

Identity Economics: How our identities shape our work, wages, and well-being,
George A. Akerlof and Rachel E. Kranton. Princeton University Press, Princeton,
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Why do we behave the way we do? The social sciences provide a range of approaches to addressing this question. On the sociological extreme, we may think that individuals behave in a way prescribed by the social role they find themselves in; e.g. mother, laborer, teacher. On the economic extreme, individuals behave in ways consistent with trying to best achieve some fixed objective; usually related to private consumption. The truth surely contains elements drawn from both perspectives. This book offers a middle ground in which the two approaches are synthesized by allowing an individual's objective to depend on their perceived social role - their *identity*.

The specific way in which the book proposes to incorporate identity into economic models begins by positing a set of *social categories* (e.g. "insiders" and "outsiders"). To each such category, one then associates a particular behavioral *norm* (e.g. a level of work effort). An individual's *identity* is the particular social category they belong to, and their ultimate behavior is determined by trading off standard (e.g. pecuniary) utility concerns with a concern for behaving in a way consistent with their identity.

As I read it, the book has three related aims. The first is to provide a primer on the field of Identity Economics. The second, and perhaps most significant, aim is to convince a wider audience of the novelty and relevance of this field. The third aim is to argue the suitability of their particular approach to understanding the field. The remainder of the review is framed around these three aims.

The first aim of the book is to provide a primer on Identity Economics - an area of economics that transplants a concept from Social Psychology into the realm of Economics. A primer in this area is extremely valuable because the concept of identity is not an easy one to grasp (and made all the more difficult because everyone is casually acquainted with the notion). Indeed, to acknowledge that "[m]any economists would say that it is a fuzzy concept" (p. 13) is an understatement. Part I of the book is devoted to introducing preliminary notions, describing the analytical procedure used throughout, and then addresses a range of common questions and concerns.

As a primer, this work is highly successful. The writing is clear, with minimal jargon (not a single mathematical symbol), and is peppered with illustrative cases and examples. The bulk of the book is drawn from the authors' own research ([Akerlof and Kranton \(2000\)](#), [\(2002\)](#), [\(2005\)](#), and [\(2008\)](#)), but the authors draw connections to a range of related research domains, such as experimental and evolutionary economics, not to mention a large body of knowledge drawn from other social sciences.

A good primer needs to go beyond describing what is known and enumerating supportive evidence - it must also be critical and willing to ask difficult questions of itself. Whether or not one is ultimately satisfied or convinced with the response, it is praiseworthy and refreshing to find that key questions and criticisms are anticipated and addressed. Much of this is done in Chapters 3 and 4, but is also continued in Chapters 9 and 10. If, upon going through the main section of the

book, your thoughts gravitate toward a set of burning questions, I would advise skipping ahead to those later chapters to seek relief.

Specifically, Chapters 3 and 4 deal with questions such as ‘is norm-following thought of as a conscious decision?’, ‘what compels individuals to follow a norm?’, and ‘where do norms come from?’. Chapters 9 and 10 deal with questions such as ‘what is the relative value of statistical tests versus case studies versus experiments in providing evidence?’, ‘can norms be manipulated?’, ‘how might identities evolve (e.g. over the life cycle)?’, and ‘can we choose our identities?’.

If identity is to make a permanent appearance in economic models, then these are among the most important questions that need addressing. A more complete primer would have devoted more space to these types of issues - that is, rather than focusing so much on the *consequences* of identity, it would expand upon the *sources* of identity, the *allocation* of identities across individuals, the *sources* of behavioral norms, and the *dynamics* of such things. This added completeness would have come at the considerable cost of a less transparent and coherent read, and I therefore find it quite appropriate that the scope is limited in this way.

The second aim of the book is to convince readers that identity is important for economics. Few would deny that identity affects our decisions, but given that good theory relies on good abstraction, the real issue is whether we are losing much by tossing identity out of the theory. The bulk of the book, Parts II and III, are in fact devoted to making the point that identity is an important ingredient in explaining various economic outcomes.

Specifically, Part II looks at work and school. In both cases we are introduced to a model in which an individual’s identity is either an ‘insider’ or an ‘outsider’. Insiders feel as if they ‘should’ work hard, whereas outsiders require appropriate incentives to do so. In the work setting, individuals are workers and a central goal is to draw out implications for wage contracts. To illustrate and motivate this structure, we are told about the military, machine shops, and disgruntled laborers. In the school setting, individuals are students and the central goal is to understand the demand for education. It becomes apparent that studying behavior may be quite insensitive to the returns to education relative to the student’s identity. We are introduced to rioting high schools and to ‘shopping mall high’, as well as to a range of case studies displaying successful identity-based educational reform.

Part III considers gender and race. In this part an individual’s identity is related to a physical characteristic. In the gender chapter, workers are either ‘male’ or ‘female’ and jobs are either ‘male jobs’ or ‘female jobs’. Norms dictate that males should work in male jobs and females in female jobs, *independent* of the worker’s relative productivity in each. This structure provides insights into the allocation of workers to jobs, within-firm gender productivity differences, and the division of labor within the household. This is illustrated with examples from law firms, mining companies, and various court cases. In the race chapter, white individuals are ‘insiders’, while black workers decide whether to remain ‘outsiders’ or to become ‘insiders’ at some identity cost. The structure is used to better understand the nature of discrimination and to suggest alternative approaches to eradicate equilibrium employment disparities.

Demonstrating the broad range of settings in which identity could matter certainly strengthens the case that identity is something economists should worry about. Interestingly, I was more convinced of the relevance of identity by carefully examining my initial reluctance to lend it much credence. As much as I wanted to believe that this initial perspective represented a deep belief of mine, I could not completely rule out the possibility that it was more a product of what I *should* believe as an economist. To push this further, my initial unwillingness to place much credibility in ‘case studies’ also helped me understand that norms are important - what ‘counts’ as evidence is highly tied to the ‘economist’ identity. In fact, to the extent that the authors rely on case studies to make their various points, it is somewhat brave to ‘swim against’ the prevailing norms of the profession.

The third aim of the book is to, at least implicitly, defend the analytical framework used throughout. The relative costs and benefits of putting identity - or anything else for that matter - ‘in the utility function’ is a very important issue, with many subtleties. I would have greatly appreciated a lengthier discussion on this topic, or at least a reference to such a discussion (I can not recommend [Postlewaite \(1998\)](#) highly enough for this purpose). Apart from a personal interest, I expect that this aspect forms the single biggest source of resistance to Identity Economics from economists.

In Chapter 4 there is a parallel drawn between the approach used in the book to the approach that Gary Becker took when first introducing discrimination into economics. This type of ‘Becker did it’ justification is ultimately a weak one, especially given that the large literature on statistical discrimination is interesting in no small part because it generates discrimination without requiring a Beckerian *taste* for discrimination. Little else is offered in support of the approach, apart from an appeal to parsimony in Chapter 10 (certainly the justifications offered in [Postlewaite \(1998\)](#) were not stressed). The reader is not given much of a sense of the magnitude of opposition to the approach among economists, although, I found some comfort in one particular sentence: “We know that there is little distance between assumption and result” (p. 118). Following this interesting concession, the authors argue that the real contribution of Identity Economics lies in the different assumptions brought to the analysis. I certainly agree that there is great value in this, but the reader would have a more rounded understanding of what identity is, and is not, if introduced to the sort of environments that produce ‘identity economics’-type behavior using more primitive preferences (e.g. [Fang and Loury \(2005\)](#)). Clarification of this sort would be a valuable way in which to distinguish identity from presumably related, but equally fuzzy, notions such as ‘culture’ (e.g. [Fernández \(2010\)](#)).

This book is by no means the final say on Identity Economics, nor is it an exhaustive summary of all related issues. Indeed, the analysis raises many more questions and avenues to explore, such as those described above. The ultimate value of adding identity to standard economic motivations can be measured by the insights that are produced over and above ‘the sum of the parts’, but in order to begin evaluating this ‘ultimate’ value, the notion of identity, and the myriad of places it pops up, must be well understood by a wide range of researchers. This book is an excellent step

in achieving this preliminary objective and provides a foundation for a variety of future research directions.

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