SOLE
SOCIETY OF LABOR ECONOMISTS

2016 Rosen Award

In 2016, the Society of Labor Economists awards the Sherwin Rosen Prize to **Raj Chetty** for outstanding contributions in the field of labor economics.

Chetty received his PhD from Harvard University in 2003. He joined the University of California-Berkeley as an Assistant Professor and was promoted to full Professor in 2008. In 2009, he returned to Harvard where he was the William Henry Bloomberg Professor of Economics. In 2015, he moved to Stanford University. Among many commendations, Chetty has received the John Bates Clark Modal (2013), a MacArthur Foundation Fellowship (2012), and the IZA Young Labor Economist Award (2010).

Although much of Chetty's work falls within Public Economics, his contributions to Labor Economics are deep and convincing. Though most of his work is empirical, his contributions in applied theory are important. His papers often exhibit an insightful blend of empirics and theory. The areas of Labor to which he has most contributed are unemployment insurance, the elasticity of labor supply, and the effects of teachers on students.

Chetty's most influential work on unemployment insurance extends the analysis of Baily to propose a formula (now known as the "Baily-Chetty formula") that expresses the optimal trade-off between the consumption smoothing and search benefits of unemployment insurance and the moral hazard costs of unemployment insurance. In this work, Chetty not only demonstrates how unemployment fits into optimal social insurance but exemplifies the use of sufficient statistics. In research that cleverly exploits variation in severance payments, Chetty demonstrates that liquidity constraints explain an important share of the observed correlation between unemployment duration and unemployment insurance generosity. This suggests that the share explained by moral hazard, crucial to the Baily-Chetty, is smaller than conventional wisdom held. Chetty's work on unemployment has been extremely influential.

Chetty's work in the area of labor supply is rich and contains multiple papers that explore responses to the Earned Income Tax Credit. (Much of the work on the credit is joint with Emmanuel Saez.) Two themes in this body of research stand out. The first is Chetty's insightful progress on econometric identification, a longstanding problem in this area. For instance, Chetty establishes the applied method now most often used to derive labor supply elasticities from bunching at kinks in the income tax schedule. Second, several of Chetty's papers in this area explore optimization frictions, a general term for the issues that arise when the tax schedule is not salient or when people find it costly to adjust their labor supply to what is optimal for them. He shows that if we are willing to assume that optimization costs are some share of income, then we can place bounds on elasticity estimates. In addition, he demonstrates that estimates of the elasticity of labor supply that are identified using large changes in tax parameters (such as the Tax Reform Act of 1986) are closer to the structural elasticity that we require for most macroeconomic exercises than estimates identified using small changes in tax parameters. Chetty's work in the area is intimately related to other work on salience, and all of this exemplifies his deft interweaving of empirical exercises, existing theory, and novel behavioral theories.

The effect of teachers on students is potentially one of the most important channels through which labor market policies could affect human capital investments. Yet, until the advent of modern value-added analysis, there was little rigorously derived evidence for the common intuition that teachers can have profound effects. In a series of papers (most written with Jonah Rockoff and John Friedman), Chetty has used tax data to show that teachers affect their students' long-term outcomes such as earnings and ultimate educational attainment. For instance, in a study that exploits the randomization of teachers to kindergarteners that was built into the Tennessee STAR experiment, Chetty demonstrates that a student's initial teacher affects his or her adult outcomes. In two studies that employ New York City data, he shows that teachers who raise achievement in the short run also improve long-run earnings and attainment. These papers also make important contributions in applied methods by demonstrating that two independent strategies for econometric identification of teacher effects produce very similar results.

With his additional, impressive research on taxation, social insurance, consumption, and intergenerational mobility Chetty has, by working within and outside Labor Economics, introduced numerous frontier concepts and methods to our field. Chetty's writing is lucid, and his ability to communicate his research to policy makers is remarkable. His work is a model for many younger Labor Economists who aspire to his insightfulness, command of theory and methods, and outstanding relevance. The Society of Labor Economists is delighted to honor Raj Chetty with the Sherwin Rosen Prize.

2016 Nominating Committee:

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