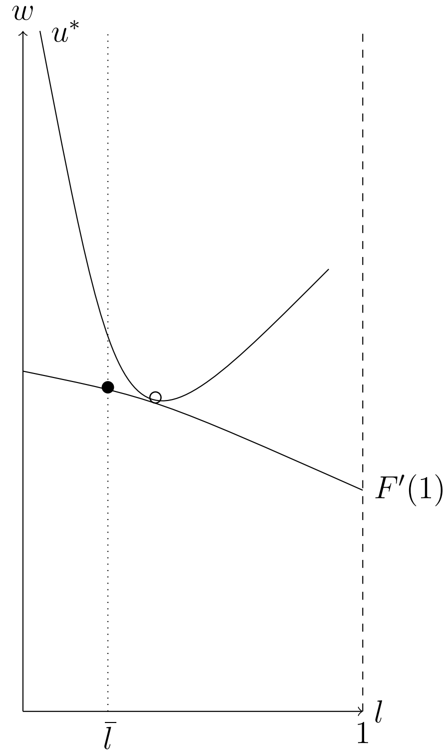
The theoretical predictions depend on the definition of strategy sets: who chooses hours and who chooses wages? I will consider four different models. In model 1, workers choose hours to maximize utility and wage rates are competitive. In model 2, workers choose hours but the firm sets wage rates. In 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 6.

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 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 $dw \geq 0$.

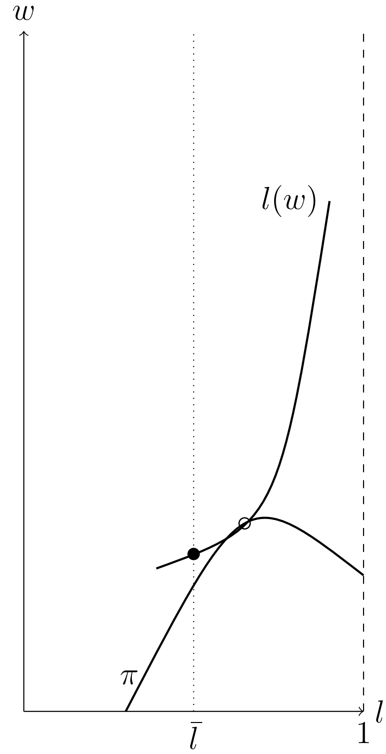
In model 2, workers set again hours such that $\frac{\partial u(\cdot)}{\partial l} \geq 0$. However, firm sets monop-

[21]Formally, I impose that for any w we have a $l^* \in (0, 1)$ such that $\frac{\partial u(wl^*, l^*)}{\partial l} = 0$.

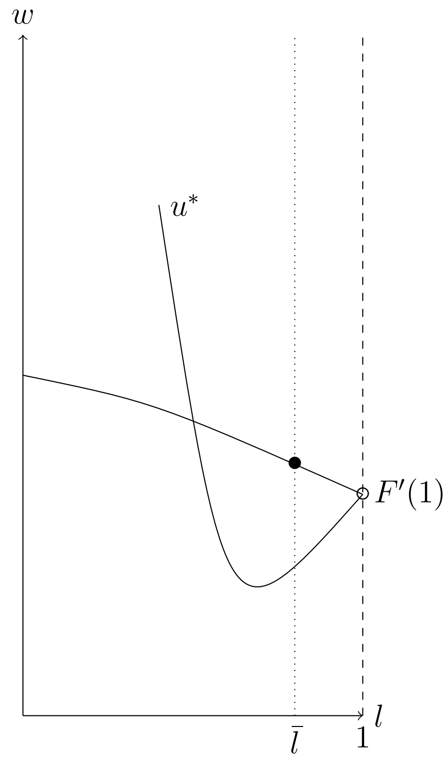
Figure 6: Equilibrium before (∘) and after (•) a small binding working time reduction $\bar{l} < l$.



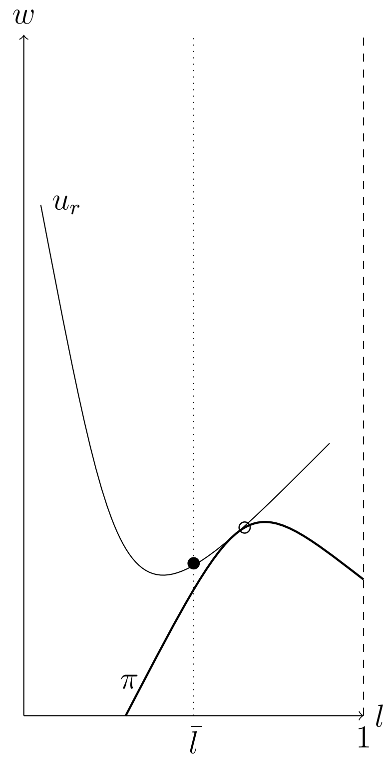
(a) Model 1: workers choose hours, competitive wage rates



(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 sonistic wage rates to maximize profits internalizing the neoclassical labor supply. This gives rises 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[22], 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 $dw \geq 0$.

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.[23] Second, the very same working time reduction increases competitive wage rates but decreases monopsonistic wage rates[24].

Our empirical findings in section 3 reject models 1 and 2 where workers choose hours because of qualitative evidence suggesting unanimous workers' support for the reform. Moreover, the fact that hourly wages decreased in small firms contradicts Model 3 and suggests that the labor market may not be perfectly competitive.

[22]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.).

[23]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 5.

[24]Interestingly, the Roosevelt administration introduced the minimum wage alongside a working time reduction, see Fishback et al. (2024).

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

Who sets l ? Who sets w ?	Utility-maximizing l		Profit-maximizing l	
	Competitive w	Firm sets w	Competitive w	Firm sets w
	Model 1	*Model 2*	*Model 3*	*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 $\bar{l} < l$	$dw \geq 0$	$dw \leq 0$	$dw \geq 0$	$dw \leq 0$

Yet, model 4 is also rejected by the positive effect on hourly wages in large firms. However, it is unclear why monopsony power would vary with firm size, especially because small and large firms could be found geographically next to one another in Belgian coal mines (Delabastita & Rubens, 2025). Rather, one should remember that these toy models do not consider employment and use only hours in the production function $F(l)$.[25] I now construct a model where firms set hours and there is an endogenous monopsony power and firm size.

5 General model of employment, hours and wages

I build a directed search model à la Moen (1997) where firms post[26] hours and may enjoy some monopsony power like in Vergara (2023).[27] Contrary to the previous section, employment matters both for the supply and the demand side of the labor market: firms produce using both jobs N and hours worked l through a production function $F(N, l)$ while workers' leisure-consumption tradeoff governs both their participation and applications decisions. Importantly, the model nests the case where jobs and hours enter multiplicatively in production $F(N, l) = G(Nl)$. I will show that $G(\cdot)$ is rejected by our reduced-form findings, which is claim (iii) of the paper.

5.1 Directed search model

Labor market Consider a set of measure L of workers who are each endowed with a unit of time.[28] Firms are posting vacancies with a pair $m = (w_m, l_m)$ of wage rate and

[25] 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, employment is unaffected by the reform in Models 1 to 4, which is rejected by our findings of section 3.

[26] 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).

[27] The key difference with Vergara (2023) is the presence of leisure in workers' utility and hours worked in addition to jobs in production.

[28] 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.

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.[29] 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

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

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,

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

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

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 $G(\cdot)$. 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.[30]. 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

[29] See Hall and Schulhofer-Wohl (2018) and Petrongolo and Pissarides (2001) for empirical evidence on the matching function.

[30] This formulation supposes that inactives are entitled to the same benefit coverage B than unemployed. This is made solely for analytical tractability, as it is typically not the case in actual economies. Germain (2023) studies this mismatch in depth. For the value of nonemployment versus unemployment, see Jäger et al. (2020).

same expected utility[31] (net of their d) that I will denote by $\bar{U}$.[32] 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 θ_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 θ_m on the equilibrium path. In particular, we have equilibrium tightness as an implicit function of three variables $\theta(\underset{-}{w_m}, \underset{+-}{l_m}, \underset{+}{\bar{U}})$.

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 $G(\bar{U} - u(B, 0)) \times L$.[33]

Firms All firms face perfect competition in the single output market whose homogeneous good is set as the numéraire. Indeed, Delabastita and Rubens (2025) documented that Belgian coal mines had no price-setting power in their output market. Firms are only heterogeneous in their total factor of productivity ψ_j.[34] They share the same production technology[35] $F(N, l)$ whose inputs are jobs $N = qv$ and hours worked l. Firms internalize workers' decisions such that their job-filling probabilities $\tilde{q}_m$ are implicitly defined by equation (3) with $\tilde{q}_m = q(\theta(\underset{-}{w_m}, \underset{+-}{l_m}, \underset{+}{\bar{U}})$. 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

[31]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 $U(m) = U(m')$.

[32]This is called the *market utility* (Wright et al., 2021).

[33]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).

[34]The analysis in this section would be unchanged if ψ_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. See Eeckhout and Kircher (2010a, 2018) for a rigorous treatment.

[35]It is assumed that production is increasing in both inputs and it is concave in N.

might differ between short-hours and long-hours contracts.[36]

Firms entry A set of measure K contains capitalists who are heterogeneous in productivity ψ_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 ψ_j, there exists a decisive ψ^* 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 ψ_j, the vacancy posting cost function $k(\cdot)$, the entry cost x and the production function $F(\cdot)$ and the matching function $\mathcal{M}$.

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

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 ψ^*, applications a_m, vacancies $v_m = \sum v_m^j$ in 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 ψ_j taking ψ^* and $\bar{U}$ as given

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

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

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

   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:***

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

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

[36] See Carry (2023) for empirical evidence of such imperfect substitutability the French case.

Applications in a submarket ensures that all submarkets yields market utility

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

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

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

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

5.2 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

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

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, their employment level must be different $N^j \neq N^k$.

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.[37]

Monopsony power Although search is competitive, the labor market remuneration might not be. Indeed, this model produces an earnings markdown and workers are paid

[37] 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.

below their marginal product. If the submarket-specific wage elasticity of labor supply is $\epsilon^w_m = \frac{\partial \tilde{q}_m v_m}{\partial w_m} \frac{w_m}{\tilde{q}_m v_m}$, then equation 5 reads

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

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.[38] As models 2 and 4 in section 4, there is monopsony power because agents' utility function implies that the wage elasticity of labor supply is finite. Yet, contrary to section 4, there is monopsony power because of matching frictions. Indeed, observe that when matching frictions increase, ϵ^w_m 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. 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 ψ.

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

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

This expression transparently links workers' leisure preferences with the markdown on hours worked. When workers are calling for a working time reduction, the right hand-side 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.

[38] Berger et al. (2024) quantifies the empirical importance of several determinants of monopsony power including preferences and search frictions.

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

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

Proposition 1 is useful because it gives the technological and preference conditions to find long hours. With respect to the former, long hours arise when the output elasticity of hours lF'_l dominates the output elasticity of hires NF'_N.[39] Intuitively, when hours are more productive than jobs, firms will set long schedules. With respect to the latter, long hours arise when ϵ^w is small and monopsony power (on jobs) is large. This is the same channel as in Model 4 in section 4.

Contract dispersion and sorting The model produces wage dispersion among (observably) identical workers[40] 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 ψ_j will post higher wages and more vacancies, thereby having a larger headcount employment in each submarket. With respect to hours worked, the coefficient γ_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.

5.3 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

[39]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. 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).

[40]It escapes the Diamond (1971) paradox of homogeneous contract in search models by allowing heterogeneous firms' productivities.

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.

Treated submarkets To fix ideas, I assume that aggregate participation responses are negligible[41] 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 total derivative of equation 4, one gets

$$\frac{dl}{d(1-\bar{l})}\bigg(\tilde{q}_l'(\psi F_N' - wl + \psi N^j F_N'') + \tilde{q}\psi F_{N,l}'' - \tilde{q}w\bigg) = dv^j\bigg(-\tilde{q}^2\psi F_N''\bigg) + dw\bigg(-\tilde{q}_w' N^j \psi_j F_N''\bigg)$$

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:*

$$\begin{array}{lll}
\textit{If } \dfrac{1}{1+\epsilon^w} \geq \dfrac{-N^j F_N''}{F_N'} & \textit{and } \dfrac{\epsilon^w}{1+\epsilon^w} \geq \dfrac{lF_{N,l}''}{F_N'} & \implies dw \geq 0 \\
\textit{If } \dfrac{1}{1+\epsilon^w} \leq \dfrac{-N^j F_N''}{F_N'} & \textit{and } \dfrac{\epsilon^w}{1+\epsilon^w} \leq \dfrac{lF_{N,l}''}{F_N'} & \implies dw \leq 0
\end{array}$$

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 ϵ^w matters for the left handside, which is itself determined by preferences and matching frictions.

When monopsony power is large, ϵ^w is small and this has two effects of opposite signs 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 4 : when firms have monopsony power, they compensate the constraint on their hours worked

[41] 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.

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 a worker joins the firm, the markdown levied on him dominates the negative effect on the firms' marginal product of job, which encourages wage increases for hiring purposes.

With respect to technology, the key elements are the *change* of the marginal product of labor with respect to jobs F''_N and hours $F''_{N,l}$. 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, $\frac{lF''_{N,l}}{F'_N}$ is positive and 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, $\frac{lF''_{N,l}}{F'_N}$ is negative which pushes hourly wages up as an incentive for workers to join the firm to substitute for lost hours.

Heterogeneous effects by size I now assess whether canonical labor production functions $F(N,l)$ can rationalize the empirical findings of section 3 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 ϵ^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 the standard lump of labor theory of production where $F(N,l) = G(Nl)$. First, observe that $\frac{lF'_l}{NF'_N} = 1$ in such case, which implies that $\tilde{q}'_l < 0$. Hence, this model is able to rationalize the fact that workers are calling for working time reductions. More precisely, the first-order conditions of the firms program imply that before the reform $\frac{l}{\tilde{q}}\tilde{q}'_l = -1$, i.e. the submarket-specific hours elasticity of labor supply must be equal to -1. Hence, a working time reduction by 1% engenders an inflow of workers by 1%, such that total production $G(Nl)$ as well as labor expenditures Nlw are constant. In that setting, treated firms' optimal reaction to a working time reduction consists in doing nothing and setting $dv = dw = 0$, which contradicts our empirical findings. This is claim (iii) of the paper: our results are inconsistent with jobs and hours entering multiplicatively in production.

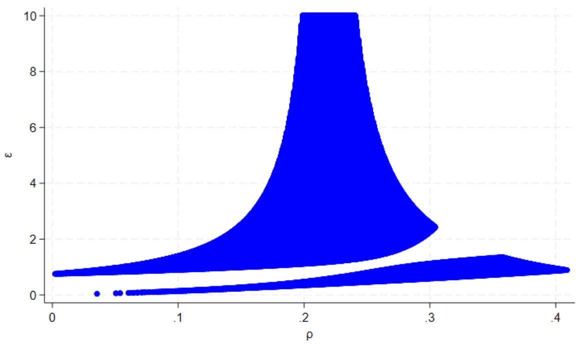
Consider now a Cobb-Douglas production function $F(N,l) = N^\alpha l^\beta$. As can be seen from Table 5, none of the ratios of interest depend on N in the Cobb-Douglas case. This means that the wage effects of a working time reduction in a given submarket is independent of firm's size, and only depend on output elasticities α, β and the submarket-specific labor supply elasticity[42]. As a consequence, our empirical findings reject a Cobb-Douglas case.

Table 5: Summary of relevant ratios for common production function

$F(N,l)$	$G(Nl)$	$N^\alpha l^\beta$	$[\alpha N^\rho + \beta l^\rho]^{1/\rho}$
$\frac{lF_l}{NF_N}$	1	$\frac{\beta}{\alpha}$	$\frac{\beta l^\rho}{\alpha N^\rho}$
$\frac{-NF''_N}{F_N}$	$-Nl\frac{G''}{G'}$	$1-\alpha$	$(1-\rho)\frac{\beta l^\rho}{\alpha N^\rho+\beta l^\rho}$
$\frac{lF''_{N,l}}{F_N}$	$1+Nl\frac{G''}{G'}$	β	$(1-\rho)\frac{\beta l^\rho}{\alpha N^\rho+\beta l^\rho}$

Consider a general CES $F(N,l) = [\alpha N^\rho + \beta l^\rho]^{1/\rho}$. From the relevant ratios reported in Table 5, we see that the wage effects of a working time reduction may depend on N, even if two firms have the same production function parameters α, β, ρ and active in the same submarket (w,l). In particular, whenever ρ 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. In Figure 7, I numerically simulate which values of the wage elasticity of labor supply ϵ^w and CES ρ are compatible with the empirical results where $\tilde{q}'_l \leq 0$ and $dw < 0$ for small firms while $dw > 0$ for large firms. I set $l = 10$ hours for both firms, as well as $\beta = 0.7$ and $\alpha = 0.3$. I consider a small firms to be $N = 100$ and a large firm is set to $N = 500$. Additional details are provided in Appendix B.2.

Figure 7: Numerical simulations of the values of (ρ, ϵ^w_m) that rationalize empirical results



Notes : I set $l = 10$ hours for both firms, as well as $\beta = 0.7$ and $\alpha = 0.3$. I consider a small firms to be $N = 100$ and a large firm is set to $N = 500$. The values plotted are consistent with four inequalities : (i) $\tilde{q}'_l \leq 0$ for $N = 100$, (ii) $\tilde{q}'_l \leq 0$ for $N = 500$, (iii) $dw < 0$ for $N = 100$, (iv) $dw > 0$ for $N = 500$.

[42] One can rationalize the coexistence of wage cuts and long hours by assuming $\alpha < 1 \leq \beta$, but this prevents from observing wage increases in large firms.

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.

5.4 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

$$\begin{aligned} \bar{U} &= p_m u(w_m l_m, l_m) + (1 - p_m) u(B, 0) \\ a_m[\bar{U} - u(B, 0)] &= N_m[u(w_m l_m, l_m) - u(B, 0)] \end{aligned}$$

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

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

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

$$\begin{aligned} \bar{U} - u(B, 0) &= \frac{\int_m N_m dm}{G(\bar{U} - u(B, 0)) \times L} \frac{\int_m N_m[u(w_m l_m, l_m) - u(B, 0)] dm}{\int_m N_m dm} \\ &= \mu \mathbb{E}_m[u(w_m l_m, l_m) - u(B, 0)] \end{aligned}$$

where μ 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*[43] $d(1-\bar{l}) > 0$ *has a positive impact on on ex-ante welfare* $\frac{d\bar{U}}{d(1-\bar{l})} > 0$ *if and only if*

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

where η^N *is the percentage change in employment rate due to the reform and* η^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 change in utility η^u as a function of the percentage change in consumption and leisure:

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

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

where η^c and η^l are the percentage change in consumption and hours worked while ζ^u_c and ζ^u_l 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 3 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 ζ^u_c and ζ^u_l. Obviously, wel-

[43] 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.

fare assessment will be sensitive to this choice.[44] Second, the estimates of section 3 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[45], we estimate η^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 conservative 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 1.7 seems realistic and is typically delivered by standard functional forms. I conclude that the reform increased workers' welfare beyond doubt, and redistributed from firms' profits to workers welfare. Our analysis suggested that this is less likely to be the case in settings where workers control schedules and where jobs and hours are more complementary to one another.

6 Conclusion

The paper has studied theoretically and empirically the effects of working time reductions on wages, employment, profits and welfare. On the normative side, we have shown that the empirical effect of working time reductions on employment, wages and profits are sufficient for welfare evaluation. The empirical application uncovered large and negative effects on profits, mild negative effect on earnings and positive effect on employment in the first-ever working time reduction in Belgium. We argued that the results reject (i) neoclassical labor supply (ii) perfect competition and (iii) the lump of labor

[44] 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 ϕ a decreasing function, where $\nu \in (0,1)$ is such that if productivity grows by g, then hours decrease at a rate g^ν 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.

[45] Observe that $\eta^N = \frac{d\mu}{dl}\frac{\bar{l}}{\mu} = \frac{dN}{dl}\frac{\bar{l}}{N} - \frac{dA}{dl}\frac{\bar{l}}{A}$ where A is the number of applicants. Assuming the latter term to be equal to 0 pushes η^N upwards.

theory of labor demand.

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)cyclicality of working time regulations could be interesting to relate to the literature on short-time work (Giupponi & Landais, 2023).

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A Empirical appendix

A.1 Data collection

A.2 Construction of variables

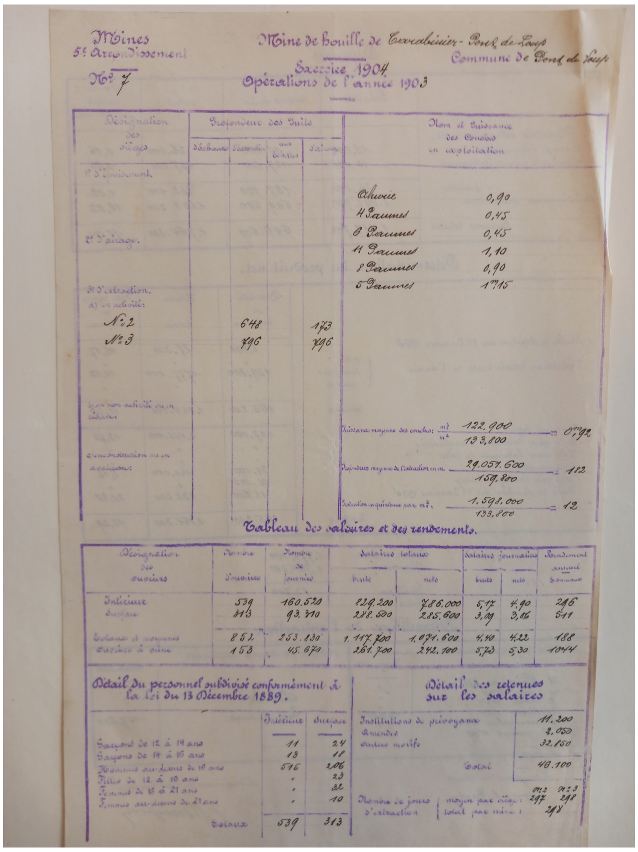
A.2.1 Hours worked

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.

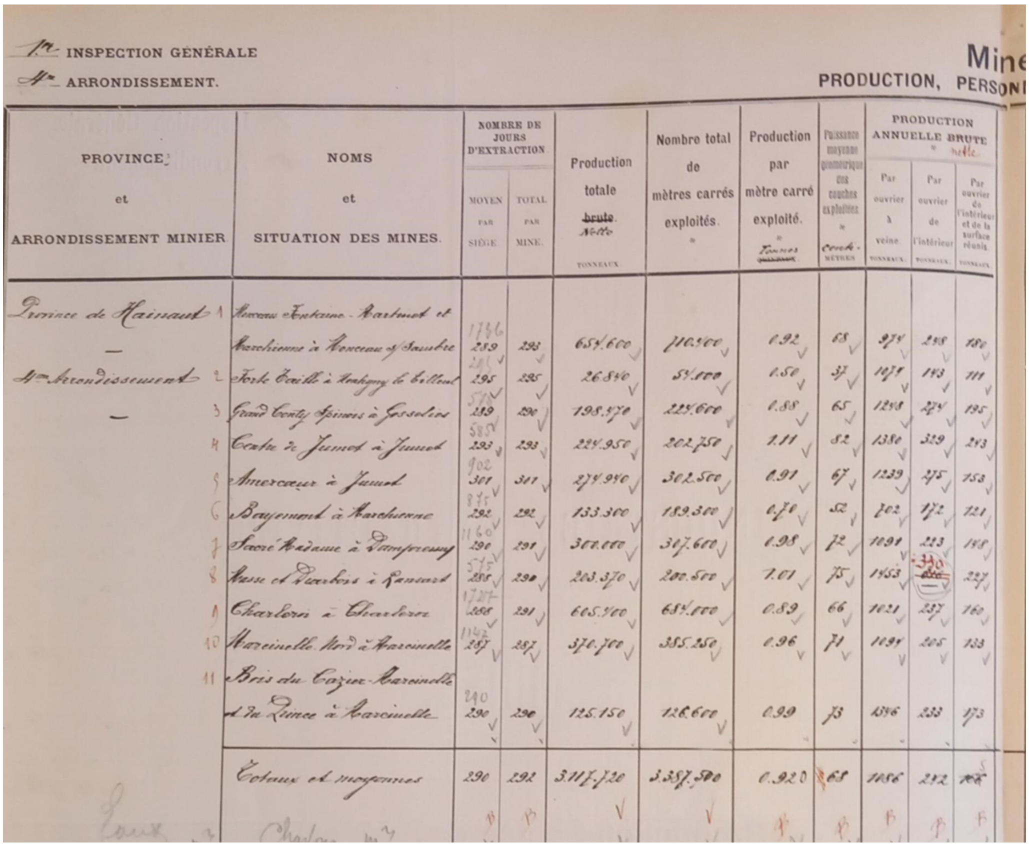
I assign frontline workers' hours to the panel frontline workers. For non-frontline underground workers, I assign them a weighted average of the cross-sectional occupations. The weights are chosen such that the resulting probability distribution of hours worked in the matched dataset is reasonably close 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.



(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.

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

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

$$\ln q_{j,t} = \beta_1 \ln l_{j,t} + \beta_2 \ln m_{j,t} + \ln \psi_{j,t} \tag{A.1}$$

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 to retrieve β_1 and β_2 by GMM estimation. The results are reported below.

Outcome	$\ln$ **production**$_{j,t}$	$\ln$ **production**$_{j,t}$	$\ln$ **production**$_{j,t}$
$\ln$ `labor expenses` β_1	0.745 (0.026)	**0.654 (0.052)**	0.661 (0.041)
$\ln$ `nonlabor expenses` β_2	-0.070 (0.021)	**0.315 (0.050)**	0.237 (0.080)
$\ln$ `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

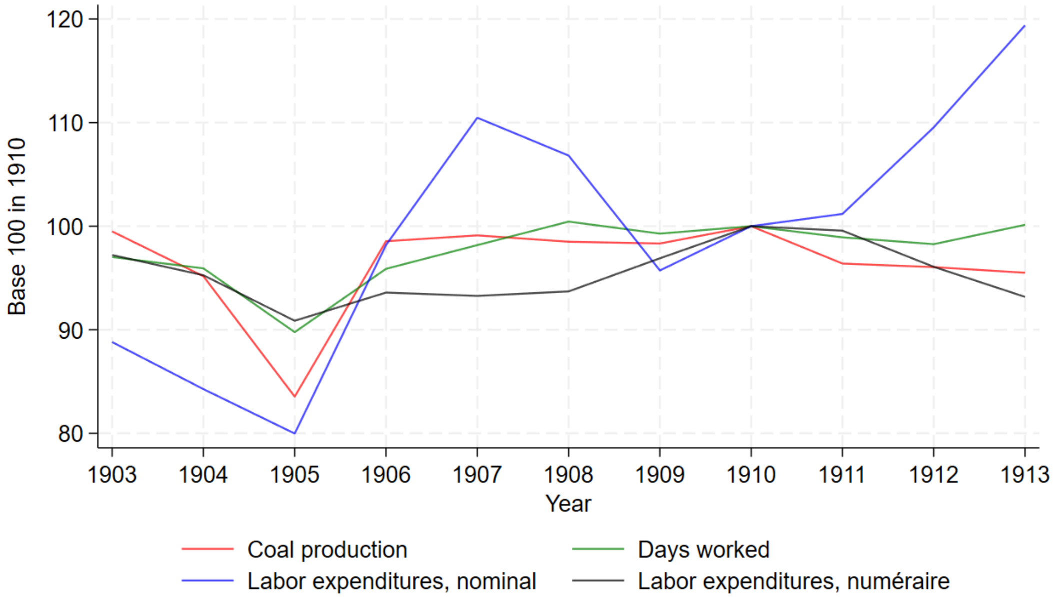
Despite differences in samples and in methodology, the estimates obtained by the GMM approach in the present paper are remarkably similar to those of Delabastita and Rubens (2025) both in their magnitudes and in their precision. The present paper computes $\psi_{j,t}$ for each firm-year cell by predicting 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.

Hours	**Mons**	**Centre**	**Charleroi**	**Namur**	**Liège**	**Total**
$(7.5, 9]$	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
Total	18	10	35	11	40	114

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.

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-Piere et La Hestre* merged with *Mariemont*.

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.

A.4 Additional empirical results

A.4.1 Occupation-level employment

In Figure A.3, I report the result of running equation 3 when the dependent variable is the level (not the log) of employment in occupation o in firm j.

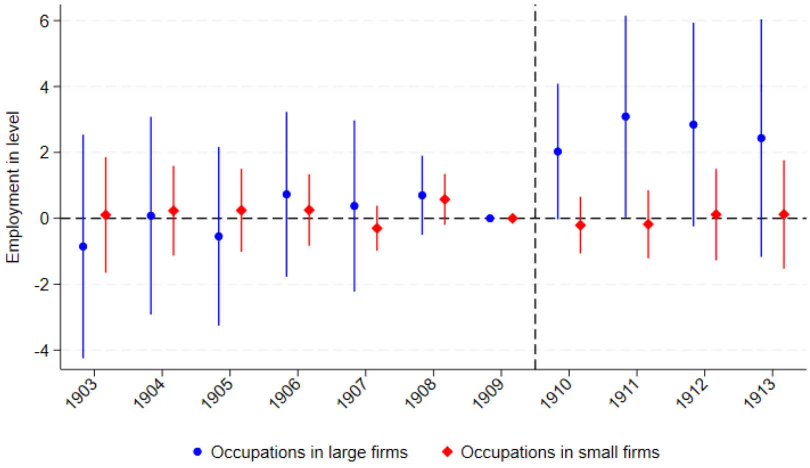
One can observe that all the employment gains are found for occupations in large firms, where we see that a mandated reduction of daily hours by 1% increases employment by 2.60 units which implies an average treatment effect of $\frac{2.6\times10}{539.1} = 4.8\%$. By contrast, there is no differential evolution of occupation-level employment between treated and control groups in small firms.

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

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

Figure A.3: β_k in regression 3 for headcount employment in levels for two subsamples



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 units, i.e. the bottom third of the size distribution.

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

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

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.

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 $\frac{d\theta}{d(1-\bar{l})} > 0$. 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

$$\frac{N^j F_N''}{F_N'} \leq -\frac{1}{1+\epsilon^w}$$
$$-N^j \psi F_N'' \geq \psi F_N' - wl$$

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 ϵ^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 $\frac{d\theta}{d(1-\bar{l})} > 0$ are*

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

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 is 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 were 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 to find 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 being small given that an industry-specific regulation should have moderate aggregate effects.

B.2 Numerical simulation

The numerical simulation reported in Figure 7 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 bracket determines the sign of the wage effect. What is plotted in 7 are the values of (ρ, ϵ^w_m) that are consistent with the following system of four inequalities :

$$\begin{aligned}
\frac{\epsilon^w}{1+\epsilon^w} &\leq \frac{\beta l^\rho}{\alpha N^\rho} \text{ if } N = 100 \\
\frac{\epsilon^w}{1+\epsilon^w} &\leq \frac{\beta l^\rho}{\alpha N^\rho} \text{ if } N = 500 \\
\frac{\beta l^\rho}{\alpha N^\rho}\frac{\epsilon^w}{1+\epsilon^w} - 1 + \frac{1}{\epsilon^w}\frac{\rho}{1-\rho} &\geq 0 \text{ if } N = 100 \\
\frac{\beta l^\rho}{\alpha N^\rho}\frac{\epsilon^w}{1+\epsilon^w} - 1 + \frac{1}{\epsilon^w}\frac{\rho}{1-\rho} &\leq 0 \text{ if } N = 500
\end{aligned}$$

The first two constraints are necessary and sufficient for $\tilde{q}_l' \leq 0$. The third and fourth inequalities are necessary and sufficient for $dw < 0$ in the small firm and $dw > 0$ in the large firm. In particular, in Figure 7 I assumed that $\alpha = 0.3$ and $\beta = 0.7$ and two different firms offering the same equilibrium contract where $l = 10$ and the small firm has $N = 100$ while the large firm has $N = 500$.