



# Award Statement

**Joseph G. Altonji**

Laureate 2018

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The 2018 IZA Prize in Labor Economics is awarded to **Joseph G. Altonji** (Yale University, NBER) for his seminal contributions to the economic analysis of labor supply, family economics and discrimination. Altonji's contributions have shaped the understanding of how households decide on their labor supply under fluctuating business cycles and changing labor markets, whether the family is the relevant unit of economic decision making, and what the mechanisms behind labor market discrimination are. An overarching theme of his work is that even the most insightful and fundamental theoretical advances must be supported by rigorous empirical evidence. This has led him to provide regular improvements to the econometric toolbox.

In his 1982 paper, "*The Intertemporal Substitution Model of Labor Market Fluctuations: An Empirical Analysis*", Altonji challenged the idea that cyclical fluctuations in employment are optimizing labor-supply responses to expected real wages and prices, a core assumption of real business cycle theory. He then changed to a micro perspective in "*Intertemporal Substitution in Labor Supply: Evidence from Micro Data*" (1986), which provides a complementary analysis of individual intertemporal labor supply elasticities. It remains a key source of evidence on the intertemporal labor supply response.

Altonji may be best known for a series of papers co-authored with **Fumio Hayashi** and **Laurence Kotlikoff** challenging the idea that the extended family is the relevant economic decision-making unit. In "*Is the Extended Family Altruistically Linked? Direct Tests Using Micro Data*" (1982) he provides a simple test of the hypothesis that parents and adult children function as one unit. He rejects this notion by showing that the distribution of consumption between parents and children depends strongly on the distribution of their incomes. In a related paper, "*Risk Sharing Between and Within Families*" (1996) Altonji rejected the hypothesis that families engage in full risk-sharing as another argument against the extended family as the relevant unit of economic decisions. In a third paper in this sequence, "*Parental Altruism and Inter Vivos Transfers: Theory and Evidence*" (1997), the altruism model of the extended family was again strongly rejected by demonstrating that a redistribution from children to parents does not yield an analogous increase in altruistic transfers. This rejection of the extended family as the relevant decision unit is of high importance for the design and evaluation of efficacy of social insurance policies and the effects of government deficits.

A younger generation of scholars will especially have recognized Joseph Altonji's seminal paper on the role of statistical discrimination and employer learning in explaining wage disparities associated with education, race, gender, and other characteristics. Since its description in the 1970s, statistical discrimination arising from rational employer behavior under uncertainty was thought of as an alternative to Gary Becker's taste-based discrimination and to the human capital model of education; but it was only in 2001 that Altonji put it to a simple, but powerful empirical test in "*Employer Learning and Statistical Discrimination*", co-authored with **Charles R. Pierret**.

By continuously stressing the need for reliable evidence throughout his career, Joseph Altonji has often worked at the frontier of econometric analysis, not only applying state-of-the-art procedures, but in many cases extending their boundaries. Examples are a method to derive the amount of selection on unobservable variables in „*Selection on Observed and Unobserved Variables: Assessing the Effectiveness of Catholic Schools*“, co-written with **Todd Elder** and **Christopher Taber** in 2005, and most recently methods to provide bounds for estimates in situations where selection is unobservable ("*Estimating Group Effects Using Averages of Observables to Control for Sorting on Unobservables: School and Neighborhood Effects*", co-authored with **Richard K. Mansfield** in 2016).

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Joseph Altonji is currently the Thomas DeWitt Cuyler Professor of Economics at Yale University; he is a Research Associate of the National Bureau of Economic Research and joined IZA as a Research Fellow in 2001. In 2018 he will be President of the Society of Labor Economists. He is an elected fellow of the Econometric Society and the American Academy of Arts and Sciences. He has served on a number of government advisory panels, and currently is a member of the U.S. Federal Economic Statistics Advisory Committee and the National Science Foundation's Social, Behavior and Economic Sciences Advisory Committee. Recognizing the need for supporting the public debate with economic evidence, he became a founding editor of *Microeconomic Insights*, a platform providing accessible summaries of economic research.

From the very beginning of his career, and for more than three decades since, Joseph Altonji has proven to be a strong advocate of rigorously testing economic theory, shedding light on a variety of highly policy-relevant topics and making fundamental contributions to methodology on the way. The IZA Prize in Labor Economics honors this work, highlighting the joint importance of economic theory and empirical support, which has inspired the field of labor economics to remain true to its theoretical foundations, but ever questioning its predictions and assumptions.

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*Francine D. Blau, Richard Blundell, George J. Borjas, David Card,  
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