



Economic Review

What Explains Lifetime Earnings Differences across Individuals?

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Cumulative labor market experience explains a substantial portion of differences in lifetime earnings across individuals.

Expected lifetime earnings are a key factor in many individual decisions, such as whether or not to go to college and what kind of occupation to pursue. However, lifetime earnings differ widely across individuals, and uncovering the factors that explain these differences can be challenging. Some characteristics, such as race and sex, are observable. But other intangible characteristics, such as work performance, are more difficult to quantify. To what degree observable characteristics explain lifetime earnings is an empirical question.

José Mustre-del-Río and Emily Pollard use a unique data set combining administrative and survey data to assess how much variation in lifetime earnings across individuals can be explained by observable characteristics such as sex, race, education, and labor market experience. They find that labor market experience—that is, the fact that some individuals work more years than others—accounts for roughly 40 percent of the difference in earnings. Standard demographic characteristics such as sex, race, or education alone explain about 15 percent of these differences. In total, observable characteristics account for a little more than half of lifetime earnings differences.

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José Mustre-del-Río is a Research and Policy Officer at the Federal Reserve Bank of Kansas City. He joined the Economic Research Department in August 2011. Prior to joining the department, José received B.S. degrees in economics and applied mathematics from Ohio State University, and M.A. and Ph.D. degrees in economics from the University of Rochester. José's main areas of research are in macroeconomics, labor economics and computational economics.



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After I graduated from Carleton College in 2016 with a BA in mathematics and economics, I was excited to join the research team at the Federal Reserve Bank of Kansas City. During my time as an RA, I supported [José Mustre-del-Río](#), [Andy Glover](#), [Brent Bundick](#), and [Lee Smith](#). Currently, my main role is to help support the monetary policy briefing process. I also run the Kansas City Fed's Labor Market Conditions Indicators (LMCI) model and collaborate with economists on Bank publications. I really appreciate the variety of work I've gotten to do at the bank and the flexibility given to RAs to explore their interests.