

TRANSCRIPT

The Work Goes On

Guest: Joseph Altonji, *81
Record Date: October 23, 2026
Posting Date: November 16, 2026

LINK to podcast: https://on.soundcloud.com/gxYGDsmVHQGIDBzCso

Joseph Altonji:

When people are choosing a college major, earnings matter, but I don't even know that they're paramount. So, I think these non-pecuniary aspects of education are drivers both of what people decide to study and also what they do later in life.

Orley Ashenfelter:

Welcome to The Work Goes On, a podcast from the Industrial Relations Section at Princeton University. I'm your host, Orley Ashenfelter, the Joseph Douglas Green 1895 Professor of Economics, emeritus at Princeton University. In this podcast series of conversations with leading thinkers and practitioners, we are creating an oral history of an entire generation of industrial relations experts and labor economists whose contributions to their fields have been absolutely extraordinary.

Our guest today is Joseph Altonji, who is the Thomas DeWitt Cuyler Professor of Economics at Yale University. He is renowned for his work in labor economics and applied econometrics and has received both the IZA Prize in Labor Economics and the Jacob Mincer Award for Lifetime Achievement from the Society of Labor Economists. Joe, welcome to The Work Goes On.

Joseph Altonji:

Oh, it's great to be here. Thanks for having me.

Orley Ashenfelter:

Let's begin the discussion by talking about your background. Where did you grow up?

Joseph Altonji:

I was born in Brooklyn, which I think is — there have been a few other labor economists from Brooklyn.

Orley Ashenfelter:

Brooklyn seems to be the center of the universe for labor economists. You're right

Joseph Altonji:

But my parents moved to Pequannock, New Jersey, when I was three, and I grew up basically in the New Jersey suburbs: Pequannock, West Caldwell, and Oakland.

Orley Ashenfelter:

Is that right? Oakland is a pretty nice place, as I recall.

Joseph Altonji:

Yeah, they're all nice towns, fairly standard middle-class suburbs. In some ways I think my upbringing was similar to a lot of other people in my generation.

Orley Ashenfelter:

In the area, yeah. And you went to high school there?

Joseph Altonji:

I went to Catholic schools through elementary school and then went to an all-boys Catholic high school, St. Joseph Regional High School.

Orley Ashenfelter:

Really? Were you an athlete there?

Joseph Altonji:

No. That high school is known for athletics. I did run track, and the year that I ran, St. Joseph's won the state championship and sent several people to the Nationals. I was the number five sophomore quarter-miler, so I decided that maybe my future was in another pursuit.

Orley Ashenfelter:

Because I know you're also famous for playing baseball too, and you have that kind of a build. I've always thought you look like a shortstop.

Joseph Altonji:

One of the things growing up, I just remember every day after school and in the summer just being outside, playing baseball, basketball, football, other games all the time, kind of unsupervised. That was really wonderful.

Orley Ashenfelter:

Now, you're at Yale now, but you also were at Yale as an undergraduate. How did a boy from Oakland end up in New Haven?

Joseph Altonji:

My high school had been sending maybe one or two a year to Yale. It was a good academic high school. I applied to five schools and ended up choosing Yale. It was a close call, because although tuition was very low in those days compared to now, I was also thinking about William & Mary, which is a state school. I remember it came down to whether Yale was going to reduce my financial aid after I'd gotten a scholarship from Stop & Shop. My first career was actually as a cashier and then the front-end manager at Stop & Shop. Yale didn't reduce it, so I went.

Orley Ashenfelter:

You were a front-end manager at Stop & Shop?

Joseph Altonji:

That's right. Firstly I was part-time, but I worked there over maybe one summer, maybe two summers, and I would sometimes manage the cashiers at the store.

Orley Ashenfelter:

That's something I did not know about you. I don't think…there are a few labor economists who actually worked in the real world, but not so many and very few at Stop & Shop, I'm pretty sure.

Joseph Altonji:

I even spent one summer in college working in a plastics factory, on the four-to-twelve shift, and learned some things there that I think have been useful in life.

Orley Ashenfelter:

That's interesting. And then, of course, you came to Princeton. This is an old phrase. I hate to use it, but I can't help myself. At Princeton we used to always say "Yale" was a four-letter word. But you came to Princeton from Yale. How did that happen?

Joseph Altonji:

The longer story is that when I started college I thought I would major in history. My first year I took a broad set of courses, ruled out the sciences when I confirmed I didn't like lab, and took economics and didn't take any history, because I'd done a lot of it in high school. I got very interested in the introductory macro course, James Tobin was the lecturer, and I don't think anyone does this at Yale anymore he actually taught his own discussion section. He taught it at 8:30 in the morning, and you can imagine what students he would attract. Jeremy Bulow was in that same section. He's had a wonderful career out at Stanford. So anyway, I gradually moved toward economics.

Orley Ashenfelter:

So, you had Jim Tobin as a discussion leader in your macro course.

Joseph Altonji:

That's right.

Orley Ashenfelter:

That's pretty tough to beat that.

Joseph Altonji:

That was tough to beat. And I had a bunch of very good professors, both in economics and in some other areas. By the time I graduated I was pretty sure I was going to go to graduate school, but I wanted to get out of school for a year, so I worked at Charles River Associates for a year and applied. Basically, I went to Princeton for two reasons. The first one was that I was told the labor program there was fantastic. I don't think you would remember this, but I had lunch with you and Denton Marks.

Orley Ashenfelter:

Oh, yeah.

Joseph Altonji:

I visited the campus and you took the time to meet with me. The other reason, though, was that Princeton offered me more money than MIT did.

Orley Ashenfelter:

Well, there you go. I like both reasons, and I'm glad to hear that, in fact. Denton Marks, I see him still. He's retired now; he was at one of the University of Wisconsin schools — I forget which one.

Joseph Altonji:

Whitewater, I think.

Orley Ashenfelter:

Whitewater. And he's since moved. I think he lives in Oregon or maybe Washington, I think it is actually. I just saw him recently, actually. He's interested in wine; he wrote a book about wine, of all things.

So, Princeton. I of course know what your dissertation was about, but I should ask anyway: what was your dissertation about?

Joseph Altonji:

At a high level it was really about the nature of labor market fluctuations. At the time — and really still — there's a theory that the labor market is in equilibrium, and that movements in unemployment, and in hours worked, and employment are responses to temporary variations in labor productivity, that show up in wage rates. So, workers when wages are relatively low, they work less. Bob Lucas and Leonard Rapping wrote a very famous paper about this. I got interested in that paper and was skeptical of it as a story about unemployment fluctuations.

So, my dissertation basically revisited the issue using some innovations in how to measure expectations that actually Bob Lucas had contributed to — the rational expectations approach — and basically did two things. One of them showed that movements in employment and hours weren't that well explained by variation in wage rates. The other was to show that, in fact, unemployment and employment movements were in opposite directions conditional on prices, suggesting that workers weren't really choosing hours — that there were demand constraints. That was my dissertation.

Orley Ashenfelter:

It's interesting. Al Rees was also skeptical of that paper but thought those two guys were so capable — I remember he was actually a referee of the paper, I think, and said it should be published, because even though he didn't agree with it, he thought it was very well done.

Joseph Altonji:

I remember reading Al Rees's comment on the paper.

Orley Ashenfelter:

Yes, I think they published it in the JPE. Your work on labor supply came at a time when people were very interested in intertemporal substitution in the labor supply, and I think it got you a lot of attention. You've worked on many other subjects since then. But first of all, let's talk about where you went after you left Princeton.

Joseph Altonji:

I went to Columbia. Jacob Mincer was the senior labor economist there, and I'm sure he was responsible for my getting hired. New York was also a good location for at the time my girlfriend, whom I married who you know, Cynthia. In fact, she was a student of yours; she took one of your courses at the former Woodrow Wilson School. So, New York was a good choice, and Columbia turned out to be a very good choice for me.

Orley Ashenfelter:

And of course you were around Jacob. It must have been nice, then, to receive the Jacob Mincer Award too, after all.

Joseph Altonji:

It was. I've been very fortunate my whole career in the senior mentors I've had —you at Princeton, and others as well. But Jacob Mincer, what he cared about, as far as Columbia goes… He cared about labor economics and the graduate program, the seminar, the junior faculty. We had a very good seminar. It attracted faculty from all of the New York schools. There were some very good people in the CUNY system. Sometimes Boyan Jovanovic would come up from Bell Labs or from NYU, and people would come in from Stony Brook.

Orley Ashenfelter:

I guess Gary Becker had left by this time.

Joseph Altonji:

He had. I think he left in the early '70s. But we had a couple of good junior faculty, including a guy named Robert Shakotko, who left after a couple of years. We didn't overlap that long. But I think we had a very active program with a good set of students.

Orley Ashenfelter:

I actually taught there one semester for Jacob when he was on leave, and I was always impressed. It was after you had left, I think, but I was always impressed by the students. He had an amazing number at the time, at least as I remember it that way, of female students.

Joseph Altonji:

You're right. In fact, the term was "women in labor." He had an incredible set of students, I agree. Some, like Cordelia Reimers, who was at Princeton for a few years… After she moved to Hunter she would regularly come to the seminar. And Marjorie Honig, Ann Bartel, who was at Columbia, and a few others.

Orley Ashenfelter:

And there were some others, too. I've never totally understood why, because there weren't so many women even in labor economics at that time. I've always thought maybe it was the timing of people going back to graduate school or something; that was certainly true of Cordelia. But anyway, he was incredible, and if you think back on it, he was incredibly successful that way. Now, you didn't stay at Columbia. You moved.

Joseph Altonji:

The year before I was going to come up for tenure, Dale Mortensen from Northwestern approached me and I'm sure Dale was really the person behind that. It was a young department. They had hired a couple of very good people and had been given some resources by the university. I've always been a big admirer of Dale Mortensen and his work. And Cynthia's family is from Michigan, so she's a Midwesterner so she was interested. So, they took a chance on me, and we moved that year. They basically approached me in the spring, and things moved fairly quickly.

Orley Ashenfelter:

There was a good group there. Frank Brechling was there. I don't know if he was there when you were — and it had always been a strong department, of course. And then you left Northwestern, too.

Joseph Altonji:

I had a pretty good run at Northwestern. I was there for 16 years, and they were really good years. Yale approached me, and it had a bit of a draw: I'd had a wonderful experience there as an undergraduate. Another factor… And I think the department was very strong and was actually trying to build in labor economics and, in more applied micro. And I'm one of five children; my siblings all live in the New York area, and my parents — they've passed now — but they were here. So going back to the East Coast was a big draw.

Orley Ashenfelter:

Well, I guess you can't really take the boy out of New Jersey or, another way to put it, you can't take the boy out of Yale. It's certainly true that the applied group at Yale has become remarkable. In fact, two of your recent hires were my colleagues here.

Joseph Altonji:

Yes.

Orley Ashenfelter:

Well, actually, three of them.

Joseph Altonji:

Yes, three of them, because we just hired Adam Kapor.

Orley Ashenfelter:

Yeah, so there's three of them. Absolutely right. So, I guess we're a breeding ground.

We should talk about your work a little. Let's start with labor supply. I think your work early on suggested that movements over time in labor supply were just weren't going to be well explained — at least large movements —by wage changes. Is that a way to summarize what you did?

Joseph Altonji:

I think so. That the response of labor supply to wage rates just isn't big enough, given how much wages move around in the economy to explain the movements in employment that we see.

Orley Ashenfelter:

That's very interesting, and of course I agree with you. But there's a second area you've worked on quite a bit, which is about issues of gender in economics. It's probably true that labor economists were the

first — or maybe the only — people who accepted the idea that whether you were a man or a woman might have some effect on economic outcomes. Now it's not unusual for people in other fields to think about that too. You did, I think, one of the Handbook papers, and you've written about gender issues several times since, actually. If I were to ask you, how would you summarize a couple of the things you've done with respect to gender. What would you say?

Joseph Altonji:

Aside from the survey, which I worked on with Becky [Rebecca Blank], the research that I've done on gender has mostly been focused on long-term trends. It's actually more recent work — maybe so far a little less successful; we'll see what happens. Basically, what that work is about is what the differences are between men and women in what determines the resources they get during their adult lives. The main theme is that for women, it's simply much more tied to marriage and their partners' earnings capacity, and for women, divorce involves a much bigger economic risk than it does for men. Their own human capital would show up in the resources they get, often through marital sorting. That's thinking about the pre–Baby Boom cohort. What's happened over time is that as women have assumed a big role in the labor market, now their human capital shows up there, and this asymmetry between men and women is reduced. That, I think, is the main theme of that work.

In other recent work, I've been looking at the long-term trends in the earnings of college graduates by gender. I went into that work thinking that field of study was the big factor, and what we've actually found is that it's true that what's happened over the years is that women have moved toward higher-paying degrees like business and, to a lesser degree, engineering. But what's gone on at the same time is that relative returns have worked against them, and that pay for teachers has fallen relative to, for example, engineers. So, the net effect of field is actually relatively minor.

Orley Ashenfelter:

It's interesting. I just happened to notice actually, from looking at some of your other, not necessarily academic, that you were on a National Academy of Sciences / NRC panel about the economics of, I guess, gender pay differences really.

Joseph Altonji:

I think it was about measuring discrimination, and it wasn't just about… It was both gender and race.

Orley Ashenfelter:

What came out of that?

Joseph Altonji:

It was a while ago, and I haven't looked at it in a bit, but I think it was actually a very good survey of what we do know about theories of discrimination and how to measure it. There's one chapter that I was probably the first author on, which was about the measurement of discrimination. That drew on work I did with Charles Pierret on how to test for discrimination in an environment where firms are

gradually learning about the skills of workers. Rebecca Blank was the chair of that, the editor, and she did a very good job.

Orley Ashenfelter:

She'd be a perfect person for a podcast, but she's no longer with us.

Joseph Altonji:

Yes, it's really too bad.

Orley Ashenfelter:

I know the National Academy occasionally puts together enterprises like that, and I often think it serves the general public well. It's sort of what the National Academy was intended to do. But maybe in the current world maybe it doesn't have quite the influence it used to have.

The other thing we have to talk about: I know you spoke about a very interesting paper here at Princeton just a week or two ago. You've done a lot of work on not just the returns to schooling… In fact, much broader than that, really on the returns… I guess, some of it is about degrees, different kinds of degrees, but I know other things as well. In fact, some of the work, very broad work, has even tried to come to grips with this issue of whether there are non-pecuniary returns to schooling that show up in satisfaction. I was a little surprised, when I read what you'd written this, that no one had really talked about this in the past, because historically one of the arguments for why people would go to a seminary, for example, would be that even though they weren't going to make any money, there would be some other— maybe even post-life returns — that they wouldn't otherwise be able to get. Until I noticed your work, I didn't see anybody who'd really tackled that use for the data we have, a lot of data we have now on life satisfaction and so on. I'm curious. So that's a big paper. How would you summarize that work for… What you talked about here, of course, was about people who majored in business and/or engineering as opposed to other majors, in the University of Texas system. But that was just one paper; you had many other work.

Joseph Altonji:

For quite a while now… I started working on this even while I was in the late '80s and early '90s. Labor economics has done an incredible amount of work on what's the value of a year of education or a college degree, and that work is extremely important given the amount of investment society places in it. But I think we haven't done enough on looking at type of education. I've done some work on high school curriculum, but most of the work that I've done has been on the value of specific college degrees and, in particular, the specific graduate degrees. You actually wrote on that, I think. Honestly, there was almost nothing on that topic when I started.

Orley Ashenfelter:

Joe Mooney. I wrote a paper about this when I was a graduate student with the great Joe. He's no longer with us either.

Joseph Altonji:

If you look at the earnings, you see that the differences associated with, say, a theology degree, which you mentioned, versus a petroleum engineering degree, they kind of dwarf the value of college. It's enormous. That's been the focus of my work for the last 10, 12 years. I've spent most of my time on that. Most of the work has been about earnings, but we just did do a little bit of work trying to see how reports of overall job satisfaction, and also satisfaction with different elements — such as whether you're making a social contribution — how that was related to field of study, and it was about graduate degrees.

The basic finding there is that doctors both earn the most and are the happiest with the work they do — although I have friends who are doctors who seem to complain some, but it might just be my friends. You do see that people who get a master's in business or an MBA, those degrees have pretty good returns, but they're not as high on these other measures, like social contribution and other measures of satisfaction. Some of the fields with lower earnings, like education or social work, do better on those. That paper was looking at gender differences, so I think we didn't have a lot of power, so I don't think we have a lot of precision about how men and women value these differently.

Orley Ashenfelter:

It's a good topic, though. I'm still a little surprised more people haven't...

Joseph Altonji:

We don't have… There it's just ordinary least squares regressions… For that part of the study we didn't have the power to take a different approach. I do think it's definitely understudied. When people are choosing a college major, earnings matter, but I don't even know that they're paramount. I know a lot of undergraduates here; any of them could major in engineering if they wanted, but they may major in anthropology or English because that's what they're interested in, and because they're not as interested in a career in finance or in business. So, I think these non-pecuniary aspects of education are drivers both of what people decide to study and also what they do later in life.

Orley Ashenfelter:

It's very interesting. Early on, I remember Burt Weisbrod wrote a paper about various ways to think about the returns to schooling, and one of the issues that came up was the role of citizenship and other social activities. I've been a little surprised that no one's picked that up now that people are trying to measure... He didn't really have any way to measure what those things were like when he was working on it.

Joseph Altonji:

I know that paper. There is significant research on the social returns to education. There's not that much on the non-pecuniary value that individuals get from it.

Orley Ashenfelter:

That's right. The social part is understandable, because of the public policy issue. But it might help to explain… It might be easier for younger people to understand better what schooling is about if they thought that about these non-pecuniary returns.

Well, our podcast is coming to an end, and I have to ask you one more question, because I think it's especially relevant for what people are doing going forward. You've worked in labor economics for a really long time, as have I. What do you make of the current status of the field?

Joseph Altonji:

I think the field is doing very well. There have been big advances in administrative data around the world have dramatically changed what we can do. I also see more economists, including my students here, they will also then run a survey alongside the administrative study. You get some of the information you get that you really need to tell a causal story. The advance of quasi-experimental methods — a lot of which I think you played a role, and people around Princeton like Josh Angrist and many others, David [Card]… That's actually been extremely healthy. I feel like I don't see as much of now that I would like to see more is what I call "theory and evidence" papers, which is what…

Orley Ashenfelter:

I know what you mean. And the reason I asked this question is because I thought you might, of all people, bring this issue up.

Joseph Altonji:

It's a style of work I've really enjoyed. Actually, some of your papers of yours are ones I've really admired. I feel we need more papers where there's a new idea, or there's a theory that's out there, and you try to come up with a clean way to test it and then develop implications of it. The empirical conditions are really ripe for this, because there's just richer data available. So, I think there's a lot of opportunity for people to sit back and try to come up with models of how the labor market works, different features, and come up with strategies to test them.

Orley Ashenfelter:

Joe, that's a very nice way to end our podcast. I really appreciate your comment about it, and it's been a pleasure to have you here.

Joseph Altonji:

It's been a pleasure. Thank you.

Orley Ashenfelter:

Our guest today has been Joseph Altonji, the Thomas DeWitt Cuyler Professor of Economics at Yale University. Please join us again for the next episode of "The Work Goes On: An Oral History of Industrial Relations and Labor Economics" from the Industrial Relations Section at Princeton University. I'm your host, Orley Ashenfelter. Thanks for listening.

Announcer:

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