

Labor income risk over the business cycle: gender, households, and sources of risk

“Labor income risk varies strongly across the business cycle, with downside risks dominating in recessions and affecting households’ financial resilience.”

Mariacristina De Nardi (University of Minnesota, Federal Reserve Bank of Minneapolis, CEPR, NBER), Giulio Fella (Queen Mary University of London, Università di Bologna, CFM, IFS), Marike Knoef (Tilburg University), Gonzalo Paz-Pardo (European Central Bank), Raun van Ooijen (University of Groningen, University Medical Center Groningen)

What is the focus of the paper?

This paper examines how labor income risk in the Netherlands varies over the business cycle and across workers. Using administrative data from 1989–2024, the authors analyze annual earnings changes, decomposed into wages and hours, and study differences by gender, sector, and households. It also evaluates how individual risks translate to household income and participation in income-replacement programs. The topic is relevant because labor income is the main income source for most households and shapes saving, pensions, and risk-taking behavior. The study focuses on workers aged 25–60 and compares economic expansions and contractions.

What are the key findings?

During recessions, the distribution of annual earnings changes becomes more negatively skewed, with large income losses occurring more often. Women experience greater overall earnings variability, though this gap with men has narrowed over time, while men’s earnings respond more negatively in downturns. For women, the greater dispersion is mainly related to adjustments in hours, partly because of the high share of part-time work; for men, downside recession risk appears to operate more strongly through negative hours adjustments, for example through job loss or entry into unemployment insurance. These patterns are mainly driven by changes in hours rather than wages. Sectoral differences are substantial: downside risk is concentrated in cyclical industries such as construction and manufacturing, while education and the public sector are more stable. Household income remains exposed to downside risk, as shocks are partially shared within households. Large income drops are often linked to a higher probability of entry into unemployment insurance and pension programs.

What are the implications?

- Pension funds can account for state-dependent labor income risk, as participants face more downside risk in recessions.
 - Heterogeneity across sectors, gender, and households calls for more heterogeneous investment and risk profiles.
 - Policies should recognize that hours adjustments are a key driver of income risk.
 - Income-replacement programs are essential in buffering shocks and should align with cyclical patterns.
-

Want to know more? Read the paper:

Labor Income Risk Over the Business Cycle: Gender, Households, and Sources of Risk.



Netspar, the knowledge network that brings together science and the pension, retirement and insurance industry: netspar.nl

Created with AI assistance; content and final editing by the authors.