

# Identity Economics 2016

## Where do Social Distinctions and Norms Come From?

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Identity economics provides a framework to analyze economic outcomes by establishing people's identities—not just pecuniary incentives—as primary motivations for choice. The heart of the framework is social difference and norms. Who people are, and norms for how they should look, act, and interact, shape economic life. The original papers embed social difference and norms into a model of utility, with applications to specific settings, showing implications for education, labor supply, work effort, and consumption (Akerlof and Kranton (2000, 2002, 2005)).

When this work was first presented, critics, friendly and otherwise, posed a challenging question, which went something like this: “You argue that social difference and norms should be in utility, but where do these divisions and norms come from? And how can they ever be empirically identified?” The authors' first response was to say that norms and divisions arise from human interaction

and to point to the volumes of research outside of economics. Moreover, the complexity of historical, cultural, and social processes seemed to strain the limits of traditional economic methodology, which relies on the statistical analysis of data and formal mathematical modeling. Yet, in the past fifteen years, research in economics, some using the identity framework and some using complementary notions of culture and norms, has begun to tackle these very questions.

This paper engages this research to put meat on the bones of identity economics and to point to its future. Taken together, this research shows that identity and norms are fractal; i.e., mirrored processes occur at the many levels of decision-making. Individuals, families, schools, governments, social movements—all shape divisions and norms with implications for economic outcomes. These findings lend credibility (and legitimacy) to the enterprise of identity economics and compel a yet deeper interpretation of the question “where do divisions and norms come from.” The question becomes: why do norms and

divisions resonate so strongly in human interaction in the first place? The task at hand, then, is to develop the micro-foundations of identity. Structural, socially framed understandings of human motivation will yield more robust accounts of behavior and institutions and yet better predictions of the implications of policy.

### **I. Social Categories and Norms: Short, Medium, and Long Run**

One way to understand both the challenges and the progress is to use a familiar metaphor from microeconomics: the short, medium, and long run. In an identity economics model, in the short-run people choose their actions, such as work effort, taking as given the norms and social categories as well as their own and others' identities, say at school or in a firm. In the medium run, individuals can possibly choose their identity and take some actions to change the categories and norms within such limited environments.

In the long-run, nothing is fixed or taken as given. People's actions—in many different capacities—in concert or in contest—more or less consciously—affect the norms and categories. Social divisions and norms are endogenous. Historians, anthropologists, and sociologists study texts and communities to reveal the structures and power relations that

define social divisions, along with thick descriptions of the minute-by-minute interactions that construct norms. However, exogenous variation is the cornerstone of empirical economic research, and comparative statics and analytical results are the cornerstones of theoretical work. Despite these requirements, empirical and theoretical research in economics has shown how divisions and norms are created and contested by people: for economic gain, for political power, and for reproduction of family values. Theorists have begun the next task, deriving norms and divisions from basic individual desires for self-realization and esteem. The next two sections discuss this research in turn.

### **II. Economic, Social, and Political Processes**

#### *A. Social Movements*

Social movements transform categories and norms. This assertion seems obviously true, as will be the case for many examples discussed in this review. The challenge is to separately identify changes in norms from, say, concurrent technological change. In a singular study, Goldin (2006) compiles and weaves together a preponderance of evidence to demonstrate the transformation in American gender norms from the late 19<sup>th</sup> to late 20<sup>th</sup> Century. The “revolutionary phase” derives

from the women's movement in the late 1970's. Women's new identities—as individuals with careers and professional aspirations—appear in a multitude of data: labor force attachment, life satisfaction, education, and naming patterns upon marriage.

### *B. Parents and Families*

Parents and families impart norms and identities. The seminal theory of Bisin and Verdier (2001) captures the intergenerational dynamics when parents want their children to share their ideology or “culture,” possibly facing a tradeoff with economic success.<sup>1</sup> Empirical studies in this vein investigate, for example, the impact of parents' ethnic identity on children's educational attainment (e.g., Schueller (2012)). Two prominent papers on first names given to children—distinctively African American names in the United States and distinctively Muslim names in France—indicate parental desires to impart an identity to their children, despite possible negative economic consequences (Fryer and Levitt (2004), Algan, Mayer and Thoenig (2013)).

<sup>1</sup> Theories of social evolution also represent intergenerational transmission of norms or preferences. As in biological evolution, people with certain traits (here norms or preferences) thrive. See, for example, Darity, Mason, and Stewart (2006) analysis which builds on Stewart's (1997) model of preferences for racial identity.

Battles over public policy is another arena that reveals family influence. Gradstein and Justin's (2005) theory considers school vouchers and the tradeoff between public schools and parents' choice of private schools with their own cultural content. Child-raising also shapes parents' values; United States Congress members with daughters are more likely to vote liberally, especially on policies concerning reproduction (Washington (2008)).

### *C. Economic Gain and Political Power*

People create social differences to serve their purposes, such as political or economic dominance. “Stratification Economics” spotlights the purposeful production of prejudice with implications for inequality (Darity, Hamilton, and Stewart (2014)). Similarly, politicians and others promote division and hatred as a rational competitive strategy (Edward L. Glaeser (2005)). On the other hand, norms for redistribution can be an equilibrium in a polity where people identify with each other and perceive themselves as similar (Shayo (2009)).

Political regimes successfully use schools—a prime arena for social reproduction<sup>2</sup>—to create and perpetuate social identities.

<sup>2</sup> See, for example, Bowles and Gintis (1976) who argue that public schools in the United States reproduce social classes and inequities by inculcating hierarchy and associated identities.

Voigtländer and Voth (2015) show that the Nazi anti-Semitic curriculum worked; children more exposed to this curriculum are more likely to have anti-Semitic opinions as adults. Language of instruction in public schools is a well-known battlefield, and work on compulsory language policies demonstrates that such policies can indeed impact children's identities (e.g., Clots-Figueras and Masella (2013)).

#### *D. Historical Patterns of Division of Labor*

Historical divisions of labor, originating from technology or discrimination, becomes seen as natural and appropriate with lasting effects. Grosfeld, Rodnyansky, and Zhuravskaya (2013) study areas in Eastern Europe and the Pale of Settlement, where before World War II Jews had to live and were relegated to particular occupations. Today, with virtually no Jews remaining, people in the Pale are less engaged in entrepreneurship and are less supportive of market reforms, all else equal. A regression discontinuity at the Pale border lends credence to the argument that anti-market norms arose from occupational segregation and associated identities. Covering a sweep of human history, Alesina, Giuliano, and Nunn (2013) argue that descendants of societies where the plough was the predominant agricultural tool still have

lower female labor market participation rates as well as attitudes favoring gender inequality. Research on shocks to traditional division of labor, however, directs attention back to the family as a source of norms. Fernández, Fogli, and Olivetti (2004) find a long term effect of the military draft during World War II in the United States. Wives of men whose mothers went to work during the war were also more likely to participate in the labor market.

## **II. Micro-foundations of Identity**

While the above analyses show the many forces that shape norms and divisions, there is a remaining deep conundrum: why do divisions and norms resonate for human beings? The answer lies in a set of papers proposing micro-foundations of identity—the individual desire for esteem, for self-understanding, and for self-consistency, both in how individuals see themselves and how others see them.<sup>3</sup> Bénabou and Tirole (2011) posit a theory where people care about “who they are” but lack self-knowledge; people then infer their identities by choosing actions that serve as signals to themselves and others. Akerlof (2015) develops a theory in which people desire self-esteem and peer-esteem.

<sup>3</sup> A traditional explanation is the theory of statistical discrimination (Arrow (1973)). Basu's (2005) model indicates racial conflict can emerge when a visible, but otherwise meaningless, characteristic becomes a stand-in for individual preferences

The model explains disparate phenomena, where people develop different identities with associated values, so that actions confer this sought-after esteem. The drive for self-consistency can lead to people to adjust norms to better match actions, as in Oxoby (2004).

Coming full circle, these micro-foundations are now informing work on social movements. Bezel and Carvalho (2015) argue that rising unemployment among college graduates has contributed to the Islamic revival in Egypt—people put more weight on religious devotion than unattainable economic success.

#### **IV. Conclusion**

Where do social differences and norms come from? They come from fundamental human desires for esteem and consistency, from parents who want the best for their children and want them to follow in their footsteps, from people aiming to control and dominate others for economic gain, and from people who rebel and take to the streets. All of these elements appear in one or other of the papers reviewed here. This research, which gives specific answers for specific settings, then answers the critics, as it also shows the value-added of an economic approach.

The quest to answer the question “where do norms come from” could fruitfully continue by elaborating the micro-foundations of identity and marrying these micro-foundations

to the study of particular historical moments and particular contexts. The micro-foundations provide the mechanism underlying the formation of norms and the production of norms through actions. The social context indicates the form the norms will take. That is, people could derive esteem and achieve self-consistency from any number of possible matches between norms and number of behaviors. The social context would select among possible equilibria. To elaborate an example from research discussed here: in Egypt young people turn to Islam to achieve esteem and self-consistency, rather than, say, to physical fitness or to participation in sports. Religious devotion is a readily available alternative norm to economic success, and one which is transmitted by the family and promoted by political interests, all forces described above. Research that draws on the micro-foundations of identity and that strives to integrate these levels of decision-making could provide such further specificity and hence more robust accounts of individual choice and economic outcomes.

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