

Book Review

IDENTITY ECONOMICS: HOW OUR IDENTITIES SHAPE OUR WORK, WAGES, AND WELL-BEING George A. Akerlof & Rachel E. Kranton, Princeton, 2010, 185 pages, ISBN 978-0-691-14648-5

Akerlof & Kranton propose a way to capture the power of identity with traditional economic analysis. The writing is lucid and clear and opens the way to wide readership by avoiding the use of economic jargon. The book's stated aim is to introduce a way of making sense of the effect social contexts have on beliefs (or non-economic motives). Identity economics, they say, gives a vocabulary and analytical framework to discover and describe norms that drives these motives – a social context putting 'humanity' into understanding individual decision making.

While on the topic of humanities, many have written about the challenge of linking economics with social sciences. Akerlof & Kranton note that "Anthropologists, psychologists, and sociologists focus particularly on the relation between people's norms and their view of self and social context, largely because these researchers are sensitized by their theoretical orientation." The authors also discuss the links between understanding social interactions (familiar to sociologists) explaining that norms and related identities result from various social interactions. The authors seek to capture both the dynamics of groups and individuals by focusing on particular activity that can define a group's particular norm.

The book covers a range of topics including individual choice and maximizing a utility function, the role of socialization and 'choice of identity', as well as defining the relationship between welfare and utility, and defining identity.

The basic procedure is outlined with a simple and parsimonious utility function incorporating social categories assignment (identity), the definition of norms and ideals for each social category, and finally the identity utility based on whether individual actions conform to the norms and ideals specified. This presumes that conformation creates an individual gain whereas non-conformance translates to a loss. The authors propose that an individual balances their standard utility with their identity utility.

Akerlof & Kranton suggest several reasons that identity enriches economic analysis. Firstly, it allows economists a simple representation of individual actions, and the externalities linked therein. Secondly, categories and norms and ideals are captured alongside their purely economic interests. Thirdly, regrets are captured that expands upon theories of time inconsistency. Overall, identity economics captures the choices associated with identity.

The value in this book is that it continues on from past economic work but suggests further depth to the rational economic behaviour paradigm. Identity economics offers clear insights into the topic by providing concise and interesting examples related to four particular fields: work, school, gender and race. These examples show the many paths open to further exploration with identity as an integral part of economic analysis.

Identity Economics is well-written, concise and thought-provoking. It is appropriate that the authors describe the book as a primer. It is an enjoyable and interesting read that wets

the appetite and leaves you with more questions than you started with and an enthusiasm to discover more. Fortunately, Akerlof & Kranton have provided a comprehensive list of notes and references guaranteed to keep you reading into the future.

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