Identity Economics 2016
Where do Social Distinctions and Norms Come From?

By Rachel E. Kranton*

* Kranton: Duke University, 213 Social Sciences, Durham, NC
27708 (rachel.kranton@duke.edu). This paper emerges from on-going
conversations with George Akerlof on the implication of identity for
economics. I am grateful to Catherine Moon and Shahan Rabbani for
their research assistance and to the Canadian Institute for Advanced
Research for financial support.

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 19th to late 20th 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. 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)).

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—to create and perpetuate social identities.

---

1 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.

2 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 the micro-foundations of identity. A set of papers is starting to build these foundations based on such primitives as individual desire for esteem, for self-understanding, and for self-consistency, both in how individuals see themselves and how others see them.⁳

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

---

⁳ 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.
(2015) develops a theory in which people desire self-esteem and peer-esteem. 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. Binzel 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 advancing the micro-foundations of identity and by 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, or realize other fundamental desires for status or dominance, 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.

---

4 See Bosworth, Singer, and Snower (2015).
REFERENCES

Darity, William, Patrick Mason, and James


