

ECON 8871 Referee Report

1

To be, or not to be: Stereotypes, identity choice and group inequality

Hui-Jun Chen

This paper, Kim and Loury (2019), aims to extend Coate and Loury (1993) by allowing agents to choose their perceived identity after paying some cost. By adding choice on perceived identity choice, this paper shows that positive selection of those talented people from the discriminated groups is willing to pay some cost to be identified as a member of the superior group. Therefore, such ‘out-migration’ behavior endogenously generate inequality between groups and can (1) be larger in scales, (2) be persistent disregarding government interventions, and surprisingly (3) enhance social efficiency.

The two major human behaviors that can be explained by this model are ‘passing’ and ‘partial passing’. Passing refers to entirely out-migrate to a better group when the benefit of such behavior outweighs the cost. The benefit in this model is specific to be better treated in the labor market, and the cost can be various, from learning an unfamiliar language to losing ties of its own kind. Examples of passing can be discriminated ethnic Korean in Japan (Zainichi), light-skinned minorities are expected to downplay their origin and act as the white in old Hollywood, and a low-class woman can pretend to be a high-class lady by taking a phonetic class and modifying her accent in London. On the other hand, partial-passing happens when entirely out-migration is not possible due to genetic or sociological reasons, so the agent in the discriminated group tries to present themselves as if one of the superior group. For instance, people with African ancestry in the US change their delivery of speech and dressing formally to partially blend into the white majority even though their genetic appearance cannot be modified.

The model is built upon Coate and Loury (1993), which takes identity as exogenous. Workers are either invest in skill or not. The skill-investing cost follows a cumulative distribution function that follows some conditions to ensure the high-ability workers directly benefit from investing in skills. Prior to the match with their employers, and if they are allowed, workers can decide whether to switch their group identity by paying an identity-switching cost. The ability to switch groups defines Phenotypic stereotyping equilibria (PSE) from Endogenous stereotyping equilibria (ESE): group identity is exogenous in the former, and endogenous in the latter. The identity-switching cost is symmetry, meaning that the cost to switch from a high-rewarded group to a low-rewarded group is the same as the other direction. Both the skill-investing cost and the identity-switching cost are independently distributed in the population, reflecting the reality that one’s perceived identity has no connection with his or her identity. During the wage-setting stage, the employers cannot directly observe the worker’s skill, but can only receive a noisy signal that obeys some nice properties (MLRP). Such signals can originate from either test, interview, internship, or on-the-site training. Besides the signal, employers have prior belief on the actual rate of skill acquisition of each group. This prior belief is the collective reputation that will affect workers’ decision on skill-investing and identity-switching in the previous stage by affecting workers’ expected to return for investing skills.

There are some remarkable analytical results from this paper: (1) every PSE corresponds to trivial ESE, i.e., ESE with no switch in identity; (2) identity switch is only from less favored group to

2
favored group; (3) non-trivial ESE exists and must involve positive selection that talented workers in discriminated group switch identity to match employers' belief; (4) given multiple PSE in the setting in Coate and Loury (1993), there always exist two persistent and stable ERE; (5) The passing activities will hurt those whose identity-switching cost surpass some threshold, but benefit those who conduct passing; (6) Continue with (5), the net welfare effect of out-migration is positive and members left in the discriminated group are worse off; (7) The labor market collapse problem can be mitigated by partial passing; (8) Continue with (7), high-ability partial passers are more likely to be accused of traits than low-ability members in the group. All the above-summarized results construct a causal chain to show that passing and partial passing is inevitable and beneficial to society.

My major critique of this paper is that it over-simplifies the complexity of social groups and the social interaction on discrimination, and promotes passing and partial passing based on such impractical assumptions. In this model, the difference within a social group is only the skill investment, and the collective reputation is the major disparity between groups. However, in reality, the value of social groups is more complex than skill investment and collective reputation. Social groups also preserve the language and culture. The discrimination against the minorities means that their language and culture are also dying. Economics benefit related to job matching cannot capture such loss in society, and passing and partial passing is definitely going to accelerate the process. Take one step back, even we accept such assumptions and ignore such complexity between social groups, whether the agent who conducts passing and partial passing can perfectly blend into the favored group is still questionable. If perceived identity can be perfectly manipulated, then we cannot observe the difficulties faced by Zainichi, the backgrounds of actors in old Hollywood, and language courses received by London women. Self-presentation by those partial-passers can be considered as a cheap talk by the native members of the favored group. Self-identity is mostly based on historical, cultural, religious, and genetic origin, and in most cases cannot easily switch by simply taking a course for accent or learning a new language.

Furthermore, the political implication of this conclusion is also dangerous. In a country composed of multiple races like the United States, the political rights of an ethnic group are earned by the effort of the members. This conclusion, the passing and partial-passing are socially beneficial, implies that the majority does not need to care about the right of the discriminated group. Members whose ability is high enough should just blend themselves into the favored groups and enjoy the economic benefit, ignoring other members in the group. Those who left in the less-favored group have no economic foundation to meaningfully participate in politics by protesting or sending candidates. As a result, the marginalized group is going to receive less political benefits from the government, and thus worsen their ability to invest in skill. This vicious cycle is definitely going to spiral down as more passing and partial passing occurs, and the members left in the discriminated group will suffer even more.

In conclusion, this paper provides a rigorous analysis of the effect of identity-switching with simplified assumptions. The characterization of the existence, persistence, and stability of equilibrium is complete and intuitive. However, the welfare analysis is dangerous if subject to intentional misinterpretation, and can possibly worsen the current conflict between different ethnic groups in the United States. I suggest the author shall not overstate its application and make policy implication conservatively.

$$x^2 + 2x + 1$$

Bibliography

- Coate, Stephen and Glenn C. Loury (1993). “Will Affirmative-Action Policies Eliminate Negative Stereotypes?” In: *The American Economic Review* 83.5, pp. 1220–1240. ISSN: 00028282.
- Kim, Young-Chul and Glenn C. Loury (June 2019). “To be, or not to be: Stereotypes, identity choice and group inequality”. In: *Journal of Public Economics* 174, pp. 36–52. ISSN: 0047-2727.