



# Book Identity Economics

## How Our Identities Shape Our Work, Wages, and Well-Being

George A. Akerlof and Rachel E. Kranton  
Princeton UP, 2010  
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### Recommendation

Biting into an economic text often tastes like dry toast, but this book has flavor and a lot of soul. George A. Akerlof, the 2001 Nobel laureate in economics, and Rachel E. Kranton, an economics professor, showcase their innovative exposition with a refreshing style. They muster examples from playground politics to courtroom theatrics to explain how race, gender and class shape individual economic decisions. Now and then, they get stuck in academic prose and repeated explanations about the difference between their persuasive identity-based model and traditional economic analysis, but the model does persuade. The authors offer generous servings of tasty facts, chewy analysis and lively case histories. This is economics seasoned with real-life spice. *BooksInShort* recommends their book to specialists in persuasion, consumer product managers, educators and anyone trying to read the tea leaves of economic patterns.

### Take-Aways

- Social factors that form personal identity shape individuals’ economic decisions.
- Race, gender and social class can override financial realities in the marketplace, the office and the schoolyard.
- Economic choices that individuals make in response to social norms often confound and contradict traditional models.
- Society’s written and unwritten rules have unexpected financial costs.
- Ad agencies, political parties and firms use identity to manipulate personal choices.
- Tobacco sales based on ads that relate smoking to female equality persuaded women to smoke and illustrate the financial payoffs of “identity economics.”
- The US military gives recruits a new identity, shared values and intangible rewards.
- In schools and offices, double standards based on identity have sparked lawsuits and penalties. In some communities, such bias has sparked civil unrest and riots.
- Even now, some professions, like teaching and nursing, rely too much on gender-specific roles and labels.
- Productivity rises when workers closely identify with their employer’s vision and goals.

### Summary

#### A New Model

Traditional economic studies describe people’s actions with academic theories and number-crunching garnishments based on salaries and consumption patterns. In contrast, identity-based models add new elements to the financial mix by examining race, gender and other social factors that shape personal and professional decisions. That interplay among economics, identity and social behavior sets the scene for “identity economics.” How does this concept work?

“Fairly recently, behavioral economics has introduced cognitive bias and other psychological findings. ‘Identity Economics,’ in its turn, brings in social context – with a new economic man and woman who resemble real people in real situations.”

Consider the career of Ann Hopkins. As an employee in an accounting firm’s Washington, DC, government services unit during the late 1970s, Hopkins had a solid reputation. She gained clout by locking down a \$25 million contract from the US State Department. That deal broke the firm’s record for consulting contracts, and the federal client was pleased with her work. Hopkins earned a spot on the partner track, but the firm did not promote her. During the partner review process, her co-workers labeled her abrasive and manly. Critics griped about her management style. Some even urged her to take lessons in feminine charm, with special attention to beauty and styling.

“Identity economics is at the frontier.”

Turning to the Civil Rights Act’s Title VII, Hopkins sued for sex discrimination. In 1988, the US Supreme Court ruled that she was the victim of a workplace double standard. Her firm had used one set of standards for male behavior and another for female conduct. Thus, unstated rules and expectations shape crucial economic, educational and employment decisions. This intersection of fiscal decisions and anthropology is a new avenue for economic analysis.

## **Motivating Forces**

What drives consumers’ choices about family size, ethical values and success? Traditionally, economists ascribe such nonfiscal decisions to personality and individual taste. Yet that longstanding assumption overlooks how identity markers – race, class, gender and other social factors – influence personal choice. Your motivation can come from many sources, including external messengers, like ads, corporate actions and political parties that seek to sway shopping patterns, public opinion and accepted ideals. For instance, pollution from a nearby plant is an external condition that can spark retaliation or protests from area residents.

“Individuals’ decisions are driven not only by idiosyncratic tastes but also by internalized social norms.”

Community members tend to copy and share values, behavior, language and unspoken social cues. Individuals also develop a process, or set of codes, for identifying a community – theirs or others – by referring to race, age or other traits. Even kids on a playground seek playmates of similar ages. But personal identity is not a fixed mark; it can change repeatedly during a lifetime.

## **Smoke Screens**

Why do folks smoke? Is it because of taste, or perhaps addiction? Traditional economics answers that query by examining the demand for tobacco and the role of disposable income. Identity economics adds a new piece to the puzzle by analyzing how the tobacco industry used advertising to manipulate public opinion and personal choices. Consider this timeline: In the early 1900s, society frowned on female smoking, and women rarely smoked. In the mid-1970s, taboos against female smokers disappeared as the feminist movement gained momentum. Ad campaigns linked cigarettes to liberation and equality (such as the motto “You’ve Come a Long Way, Baby”), thus making it desirable for women to smoke. By the late 1990s, scant differences divided male and female smokers, though men remain in the majority. Traditional economists attribute the change in smoking patterns to the shrinking gulf between male and female wages, but that explanation overlooks altered gender identities and social standards.

“The discipline of economics no longer confines itself to questions about consumptions and incomes.”

In the 1960s, supply-and-demand theories about competition and monopolies dominated analysis of consumption patterns, but these traditional models had some flaws. First, certain sectors don’t fit that mold, such as air travel, car sales and energy. Second, older fiscal models tend to suppose mistakenly that buyers and sellers in a transaction have equal access to market data. Identity economics disputes that assumption and also examines how added factors, like crime, divorce and racism, affect the parties financially. Such elements of “social context” affect “real people in real situations.” For instance, studies show that “employers, bankers and car dealers treat African-Americans differently from whites.”

## **Economic Pointers from West Point Academy**

During the orientation process at West Point, the US Army’s military academy, new cadets surrender their civilian clothes for red-sash uniforms. Everyone gets the same crew cut. Instructors order new cadets to salute older cadets and use lengthy, humbling greetings. Tiny missteps draw long rebukes. What is the point of such extreme makeovers and rituals? While traditional economics does not explain the purpose or impact of military-style orientations, identity economics illuminates the link between motivation and honor-bound commitments. By enforcing a behavior code, uniformity and discipline, the military changes recruits from outsiders (civilians) into insiders (cadets). The creation of cadets’ martial identity enhances their sense of community and creates a new self-image for each recruit. Military communities follow the creed of “service before self,” placing less emphasis on financial reward. Membership or “military identity” outranks money.

“The incorporation of identity and norms...yields a theory of decision making where social context matters.”

Military pay structures adhere to that philosophy, and only a narrow difference separates the pay scales of upper officers and lower-ranking personnel, in contrast to business-world salaries, which vary steeply from the top to the bottom of the hierarchy. Recognition for individual achievement also differs in the armed forces, where people value recognition, but in the form of medals, not money. However, traditional economics can’t explain nonfinancial motivation, so many businesses spend large sums of money to encourage workers and end up with mixed but costly results. The military model shows that shared identity and a sense of community can drive a better bargain. Successful nonmilitary schools, especially inner-city schools, follow that lesson by creating an internal culture and developing “insider identities” to create a student community.

## **Corporate Ties**

When employees embrace a company’s culture, the organization benefits from lower costs and improved productivity. Management style influences the extent to which

workers identify with a firm. Tight oversight can breed resentment and prompt employees to assume “outsider identities” and to work with less motivation. Relaxed supervision in a trusting work environment encourages staffers to identify with their employer and to work harder. Motivation also increases when employees take pride in their firm’s goods and services. For example, IBM and Procter & Gamble have high production standards and stellar reputations for developing employee loyalty. Both firms highly value workplace loyalty and prioritize shared responsibility.

## Educational Lockouts

Older economic theories fail to account for the school riots that shut many US schools down in the late 1960s and early 1970s. The standard list of financial suspects, such as reduced budgets, lower-quality teachers and aging facilities, do not apply to that era’s academic turmoil. For another perspective, turn to identity-based models that focus on the connection between school policies and academic success. Social status matters in school, which is a “social structure” in which students want to feel accepted by their peers and teachers. Some schools clearly define social standards, including private and religious academies, as well as certain public schools, particularly those with special charter or magnet programs.

“Gender and, equally obviously, race are just the clearest manifestations of identity and norms.”

But in schools where social rules are not clear, unspoken guidelines rule the hallways, classrooms and cafeterias. Due to cultural, racial or economic differences, some students don’t understand those tacit rules. That gap creates misunderstanding and conflict between those seen as insiders and those seen as outsiders. Race (black students versus white), income levels (middle class versus poor) or school cliques (jocks versus nerds) can drive such conflicts. Adults exacerbate the problem by applying one set of standards to the in-crowd and another set of standards to the outsiders.

“Identity economics allows economists a simple representation of what could be labeled, literally, as self-destructive behavior and actions that seem to make little economic sense.”

Integration at Hamilton High took place in 1969 based on a court order. The court sent black students from a lower economic community to Hamilton, a school filled with white middle-class students. Black families claimed that administrators discriminated against their kids. Riots broke out when white students told their black peers to leave “our school.” The administrators later admitted that the school community had treated black students like unwelcome outsiders.

“People often make decisions that come back to haunt them. We overeat, we smoke, we spend too much and we regret it...People have different selves at different points in their lives.”

Traditional economic models predict that in such a situation the outcast students will overlook injustice because the economic benefits of a good education (like the ability to earn a better income) outweigh unsavory academic conditions. Not so, say identity economists. Discrimination and disenfranchisement eviscerate the educational process and lead kids to drop out of high school. Students who feel like outsiders do not reap the economic benefits of education. Schools that succeeded in the wake of the civil rights era invited all students and their families to engage in the academic culture. Like the military, leading high schools – including those in inner cities – define standards explicitly and actively encourage participation and compliance.

## Gender Politics

Even in today’s workplace, gender plays a role in career choices and hiring policies. Men make up just 7% of the nursing profession. That minority has sparked gender-based terms such as “male nurse” and “male-friendly” nursing programs. As of 2007, some 96.7% of secretaries were women. Among US elementary- and middle-school teachers, 80.9% are women, a percentage that grows to 97.3% in preschool and kindergarten classrooms. In contrast, women account for a small minority of engineers, construction workers and other historically male-dominated career groups.

“Many standard psychological and sociological concepts fit our framework...self-image, self-realization, situation, in-group versus out-group identification, self versus other, social structure, power and difference.”

The identity economics filter applies new tools to examining discrimination, favoritism and other societal norms. For instance, some fields still have gender labels. The market, rightly or wrongly, classifies women as soothing and pushes them toward teaching, childcare and nursing. With those stereotypes in place, gender-based myths become self-fulfilling. In some cases, they’ve led to situations where men bully, ostracize or even harm women who take male-dominated jobs.

“People care about being fair and being treated fairly.”

For example, during the late 1980s, two women sued a Minnesota coal mining company, saying the courts should hold it accountable for workplace sexual harassment. Their suit alleged that the workplace’s lockers, dining rooms and other public spaces contained sexual photographs and graffiti. Explicit materials also showed up in the women’s restroom and on the personal property of the female workers. They reported male colleagues “kissing, pinching and grabbing” them without invitation or provocation. Unwelcome behavior included sexual pantomimes performed by male workers, who also made hostile statements deriding the presence of women in the workforce. After first fighting the suit, the company offered an out-of-court settlement: Pornography, physical mistreatment and biased language cost it a \$3.5 million penalty.

“How do people know the norms that apply to their situation, prescribing what they and others should do or should not do? We learn a great deal from watching others.”

According to some economic models, gender-based segregation should disappear in the face of clear evidence of women’s financial value at work. However, the identity economics model analyses behavior and clarifies that inequality will remain until communities of practice change their standards and delete gender labels from unwritten job titles. The women’s movement has had some successes, such as replacing “fireman” with “firefighter,” and “policeman” with “police officer.” In many boardrooms and committees, the “chair” dislodged the “chairman.” According to data from the US Census Bureau, sexual segregation significantly declined in the 20-year period ending in 1990. That’s how identity changes the economic playing field.

“Identity itself can be a choice.”

The individual’s role rests on making choices, including economic choices, in the face of societal norms and persuasions. This calls for a continual process of defining your identity, rethinking that definition, with satisfaction or regret, as time passes and then renewing it in the face of change.

## About the Authors

The 2001 Nobel laureate in economics, **George A. Akerlof** is a professor of economics at the University of California, Berkeley. He co-wrote *Animal Spirits* with Robert J. Shiller. Duke University economics professor **Rachel E. Kranton** is a scholar in the economics of networks.

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