Who 'Dat?
Glenn Altschuler
Barron's; Mar 1, 2010; 90, 9; ABI/INFORM Global pg. 41

Who 'Dat?
A question for economists

Identity Economics: How Our Identities Shape Our Work, Wages and Well-Being
by George A. Akerlof and Rachel Kranton,
Princeton University Press, 200 pages, $21.95

Reviewed by Glenn Altschuler

ECONOMISTS NO LONGER BELIEVE THAT an invisible hand keeps supply and demand in equilibrium. Or that buyers and sellers always act rationally in the marketplace. They now include a wide array of noneconomic motives in their models, practicing identity economics—the topic of this book by George Akerlof, a Nobel Laureate and professor of economics at University of California/Berkeley, and Rachel Kranton, professor of economics at Duke. The authors make a compelling case that the group with which individuals identify shapes their decisions about schooling, work, savings, investment, and retirement. This paradigm offers better ways of understanding the consequences of public policies and business practices.

Identity economics, they demonstrate, augments theories of comparative advantage, taste, and statistical discrimination to explain why occupational segregation persists despite market forces: As long as many employers and employees view some jobs as appropriate for men and others for women, no single firm has an incentive to change the norms. Sex-discrimination laws, however, have made a difference. In 1970, only 4.5% of lawyers and 24.0% of auditors and accountants were women. Twenty years later, it was 24.5% and 32.7%.

Identity Economics is a work in progress. The authors do not always provide a clear, consistent definition of “identity.” And some of their suggestions seem driven more by ideology than evidence. But Akerlof and Kranton add to a growing consensus that when economic choices are made, context is king. Individuals and organizations can alter identity-based categories, norms and ideals through advertising, workplace culture, politics, and law. And Identity Economics provides a new language and a useful apparatus to take measure of “real people in real situations.”

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