

Economics and Identity

George A. Akerlof

Stamp Lecture

London School of Economics

April 25, 2007

- **Thanks to Rachel Kranton.**
- **Initially thought identity was just tastes.**
- **Four papers:**
 - **Economics and Identity: QJE (2000).**
 - **Schooling and Identity: JEL (2002).**
 - **Organizations and Identity: JEP (2005).**
 - **Macroeconomics and Identity: AER (2007).**

Economics: About Incentives

- *Freakonomics:*
 - About *price theory*.
- Missing Motivation in current economics.
- Important economic problems.

Standard Method of Economics

- **Maximization of Profits (Firms).**
- **Maximization of Utility (Individuals).**
- **Classification of Motive.**

The Missing Motivation: Norms

- Pareto.
- Opinions how they *should*, or how they *should not*, behave.
- Views how others *should*, or *should not*, behave.
- Depends upon their *identity*:
 - Who people think they are.

Ideals

- **Example:**
 - Religion and religious leaders.
- **Principle:**
 - People tend to be *happy* when they live up to how they think they *should be*.
 - They are *unhappy* when they fail to live up to those norms.

Other Examples

- Teacher.
- Dignity at work.
- Betty Friedan.
- Merry-Go-Round (Carousel).

- Millions of women lived their lives in the image of those pretty pictures of the American suburban housewife, kissing their husbands goodbye in front of the picture window, depositing their stationwagonsful of children at school, and smiling as they ran the new electric waxer over the spotless kitchen floor. They gloried in their role as women, and wrote proudly on the census blank: “Occupation, housewife.”

Protocol for Adding Identity to Economics

- How does the decision maker conceive of herself?
- What is her ideal?
- How does utility depend upon distance between ideal behavior, e^* , and actual behavior, e ?
- How do *others* affect identity utility?
- If this is true motivation, we have no choice: Must be in utility function.

Outline of Rest of Seminar

- Economics of Minority Poverty.
- Economics of Education.
- Economics of Organizations.
- Economics of Gender in the Workplace.
- Economics of Gender in the Household.
- Macroeconomics.
- Four *functional* changes to economics.
- Conclusion.

Impoverished Minorities

- **African-Americans:**
 - **Non-employment: Males, 25-34, close to 40 percent.**
 - **Lifetime chances of imprisonment: close to 1/3.**
 - **Out-of-wedlock birth rate: close to 2/3.**

Oppositional Culture

- History of injustice.
- Continued divisions between “us” and “them.”
- Natural reaction:
 - If they thumb their noses at *us*, we can thumb our noses at *them*.
- Negative economic consequences.

Standard Theory

- **Leading theory in African-American studies:**
 - **Elijah Anderson.**
 - **James Baldwin.**
 - **Kenneth Clark.**
 - **W. E. B. Du Bois.**
 - **Franklin Frazier.**
 - **Ulf Hannerz.**
 - **John Ogbu.**
 - **Lee Rainwater.**
 - **William Julius Wilson.**

Economic Policy

- Understanding.
- Public money and public resources.
- Schooling.
 - Effectiveness of:
 - Small class size.
 - Excellent Teaching.
 - Miracle Schools.
 - Need for *Extra* Resources.

Economics of Education

- **Traditional Questions:**
 - **How Much Education?**
 - **Returns to Education?**
 - **Effectiveness of Programs?**

Literature on Education

- **History of Education:**
 - Emphasis on immigrant experience.
 - Imposition of Identity.
- ***Shopping Mall High:***
 - Failure to Impose Identity.
- ***Adolescent Society* and the Bishops:**
 - Role of the leading crowd.
 - The role of bullying.

Students form groups with strong independent sub-cultures in order to produce and consume friendship, emotional support, socializing, gossip, parties, competitions between schools, prestige from belonging to a high status clique. They set norms for academic engagement, pressure teachers to “go easy,” and punish group members who violate peer norms.

Economics of Organizations

- **Standard Economics:**
 - Give right incentives.
 - Careful reading: *system will be gamed.*
- **Solution:**
 - Employees identify with organization or with their jobs within it.
 - Example: Teachers/US Universities.

Policy Implications

- High pay incentives (such as high CEO pay) is not the answer.
- Legal system: jobholders are *fiduciaries*.
 - Basic crime: failing to fulfill obligations of office.

Gender and the Work Place

- **Traditional Economics:**
 - Division of Labor according to Comparative Advantage.
- **Identity Economics:**
 - Gendered tasks.

Economic Policy

- **Women's Movement.**
 - Tasks *should not* be gendered.
- **Sexual harassment law.**
 - Not just *sexual* harassment.
 - Harassment because of inappropriate associations between gender and jobs.
 - Example: Irene Padavic.

Economics of the Household

- Evan and Nancy Holt.
- Division of Housework.

Macroeconomics

- **Traditional Economics:**
 - Stabilization policies do not work.
- **Identity Economics:**
 - With considerations regarding how employers and workers *should or should not behave*, stabilization policies do work.
 - Government should stabilize macroeconomy.

Directly Care About Identity.

- Self-Destruction.
- Example:
 - Beauty Practices.

Identity *Externalities*

- Culture of Honor:
 - US Civil War.
- Nisbett and Cohn:
 - Subjects called “asshole.”
 - Southerners: g-un.
 - Northerners: f-un.

Manipulation of Others

- Advertising.
- Politics.
 - Gandhi's *Salt March*.
 - French Revolution: *Citizens*.
 - Russian Revolution: *Comrades*.
 - US Presidential politics.

Time Inconsistency

- Different people we become:
 - Graduations.
 - Confirmations, bar/bat mitzvahs.
 - Weddings.
 - Taking on offices.

Conclusion

- Different economics.
- Who the person thinks she is.
- What is her ideal.
- Reactions of Others.
- Widens scope of policy.