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## What is the point of identity economics?

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► **To cite this version:**

Daniel Marks. What is the point of identity economics?. Economics and Finance. 2015. dumas-01355174

**HAL Id: dumas-01355174**

**<https://dumas.ccsd.cnrs.fr/dumas-01355174>**

Submitted on 22 Aug 2016

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***What is the point of identity economics?***

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*2014-2015*

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## CONTENTS

<b>Introduction</b>	4
<b>Part1: A route through the literature</b>	5
1.1 Foucault and liberal thought in <i>The birth of biopolitics</i>	6
1.2 Liberalism and the art of government	8
1.3 Constitution of the liberal subject	9
1.4 Characteristics of liberalism: An exercise in benchmarking	12
1.5 Foucault and the neoliberals	13
1.6 Identity and rational man	18
1.7 Identity as belief	25
1.8 Identity without the individual	28
<b>Part 2: What is the point of identity economics?</b>	34
2.1 The models	37
2.2 Construction and function	38
2.2.1 <i>Social identity theory and exogenous social construction</i>	38
2.2.2 <i>Neoliberalism and the utility function</i>	43
2.2.3 <i>Ethnography, anthropology and observation of the small</i>	46
2.3 From construction to representation	48
2.4 Representation and learning	50
2.5 Is identity economics an economic theory of identity?	52
<b>Conclusion</b>	55
<b>Bibliography</b>	58

## INTRODUCTION

This paper has a provocative title but one which should not be misunderstood. There is a clear need for a better theoretical understanding of 'the social' in economics. The economists George Akerlof and Rachel Kranton in their work between 2000 and 2010 developing what they term 'identity economics' were responding to that need. The title rather refers to the purpose, nature and implications of their response. Textbook economics developed over the past 60 years has strongly resisted the invasion of the social into the minds of its rational beings. But if identity is to be included in economic analysis it must alter the rationality of the economic subject. Rational choice theory – understood here in the broad sense of analysis based upon an individual who maximises a utility function – which forms the basis of much of this economic analysis at first sight defines the rationality of its subjects, holding them to a mathematical formalism which is absolute. How then to understand a model which uses rational choice theory to illustrate the salience of identity in economic analysis? This is the question this paper sets out to answer.

There is no doubt that if economic phenomena are to be fully understood then a theory of economic identity will be required. Identity is at the heart of economic activity and shapes economic outcomes. What does it mean to 'be' a consumer? An entrepreneur? A worker? How do identities shape consumer behaviour or the response of society to a change in the economic climate? How do they relate to poverty and exclusion? How do changes in economic identities affect outcomes? Akerlof and Kranton see their work as bringing economic analysis closer to reality and in this they may be correct. But it is important to begin to understand what the implications of brazenly incorporating an entity which is socially constructed into economic rationality might be. Social identity does not form spontaneously or exist autonomously. It is shaped through society, culture and politics. Identity also has a deep seated effect on the individual. It is the medium through which they understand themselves and their role in the world as well as their behaviour and that of those around them. Can these factors be incorporated into economic analysis without a profound transformation of the discipline? Can identity be incorporated into economic analysis without them?

This work proceeds in two parts. The first seeks to establish some firm ground in a literature which is both vast and diverse. It develops a picture of the economic conception of the subject and identity and the problems which such a conception faces. An alternative theory of identity is explored which offers insights into the social construction of identity and its relation to the

individual. The second part uses the insights of the first to tackle the work of Akerlof and Kranton systematically. It employs a functionalist approach to modelling to look at construction, function, representation and learning in Akerlof and Kranton's models to probe their methodological and theoretical position in order to clarify key concepts, locate the contribution of their work in relation to the history of economic thought and ask whether their work amounts to an economic theory of identity.

### **PART 1: A ROUTE THROUGH THE LITERATURE**

Identity and the nature of the subject are concepts whose subtleties can shape entire disciplines. Whether explicitly or implicitly all attempts to account for human behaviour, purpose or reflection will have implications for the nature of the subject in the account. Contrarily, an alternatively constructed subject or a reinterpretation of its identity will have implications for the plausibility of any account given of the subject's behaviour. As might be expected of a construction at the heart of such a breadth of analyses, the proper domain for understanding identity is not agreed upon. Traditionally an object of philosophical discussion, sociological and psychological accounts of identity have more recently become influential. The importance of distinctions between these variously derived accounts has often been overlooked. But if the Foucauldian position of discourse-as-power is taken seriously, these conceptual distinctions and the attribution of the proper domain for the analysis of identity to different disciplines is revelatory. As it turns out, greater conceptual clarity of underlying distinctions provides some much needed clarity on the issues discussed in this paper.

Such a broad literature could be crudely divided in any number of ways. The challenge any such characterisation must face is establishing the presence of meaningful intellectual trends which cut across disciplines which in many cases do not address each other or share any common ancestry. On the other hand, a deconstruction of the literature which is overly specific loses analytical force. The task is not made easier by the broad set of influences Akerlof and Kranton claim, which includes "the research of sociologists, anthropologists, psychologists, political scientists, historians, and literary critics" (Akerlof and Kranton 2010, pp6). They do not set out a specific theory of identity formation or identity *per se*, although their modelling draws heavily from social identity theory, but draw on a set of examples and demonstrate how they might be represented in an expanded rational choice model. They are also methodologically promiscuous. Friedman is identified as a good place to start a discussion of economic methodology but the possibility of falsifying theories using

statistics is denied and a central role found for ethnographic and anthropological studies as well as psychology experiments. This multiplicity of influences points to a central challenge in addressing their work; what precisely is it and where does it fit in with the broader economic and identity literature?

This paper will therefore attempt to pick a route through the literature, a route which will highlight some of the issues pertinent to Akerlof and Kranton's identity economics. It starts with a broad analysis of the features of the liberal and neoliberal traditions from which identity economics derives. This section draws on Foucault's *The birth of biopolitics* to tease out the characteristics which facilitate liberal rationality; homo economicus and the invisible hand. Homo economicus and its relation to power is of particular interest as it provides a useful benchmark against which to gauge the continuations and transformations of Akerlof and Kranton's subject. It then moves on to explorations of the individual and identity in the contemporary economics literature by Aguiar and Francisco (2008) and Davis (2008). This literature draws a distinction between externalist and internalist conceptions of rational choice but is characterised by ambiguity and mischaracterisation. This section seeks simply to draw out the trends and disagreements which highlight some of the issues in Akerlof and Kranton's work. What emerges from both discussions of the literature is the need for a theoretical account of a subject which has a history and whose identity is established in language and society. Judith Butler's post-structural theory of performative identity is set out in opposition to the economic discussion and provides an illuminating perspective from which to view Akerlof and Kranton's work. Having navigated the literature thus it will be possible to shine a light on what identity economics is, what it does and what it is for.

### **1.1 Foucault and liberal thought in *The birth of biopolitics***

Rather than beginning this review with an explication of Akerlof and Kranton's work, it is useful to take a step back and consider an older debate. Akerlof and Kranton (2010) point to Gary Becker as the central protagonist in bringing *homo economicus* closer to reality;

*In the nineteenth century, economists began to build mathematical models of how the economy worked, using a stick figure of a rationally optimising human with only economic motivations. As economics evolved into the twentieth century, the models grew more sophisticated, but homo economicus lagged behind. This began to change when Gary Becker*

*developed ways to represent a variety of realistic tastes, such as for discrimination, children, and altruism. (pp7)*

The pair owe a lot in terms of their technique for incorporating identity into a utility optimisation to Becker. His work is referenced in all of their papers and they state that “Becker’s approach, like ours, was to expand the utility function”. They describe his work as one of four moments of “transformation” within economics (Akerlof and Kranton 2010, pp28). In form and in heritage, their modelling is closely related to Becker’s. But the inclusion of social processes is a major departure. So what is the relationship between the authors?

It is instructive to look at Foucault’s appraisal of Becker and what he calls the neoliberals in his 1978-79 lecture series *The birth of biopolitics* (Foucault 2008), a work which should be compulsory reading for all students of economics. In these lectures Foucault deploys what might be called a post-structural method. It is post-structural in the sense set out by Butler (1990, pp40), in that Foucault seeks to address the ways in which particular practices become intelligible and the contingent basis of these modes of intelligibility. More than this, he seeks to explain how these practices come to be understood as universals through the ‘archaeological’ logic of discourse. In *The birth of biopolitics*, Foucault sets out the way in which liberalism, in the form of political economy, developed in response and in conjunction with concurrent views of the practice or ‘art’ of government.

*I would like ... starting from [governmental] practice as it is given, but at the same time as it reflects on itself and is rationalised, to show how certain things – state and society, sovereign and subjects, etc – were actually able to be formed, and the status of which should obviously be questioned ... I would like to start with these concrete practices and, as it were, pass these universals through the grid of these practices. (Foucault 2008, pp2-3)*

Using this method Foucault addresses the relationship between political economy and conceptions of the state and state power. The analysis warrants particular attention from us as it examines the particular rationality of the neoliberals, of whom Foucault takes Becker as an exemplar, and its relationship with older forms of liberalism. This will allow us to mark out the theoretical territory which Akerlof and Kranton take up, better locating their claims in relation to economic thought historically and setting out more precisely the continuations and transformations made by their theory.



## 1.2 Liberalism and the art of government

Foucault identifies a core transformation in the logic of the art of governance with the early emergence of liberalism in the eighteenth century; a transformation which he believes continues to play an important role in modern political debate (pp313). For Foucault, liberalism found its theoretical expression in political economy, which sets out a new rationality for governmental practice based on the dual notions of homo economicus and the invisible hand, whose history he traces in the lectures. He makes a number of important claims with regards to the break political economy makes with previous 'grids' of governmental practice. He argues that previous theories of government had sought to subject the sovereign only to external limitations on its power.

Discussion in these theories had revolved around issues such as the natural rights of subjects and the surrender of some of these rights as part of the social contract and the wisdom of the sovereign as one who might govern all aspects of life if he or she so chose. Foucault shows that underpinning these discussions were external principles limitations on the sovereign's power which were generally manifested in law. The logic ran that the sovereign *should not*, as opposed to *is not able to*, intervene in certain aspects of life.

For Foucault, the transformation embodied by liberalism "consists in establishing a principle of limitation that will no longer be extrinsic to the art of government, as was law in the seventeenth century, [but] intrinsic to it: an internal regulation of governmental rationality" (pp10). This limitation is understood in terms of the goals of governmental practice; "the principle of this limitation is not to be sought in what is external to government, but in what is internal to governmental practice, that is to say, in the objectives" (pp11). The principle is internal because encroaching on this domain of human behaviour, the domain of the economic subject, can only act against the sovereign's aim of increasing the national wealth. Foucault clarifies this further when he says that; "Governmental reason will have to respect these limits inasmuch as it can calculate them on its own account in terms of its objectives and [the] best means of achieving them". Thus governmental practice becomes subject to the criteria of "success or failure, rather than legitimacy or illegitimacy" (pp16). There are significant implications of this transformation, not least that "the greatest evil of government, what makes it a bad government, is not that the prince is wicked, but that he is ignorant". For Foucault, this is the view set out by political economy.

The origins of political economy in relation to the previously dominant view of governmental practice, what Foucault calls *raison d'État*, are important. *Raison d'État* was a form of absolute governance, governance without limitation. That is, that the sovereign can and should govern all aspects of life such that “the state becomes sturdy and permanent, so that it becomes wealthy, and so that it becomes strong in the face of everything that may destroy it” (pp4). Foucault argues that political economy did not emerge completely in opposition to *raison d'État* but rather within its matrix of intelligibility. “What objectives did political economy set itself? Well, it set itself the objective of the state’s enrichment.” (pp14). Indeed, political economy was born within the political conception of mercantilism and the credo of the balance of power which was situated at mercantilism’s core; “[Political economy] proposed precisely the maintenance of an equilibrium between states such that competition can take place”. Thus political economy was conceived as an instrument of governmental practice intended to add strength and precision to that practice but which saw limitations in the ability of the state to bring about its aims. As will be discussed later, Foucault sees this legacy in American neoliberal thought.

### 1.3 Constitution of the liberal subject

Foucault highlights an interesting dual character at the heart of the liberal economic subject homo economicus. Homo economicus is “the person who must be let alone” but also “someone who is eminently governable” (pp270). This dual character was integral to liberal theory, enabling the constitution of “a certain type of subject who precisely enabled an art of government to be determined according to the principle of economy” (pp271). Thus political economy established a principle of self limitation which arose because of the “nature specific to the objects and operations of governmentality” (pp16). If the state “were to disrupt this nature, if it were not to take it into account or go against laws determined by this naturalness specific to the objects it deals with it would immediately suffer negative consequences” (pp16). But this realm into which the state should not tread does not establish a “zone that is definitively inaccessible to any government action” (pp271). Rather it puts “homo economicus as the partner, the vis-à-vis, and the basic element of the new governmental reason formulated in the eighteenth century” (pp271). We can thus discern one of the foremost characteristics Foucault associates with liberalism, that the economic subject is one that is manageable and ‘governable’.

Foucault goes on to show how the notion of homo economicus emerged from the theory of the subject put forward by the English empiricists around the time of John Locke. This is what Foucault

calls the “subject of interest” and more particularly “a subject of individual choices which are both irreducible and non-transferable”. By irreducible, Foucault is referring to a characteristic of preferences emphasised by Hume. That at some point in the interrogation of preferences there comes a moment when reason becomes irreducible. In Hume’s example, cited by Foucault (pp272), “[If you ask] ‘Why do you prefer health to illness?’ He will reply, ‘Because illness is painful and so I don’t want to fall ill.’ And if you ask him why is illness painful, then at that point he will have the right not to answer, because the question has no meaning”. The non-transferability of choices refers to the idea that decisions “will be made on the basis of my own preference” (pp272) and that preferences ‘belong’ to the subject. From this we can begin to see, although Foucault does not explicitly make this point, the characteristics of economic identity associated with homo economicus which have persisted and which relate the nature of the subject, and indeed identity within the “economic grid” or economic matrix of intelligibility, to its preferences.

Addressing the work of Condorcet, Foucault argues that the individual in liberal thought finds itself faced with a reality of feasible means and ends over which it has no control other than to select those which best advance its interest. Furthermore, the individual cannot see and does not intend the positive externalities that the pursuit of its interest will yield. Thus for Foucault, “the situation of homo economicus could therefore be described as doubly involuntary, with regard to the accidents which happen to him and with regard to the benefit he unintentionally produces for others” (pp277). The context in which homo economicus makes choices is uncontrollable and unintended and the positive externalities of these choices is equally uncontrollable and unintended. It is precisely these characteristics that, for Foucault, “found, as it were, the *specifically individual calculation* that he makes; they give it consistency, effect, insert it in reality, and connect it in the best possible way to the rest of the world” (pp278, emphasis added). The character of the subject as an individual here is interesting. The moment of individuality, in which the economic subject might be revealed as an individual, is decentred from the subject to the moment of the “specifically individual calculation”. Individuality is expressed through the combination of the preference of the subject of interest and the situation, over which the individual has no control.

The coherence and sustainability of this subject, and the mode of decision making the subject deploys, is made possible and intelligible only through the notion of the invisible hand. This is the principle which allows the spontaneous coordination of egoistic decision making towards the public good. Foucault looks in particular at Adam Smith’s claim in the *Wealth of Nations* that people are only interested in their own gains and not those of others and that this is just as well, as “I have

never known much good done by those who affected to trade for the publick good” (pp279). Foucault argues that this claim is made sensible only by two further claims; that for “the greatest good to be attained for the greatest number of people ... it is absolutely necessary that each actor be blind with regard to this totality [the full implication of their actions]” (pp279) and that people must not act in the public good. To evidence this he cites a passage from Smith which argues that in terms of coordinating the economic process “no human wisdom or knowledge could ever be sufficient” (pp282). It should be made clear that Foucault is not discussing knowledge of economic theory or aggregated outcomes, but knowledge and control over the totality of “specifically individual” decisions. Foucault makes this clear when he says that the economic world is “originally and definitively constituted from a multiplicity of points of view which is all the more irreducible as this same multiplicity assures their ultimate and spontaneous convergence” (pp282). This means that “homo economicus is the one island of rationality possible within an economic process whose uncontrollable nature does not challenge, but instead founds the rationality of the atomistic behaviour of homo economicus” (pp282).

This formulation engenders a particular relationship between homo economicus and the sovereign. Foucault sums this up thus;

*Homo economicus is someone who can say to the juridical sovereign ... You must not ... But why must he not? You must not because you cannot. And you cannot in the sense that ‘you are powerless’. And why are you powerless, why can’t you? You cannot because you do not know, and you do not know because you cannot know.”* (pp282-283)

In this sense homo economicus is fundamentally distinct from the juridical subject, who tells the sovereign; “You must not, because I have rights and you must not touch them”. There is an “absence or impossibility of an economic sovereign” (pp283). For Foucault, this relationship with power is fundamental. “This is a very important point in the history of economic thought, certainly, but also and above all in the history of governmental reason”, he says (pp283). It is a structural relationship that Foucault argues persists to this day; “All the returns and revivals of nineteenth and twentieth century liberal and neoliberal thought are still a way of posing the problem of the impossibility of the existence of an economic sovereign” (pp283).

This brings out an important question in Foucault’s analysis; what is the role of the government in regard to the economic domain in which there can be no sovereign? Is the government simply a

steward or technician of the economy? No. For Foucault, the logic which attempts to join the liberal subject and the juridical subject requires a new technique of governance, that of civil society. By this he means a set of intellectual concepts which envelop the economic and juridical realms within a total system of governance while establishing a principle of self limitation in both domains. The notion of civil society is not restricted to the more particular sense commonly used now, but rather incorporates ideas like the nation, community, i.e. a location within a community of ideas within which might individuals locate themselves. This is suggested on pp296 when he says; “civil society – which is very quickly called society, and which at the end of the eighteenth century is called the nation”. Without referencing him specifically, Foucault seems to adopt a definition of civil society close to that set out by Gramsci, a realm that mediates between the state and the economy, although for Foucault mediating between the state, the economic subject and the juridical subject.

As with all universals Foucault is interested in a set of practices which become invested with a special significance. He explicitly does not take civil society as a given; “I think we should be very prudent regarding the degree of reality we accord to this civil society” (pp297). It is, however, “absolutely correlative to the form of government technology we call liberalism” (pp297). Foucault uses the work of Adam Ferguson in the eighteenth century to show that “civil society serves as the medium of the economic bond” (pp302). Civil society forms the community bonds which create the space within which economic processes operate – Adam Smith talks about the wealth of *nations*. Economic bonds here play an ambiguous role, spontaneously coordinating interests at the same time as disassociating individuals via their egoism. It is within the problematic of civil society that all questions relating to the practice of government and its relationship to civil society and individuals takes place.

#### **1.4 Characteristics of liberalism: An exercise in benchmarking**

So what is Foucault telling us in his analysis? He gives us two themes which can be said to characterise his view of contemporary (neo)liberalism. Economics as the scientific – and Foucault is clear that it is a science (pp286) – principle of self-limitation for governmental practice and homo economicus, the subject whose particular constitution facilitates liberal reasoning and whose character denies the possibility of an economic sovereign. More precisely, Foucault shows that there is a particular style of reasoning which relates liberal political economy to governmental practice. This sets out the role of government, how the relationship between governor and homo economicus can and should be structured, and what possibility there is for an economic sovereign.

Secondly, there is the character of homo economicus. Homo economicus is an island of rationality whose micromanagement is impossible; it is this characteristic which denies the possibility of an economic sovereign. Homo economicus is manifested by a coming together of preferences which are irreducible and non-transferable and an economic totality which is unknowable. Does their alteration of the utility function unintentionally reintroduce the economic sovereign?

This gives us a measuring stick with which we can begin to assess the distance of theories such as those of Akerlof and Kranton from the underlying tenets of liberal thought. This will help us assess the ways in which their work does and does not mark a continuation or transformation of economic thought as well as some of the normative implications.

### 1.5 Foucault and the neoliberals

Foucault locates the distinction between American neoliberalism and German and French forms of neoliberalism in the foundation of the American state. Being founded as a nation on the basis of liberal ideals, liberalism moulds the way in which the world is framed by Americans to a far greater extent than it does French or German people. "I think we can say ... American liberalism is not – as it is in France at present, or as it was in Germany immediately after the war – just an economic and political choice formed and formulated by those who govern and within the governmental milieu. Liberalism in America is a whole way of being and thinking", Foucault says (pp218). As a result, liberalism in the United States is more than a technique of governmental practice, it is "a type of relation between the governors and the governed" (pp218). Foucault sums this up well when he says;

*Let's say, if you like, that whereas in a country like France disputes between individuals and the state turn on the problem of service, of public service, [in the United States] disputes between individuals and government look like the problem of freedoms. I think this is why American liberalism currently appears not just, or not so much as a political alternative, but let's say as a sort of many-sided, ambiguous, global claim with a foothold in both the right and the left."*  
(pp218)

It is perhaps not surprising then that it was from within American neoliberalism that the domain of homo economicus came to see a massive expansion and reconceptualisation, particularly in the work of Gary Becker. Becker proposed that the domain of economic analysis could extend not only

beyond processes normally thought to be economic, but beyond rational behaviour to incorporate all sensible behaviour; that is any behaviour based on a perception of reality from which patterns can be discerned. As Foucault was well aware, Becker's definition was and remains controversial.

Foucault looks at the neoliberal approaches to human capital and crime to bring out the characteristics which distinguish American neoliberalism. The neoliberal theory of human capital began with a problematisation of labour in classical economic theory. The neoliberal emphasis on the subject and the enterprise of the subject means that labour in traditional economics looks strangely passive. In traditional political economy labour is employed as a factor of production and augmented by investment in capital, with little role for the subject other than as a factor of production. But for the neoliberal, building on the definition of economics proposed by Robbins, "economics is not ... the analysis of processes; it is the analysis of an activity ... the analysis of the internal rationality, the strategic programming of individual's activity. This means undertaking the economic analysis of labour" (pp223). In an interesting way this transformation of perspective plays an emancipatory role, freeing the subject from the tyranny of the production process and placing him centre stage as an economic agent. This is implied by Foucault when he says that the neoliberals "adopt the point of view of the worker and, for the first time, ensure that the worker is not present in the economic analysis as an object – the object of supply and demand in the form of labour power – but as an active economic subject".

Seen from the perspective of the worker, his or her labour represents an income stream and any potential outlay which increases this income stream can therefore be seen as an investment. They thus appear to themselves as enterprises which can be invested in to increase future revenue. In that sense the worker's capacity to earn an income – that is their ability or skill – is a form of capital and investment of time and money improving skills is similar to investing in better equipment. The result is an "economy made up of enterprise-units, a society made up of enterprise-units, [which] is at once the principle of decipherment linked to liberalism and its programming for the rationalisation of a society and an economy" (pp225). For Foucault this represents a fundamental transformation of homo economicus from a partner in exchange to a homo economicus which is an enterprise. "Homo economicus is an entrepreneur, an entrepreneur of himself. This is true to the extent that, in practice, the stake in all neoliberal analyses is the replacement every time of homo economicus as a partner of exchange with a homo economicus as entrepreneur of himself".

There are, of course, inconsistencies to this approach and one in particular is worth mentioning and will be picked up again in the analysis of Akerlof and Kranton's models. The problem is noted by Foucault but he does not go into detail. That is that while the individual who 'is' the human capital has a clear incentive to invest in it, what are the returns to parents and friends who are investing in a revenue stream to which they expect never to have access? Foucault says that "the neoliberals say, it will be psychological income". This is important for several reasons. Firstly it shows a re-emphasis on the non-transferable and irreducible nature of preferences at their early origins in Hume; the logical chain ceases to have relevance when you endeavour to move beyond 'this gives me pleasure' or 'this gives me pain'. But secondly, it is a transformation of the incentive structure for homo economicus, allowing an expansion of the utility function to allow representation of any positive or negative inclination.

This makes the space for the inclusion psychological reward systems imported from behavioural psychology. These seek to explain the irreducible preference in terms of a response in the brain to stimuli which might be represented by a heuristic, in this case 'educating my child brings me some degree of pleasure'. Choosing to base the logic of underlying preferences in this type of approach fits with traditional political economy as it maintains the independence of the individual, but has the effect of excluding the social from the analysis. Indeed, the space was apparent in some of the earliest conceptions of the liberal subject. In Foucault's discussion of Hume, for whom "the painful or non-painful nature of the thing is in itself a reason for the choice beyond which you cannot go". Questions such as why some parents invest in their child's 'cultural' or 'spiritual' capital, which might be expected to have no or even negative effects on future income streams, become intelligible only to the extent that they are a distraction from activities which will increase a child's human capital. This reflects a deeper logic within neoliberal thought which denies access to the decision making process of the individual and therefore excludes any social construction, as this implies a potential role for the economic sovereign through an external rationality which might invade the "island of rationality" that is the economic subject. The principle will be examined in depth later as a point of departure in Akerlof and Kranton's modelling.

However, we say leaves space for psychology because Foucault does not believe that neoliberal theory introduces it into economics. The neoliberal theory of crime explains crime in economic terms but one might ask whether the theory of human capital does not introduce a whole range of education and training theory into economics. The proliferation of worldwide educational tests – such as the Organisation for Economic Co-operation and Development's (OECD) Programme for



International Student Assessment (PISA) – and refocused attention by economic researchers such as Abhijit Banerjee and Esther Duflo on organisational incentive structures, often non-monetary, as they are seen as affecting human capital appear to attest to the ways in which disciplines outside of economics – educational studies, anthropology – have been imported into economics via the notion of human capital. But this is not Foucault’s point. Foucault is arguing that the system of human capital as a whole can in the neoliberal analysis be viewed within the economic matrix of efficiency, supply and demand. In this way the ‘trials’ undertaken by Banerjee and Duflo fit as an archetype into the neoliberal typology because policy strategies are assessed according to their ultimate impact on economic growth via education and the gearing of educational activity to the requirements of human capital accumulation. Examples of this are clear across the European and American university systems as governments seek to concentrate education in areas considered ‘economically beneficial’.

In the case of human capital the neoliberals attempted to incorporate new elements into an explanation of an economic effect. In the neoliberal explanation of crime this flow is reversed, with economic elements employed to explain what is normally considered a non-economic phenomenon. Because of this Foucault argues that American neoliberal thought “involves generalising [the economic form of the market] throughout the social body and including the whole of the social system not usually conducted through or sanctioned by monetary exchanges” (pp243). Foucault sees this as an “inversion of the relationships of the social to the economic” (pp240), a pronouncement which highlights the primary role of the social in Foucault’s own thought. The inversion seems a logical step from the reconceptualisation of the individual as an enterprise, which implies the extension of the economic mechanisms of “supply and demand and of investment-costs-profit so as to make [the economy] a model of social relations and of existence itself” (pp242). This generalisation is total and unconstrained. As a result, the market mechanism in neoliberal thought can be seen as “a principle of intelligibility and a principle of decipherment of social relationships and social relationships and individual behaviour” (pp243) which thus determines what is and is not intelligible as an object as well as the analytical mechanics.

The neoliberal generalisation also extends the economic critique of government. One could see the application of the economic grid not as an exercise in intelligibility but as an attempt to position economics as a “permanent political criticism of political and governmental action” (pp246). Here economics takes on the role of arbiter of the validity of government policy and thus becomes both the criteria and the test of effective governance. Foucault interprets this as the neoliberals turning

laissez-faire economics against the government where previously it had been a principle of self-limitation for the government. The American neoliberals form “a sort of economic tribunal that claims to assess government action in strictly economic and market terms”. Foucault attempts to demonstrate this through the example of the neoliberal theory of crime.

While at first glance this theory appears to closely resemble those of the eighteenth century reformers of the penal system, Foucault shows that it differs in important ways which serve to illustrate this transformation of governmental practice in neoliberal thought. Eighteenth century reformers such as Beccaria, Bentham and Colquhoun sought to create a perfect penal system. Such a system would perfectly match the negative utility of the punishment with the positive utility of the crime, thus minimising the cost of the system and eliminating crime. Foucault believes that this system of thought contained a paradox; that the crime was indexed to the act but that it was the perpetrator of the act who was punished. This results in the increasingly individualised nature of punishment. Punishment of an act was tailored to the circumstances of the individual act and, therefore, the individuals themselves. We end up at a thick description of the criminal far removed from the original economic mechanics of the reform. The neoliberal theory seeks to avoid the manifestation of economic analysis in a legal structure. This is the central transformation from the early utility approach to crime. Instead, the neoliberal centres the process on the person. This is clear from Becker’s definition of crime; “I call crime any action that makes the individual run the risk of being condemned to a penalty” (Becker 1968), where a crime is an action perpetrated by an individual and it is the individual who is at risk of being subjected to a penalty. The individual provides the coherent and self contained site for the decision making process and the consequences.

This centring of analysis on the purely economic calculation has the obvious implication that “the criminal is nothing other than absolutely anyone whomsoever” (pp253). As a criminal act is committed by an individual purely on the basis of a calculation of potential gains and losses, the criminal is no different from the individual choosing how many hours to work or which good to purchase. In this way “the penal system itself will not have to deal with criminals, but with those people who produce that type of action. In other words, it will have to react to the supply of crime” (pp153). Indeed, Becker (1996, pp7) said in his Nobel lecture that, “I was not sympathetic to the assumption that criminals had radically different motivations from everyone else”. The outcome of this type of analysis for the neoliberal theorist is that the government might undertake a cost benefit analysis of the cost of the crime against the opportunity cost of enforcement and punishment according to the law. Akerlof and Kranton attempt similar cost benefit analyses of the cost of

fostering particular identities against the costs of negative identities. In other words we return to economics as the “permanent criticism of governmental policy” (pp147). A somewhat less straightforward but equally apparent consequence is that “action is brought to bear on the rules of the game rather than the players” (pp260). If a criminal is “absolutely anyone whomsoever”, then there is no point in acting upon the supposed actor behind the act. Instead, government must work to fix the rules of the game such that costs are minimised via the incentives which come to bear on the decisions made by all individuals.

## 1.6 Identity and rational man

The discussion of homo economicus raises an interesting question of both liberal and neoliberal economics; where and what is the individual in the theory? Does any individual that emerges ‘have’ or need an identity? Can identity have any meaning to such an individual? How can such an identity relate to a so-called ‘social identity’? Do such identities have to be consistent? There has been an animated but ambiguous debate around these issues in recent years, often centring on the differences between internalist and externalist conceptions of the individual but frequently with differing characterisations of the two. Given the focus here on the work of Akerlof and Kranton I will focus on the debate surrounding rational choice and utility maximisation specifically.

Most reviews of the literature on identity as it relates to economic theory place particular emphasis on the idea of internalist and externalist positions. However, these are sometimes contradictorily defined, often by advocates of opposing positions. This can be clearly seen in the literature reviews of Aguiar and Francisco (2008), who support internalist identity, and Davis (2008), who supports an externalist position. Aguiar and Francisco characterise the externalist view as something close to the orthodox theory and methodology of rational choice. This position does not permit the reality of any mental process or thought that is not revealed directly by an action; it is the theory of revealed preferences. All that can be said about mental process is that which is revealed when a preference is expressed by the choice of one thing over another in accordance with the axioms of microeconomics. The reasons why individuals make particular decisions are not accessible to the researcher and do not, in any case, have any bearing on the analysis. Instead, individuals act *as if* they are maximising utility, even though utility may have no reality aside from its expression in behaviour (Friedman 1953). In this way all factors in the analysis must be available externally, with decisions determined by prices, the market, and, according to Aguiar and Francisco, social institutions and norms.

For Aguiar and Francisco, as well as many other writers on the subject such as Calvert (2002) and Davis (2006), social identity is one of the most problematic social phenomena for rational choice theory. As Aguiar and Francisco admit, social identity is a concept which is generally poorly defined in the literature and, I would add, poorly understood. But despite this, the pair offer the definition put forward by Fearon (1999), that social identity is “(a) a social category, defined by membership rules and allegedly characteristic attributes or expected behaviours or (b) a socially distinguishing feature that a person takes special pride in or views as unchangeable but socially consequential”. This definition is fairly characteristic of the literature, particularly as it is applied to economics. It has its origins in the social identity theory of Tajfel and Turner (1979) which proposes that the social groups that individuals belong to are a source of pride and self esteem derived from a sense of social identity and belonging. This relates to the notion of self image as something which is in a sense maximised – we augment our ‘self image’ by exaggerating the status of our social group or by forming prejudicial views about other social groups.

Aguiar and Francisco argue that externalist positions reject social identity as a causal factor using a variety of “sound arguments” which primarily relate to “the fact that the causal relationship between identity and action is an obscure one, and on many occasions, identity theorists accept the theory as fact rather than providing evidence for it”. For externalists, a social identity which supposedly elicits certain behaviours is only a label for a group of individuals who share interests and preferences with other members of the group. The identity has no effect on preferences – group members are interested in wealth maximisation like everybody else – and so has no economic meaning. For example, a woman will benefit from supporting women’s rights because her personal situation will improve. The externalists also pose a methodological challenge to the notion of identity, which is that it cannot be revealed in action. Verbal affirmations of identity are merely post hoc justifications for the behaviour which could have had any motivation. Identity is therefore always one removed from the action and no causal link can be read to it. In a broad framework of rational choice, if identity was revealed in action then it would simply operate as a revealed preference. But the externalist position cannot explain a whole range of important social phenomena, such as the voters’ paradox and ethnic violence.

The pair thus turn to internalist positions. These look towards internal, mental processes to help explain phenomena and therefore must, they claim, either explicitly or implicitly assume that these mental processes are in some way real. Indeed, the internalist’s object of study is “what is actually

going on inside us when we reason" (Satz and Ferejohn 1994). The internalist conception of rational choice theory relies on beliefs, desires and preferences which explain behaviour and the action chosen is the one which best maximises the individual's interest understood in these terms, making internalist positions subjective. These beliefs and preferences are able to be ranked and can therefore be explained by rational choice theory. Aguiar and Francisco point to Schuessler's explanation of the voters' paradox as an example of the benefits of the internalist perspective. For Schuessler (2000), "voting is a means to express political beliefs and preferences and, in doing so, to establish or reaffirm their own political identity". Aguiar and Francisco see this logic as a mental syllogism such that the major premise is "democrats vote for the Democratic Party", the minor premise is that "I am a democrat" and the result is that the individual votes for the Democrats. Thus externalist versions of rational choice which look at voting in terms of the direct gains and losses to the individual miss the point of the exercise. Voting is not a weighing of pecuniary ends, but a relationship between a desire derived from an identification; in order to be a Democrat, the individual must vote for the Democratic Party. There is however, a fairly apparent logical problem with this position which Aguiar and Francisco pick up on. That the desire to express an identity, or to justify one's own self image as belonging to that identity, is not the same as identity itself. So what is identity here? Davis (2008) is entirely correct when he says that as rational choice "refers to [Robinson] Crusoe's 'own characteristics' (his preferences) to pick out Crusoe as a distinct individual being, it presupposes rather than shows that Crusoe is a distinct individual being". This is a problem we will return.

Compare this reading of the literature to the characterisation of Davis (2008), which emerges from looking at the identity and economics literature beyond rational choice. For Davis, internalist refers to any "conception of the individual that defines individuals solely in terms of their own characteristics, or characteristics they possess without any mention of other individuals". This is similar to Akerlof and Kranton's distinction between individualistic and interactionist identities (2010, pp24). For Davis homo economicus is always an internalist conception. Externalist individuals are defined in terms of "characteristics they possess in virtue of their relations to each other". In this respect "[Robinson] Crusoe is not an individual until Friday arrives". Already the terminology has diverged from Aguiar and Francisco.

The difference in definitions relates to a substantively different division of the literature by both sets of authors. For Aguiar and Francisco, the emphasis on empirical observation in revealed preference theory shows that the methodology works in some sense from the bottom up, from the external

world to the analytical framework, in a positivistic manner. In this sense they see a methodological division of theory which allows them to reject 'externalist' rational choice theory as a viable vehicle for incorporating identity into economics in favour of a particular type of internalist theory. Davis on the other hand sees all rational choice theory as emanating from causal variables associated with the internal mechanics of the individual. This is a theoretical rather than methodological division of the literature which enables him to examine a more expansive conception of individual identity in economic theory. For Davis, rational choice theory always relies on a mental structure which is internal to the individual, whether it can only be revealed by observation or it can be deduced from observed identity categories to observed behaviour through a mental syllogism. Thus for Davis no form of rational choice theory can ever explain the relationship between the individual and an external multiplicity of social identities or the relationship between individuals and social groups.

In contrast to Aguiar and Francisco, Davis aims to explore the nature of identity in contemporary economics as a relationship between a personal identity and a social identity. That is, how the individual is constituted, how it can incorporate multiple identities and how identities can be formed with reference to other individuals. Aguiar and Francisco can be seen as falling foul of his critique that the individual is presumed rather than conceptualised as a theoretical entity. Davis draws on three different internalist approaches to rational choice frameworks. He argues that the recent proliferation of psychological influences on economic theory derives from the emergence of behavioural decision research after the Second World War, in particular the work of Ward Edwards and Herbert Simon. These researchers introduced expected utility theory to psychology but adopted different approaches to its use. Edwards developed a revised utility theory for individuals whereas Simon advocated abandoning utility theory, although his work was formulated using utility. Davis claims that this led to two distinct research programmes based in behavioural decision research. Daniel Kahneman and Amos Tversky famously embarked on a series of experiments used to augment and reconceptualise the utility function along the lines set out by Edwards, leading ultimately to modern behavioural economics. Sarah Lichtenstein and Paul Slovic on the other hand developed a theory of preference reversals which saw preferences as mental constructions.

Davis claims however that the adoption of the expected utility framework by both research programmes means that they cannot establish an adequate conception of the individual. With prospect theory Kahneman and Tversky (1979) proposed a two stage decision making process. In the first phase individuals simplify and organise prospects in terms of monetary outcomes and probabilities. In the second phase the prospects are evaluated in order to optimise a value function

which weights probabilities and the subjective value of outcomes relative to the individual's current assets. In this way their value function operates in a similar fashion to a utility function. This allows decisions to be context dependent, with different decisions made in different situations but remains based on an atomistic individual. Davis argues that the theory suffers two problems in relation to this conception of the individual. In orthodox rational choice theory individuals are differentiated only on the basis of their supposedly unique preference functions, a mechanism which Davis already considers insufficient. However, he sees Kahneman and Tversky's value function as weakening this mechanism even further by introducing factors which are not specific to the individual.

Furthermore, prospect theory makes it possible to overturn ordered preferences previously assumed to be exogenous, making the distinction between individuals impossible to map. In this sense Davis even sees them as undermining the individual which is presumed in orthodox rational choice theory.

Lichtenstein and Slovic take a different approach to augmenting rational choice theory. The pair suggests that preferences are constructed to fit particular situations (Lichtenstein and Slovic 2006). While preference reversals have been demonstrated experimentally, Davis points out that it "is completely at odds with the idea of individuals having utility functions based on stable preferences". Indeed, the results of experiments seem to rule out any thought of optimisation based on preferences whatsoever (Grether and Plott 1979). Preference construction theory argues that the primary cause of preference reversals are framing effects (Tversky, Slovic and Kahneman 1990). Again these framing effects act to erode individuation. It does, however, bring interpretation and language to the table. As a result it offers, at least superficially, a way of understanding the relationship between the individual and the group, Davis' second criticism of orthodox rational choice. However, these are restricted to the effects of framing and elicitation on subjectivity and fail to relate to an individual's understanding of group membership. For Davis, this means that "the preference construction approach offers no obvious way forward regarding what makes individuals distinct and independent and what allows them to join together in larger groups of individuals". Who constructs preferences, the individual or the group or both?

The third internalist approach Davis addresses is that of social preferences. This strategy revises the utility function in order to explain cooperative behaviour. Social preferences occur when individual actions are based not only on their own returns but also on those of other individuals. This can be motivated by notions of altruism, fairness, inequity aversion, concern for social welfare, etc. But Davis argues that these mechanisms require a preference for an ideal situation in society which must

be motivated by a different type of cognitive mechanism such as empathy or sympathy. Otherwise it is not clear what motivates the ideal of fairness or inequity or welfare to which the individual aspires. Sympathy is restricted to individuals with whom one is familiar. Empathy, for Davis, requires a reflexive mechanism whereby the individual can put him or herself in another's shoes while at the same time viewing his or her own position from the perspective of the other individual. It therefore relies on a feedback mechanism which is not possible within a utility function. As a result social preferences are unable to explain how social interaction can have an effect on the individual's preferences or actions. This leaves social preference theory measuring the trade off between interest and self interest on the basis of coefficients and failing to explain interaction. Furthermore, the absence of a feedback mechanism for empathy means that the identity of the empathiser is ambiguous, as they are able to put themselves in the shoes of the other individual but not to view their own preferences from this perspective in a manner that might result in their revision.

However, it is not clear why a rational choice theorist should be concerned about individuation and distinction between economic subjects. As Foucault (2008) points out, homo economicus is intended as a representation of the set of practices liberal and neoliberal economists identify as being governed by 'natural laws' and which are ungovernable by the state. Talking about the neoliberal theory of crime, Foucault (2008, pp258-259) says that "there is an anthropological erasure of the criminal. It should be said that this does not mean that the level of the individual is suppressed, but rather that an element, dimension, or level of behaviour can be postulated which can be interpreted as economic behaviour and controlled as such". Homo economicus is the element of behaviour which is economic, understood as representing that part of human behaviour governed by the inexorable laws of the market and the possibility of achieving an optimal outcome amongst possibilities; "The subject is considered only as homo economicus, which does not mean that the whole subject is considered as homo economicus" (pp252). In this view the individual only achieves any kind of reality in the moment of the decision and in this moment, like the neoliberal criminal, the individual is "nothing other than absolutely anyone whomsoever" (Foucault 2008, pp253). Indeed, for Foucault, homo economicus represents "the interface of government and the individual. But this does not mean that every individual, every subject is an economic man" (pp253).

The individual can be seen as being founded purely within the moment of the decision when preferences come together with a particular set of possible means and ends. The decision making process – the optimisation – refers not to a subject with a history, but to a subject with an



individuality founded uniquely in the moment and circumstances of the decision and whose circumstances breed an action. Foucault sums this up well when he describes the subject of interest as “the starting point of an interest, or *the site of a mechanism of interests*” (Foucault 2008, pp273, emphasis added). Indeed, he appears to support this perspective when he says; “For sure, there are a series of discussions on the mechanism of interest itself and what may activate it: is it self-preservation, is the body or the soul, or is it sympathy? But this is not what is important. What is important is the appearance of interest for the first time as a form of both immediately and absolutely subjective will” (pp273). In this way Davis’ contention that rational choice models presume a subject, which he does not address in detail, is prescient but not in the way he intends it; an entity must be presumed in order to provide, in Foucault’s lexicon, a “site of a mechanism of interests”. But what type of individual is presupposed? Davis says that “barring restricting the idea of the individual to just one form of individuality, [the relationship between identities] needs to be explained”. But as Foucault points out, homo economicus did not emerge as a representation of the entirety of an individual. Homo economicus sits, sometimes uncomfortably, alongside the social subject, the juridical subject, the moral subject. But if this is the case is Davis correct in arguing that homo economicus is only capable of representing one form of individuality? If so, what are we to make of contemporary attempts such as Akerlof and Kranton’s to incorporate identity into such a framework? What viable structure of identity could be possible in a broader rational choice-type framework?

Failure to meet Davis’ criteria of identity and the presumption of a prior individual are not necessary or sufficient reasons to dismiss what he terms ‘internalist’ conceptions of the individual. This is because these frameworks generally serve as models of theory in contemporary economics, representing and illustrating the mechanics of how the underlying principles of neoliberal economy might work. In the book *Models as mediators: Perspectives on natural and social science* (1999), the authors advocate an approach to understanding models which might best be termed functionalist (Guala and Psillos 2001). That is, models ought to be understood in terms of the purposes for which the model was constructed and how the model serves to operate as an epistemological object. In this sense, the models deployed in behavioural economics, and discussed by Davis, are intended to illustrate how particular observed phenomena might relate to a structure of preferences and decision making. It is not the purpose of the models to establish the durable and coherent character of the theoretical subject.

More broadly, models based on rational choice and homo economicus serve, as we have seen, as illustrations of the necessary self limitation of the state and of the mechanisms by which public benefits result from the pursuit of private interests. In a more limited sense, models such as those developed by Akerlof and Kranton are intended to explain a situation in its immediacy and even then only partially. If we take the statement from Foucault (2008, pp282) introduced earlier, that homo economicus is the “one island of rationality possible within an economic process whose uncontrollable nature does not challenge, but instead founds the rationality of the atomistic behaviour of homo economicus”, we can see how the economic subject can only be understood in relation to circumstances which are particular. Thus, theorists look to the economic subject as something which is constituted within the context of the analysis and which therefore serves as a representation of the logic of the situation as it is faced by the subject, who neither has nor needs an identity at all per se except, perhaps, as it impacts on behaviour as a variable. As a representation of a particular rationality the economic subject, identity only has meaning to the extent that it impacts on this rationality. As homo economicus is both a representation of a universal economic rationality associated with a particular domain of behaviour and the site of the mechanism of interest, that is to say the site of the “specifically individual decision”, a model of a decision which was unable to effectively relate and assign various identities – as Davis claims the rational choice subject cannot do – would simply be a bad model. There is no need and no possibility of extending such relations between the subject and multiple identities beyond the site of the mechanism of interest.

### **1.7 Identity as belief**

It is instructive to look at Aguiar and Francisco’s solution to the problem of desire to act in accordance with an identity being different from having an identity highlighted earlier to see how the history of the subject and language might become an issue for identity in a rational choice framework. Aguiar and Francisco propose an alternative to reliance on the desire to express a social identity. They argue firstly that the internalist theory of rational choice entails a three stage optimisation. In the first instance an action is selected which is understood by the agent on the basis of their beliefs to be the optimal means of attaining their desires. Secondly, the beliefs will be optimal on the basis of information available to the agent. Finally, information will be optimised on the basis of the cost of obtaining it and their previous beliefs. They thus see a possibility of an alternative strategy for incorporating identity into rational choice, by incorporating beliefs rather than desires into the analysis.

Aguiar and Francisco see beliefs as constituting identity; “If someone desires to be a pianist, at first glance we might think that this desire defines her, defines (part of) her identity. However, the desire is not understandable without a set of beliefs that backs it and truly defines the person – her belief about her capacity to be a pianist, her belief about her capacity for working hard, and so on”. For them, “desires refer to how we want the world to be, beliefs have to do with how we believe the world is (whether or not we are right)”. They therefore argue that “identity must be considered *a person’s set of beliefs about herself*” (emphasis in original). It is interesting to note that they maintain the presumption of the individual for which Davis criticises rational choice approaches. This is clear when they say that; “If beliefs were merely implicit, or there were no first person pronoun to assign them to, it would be difficult for identity ... to motivate action”.

They make four broad claims about the types of belief which will be relevant to social identity. Such beliefs will be “explicit, indexical and shared”. A statement about a particular identity is a linguistic device signifying an explicit set of beliefs, for example religious convictions, and these beliefs will be indexed to the individual. They argue that beliefs must to some extent be shared in order that social identities can be considered social and can form categories. The second implication they draw for beliefs underlying social identity is that they are “robust subjective beliefs”. By this they mean that social identities tend to be stable. Beliefs are seen by the individual to be supported on the basis of *subjective* evidence. For Aguiar and Francisco this means that “social identity, therefore, is not always constructed through a rational process of accumulating evidence”. Furthermore, taking identities to be presumed essentialist by the individual, the pair argue that most essentialist claims have no empirical basis, such as what it means to belong to a certain nationality. In this way the mental syllogism is based on non-falsifiable beliefs whose “semantics is a social construct”, bringing us to the importance of language which will be discussed in the next section.

Their third claim is that social identity embeds an emotional component. Here they argue that emotions to an extent found beliefs, such as the fear of loss, which Martha Nussbaum claims is at the base of social identities such as friend, lover or partner. The claim has some support from experiments in cognitive psychology (Damasio 1996, Bechara and Damasio 2005). As a result, Aguiar and Francisco claim that feelings of pride associated with identification with a social identity or mistrust of other groups are constitutive of the identity itself. This follows from taking ideas such as cognitive dissonance as real, an instantiated universal, which means that this emotional cognitive response founds the social identity for the individual. The positive or negative emotion which the

individual feels as a result of the association with a particular identity is what founds the identity for the individual. Without it, the association would have no meaning.

The final requirement Aguiar and Francisco set out is that “identity beliefs form complex but open structures”. As their first claim implies, a social identity comprises a set of beliefs and there may be complex interactions between different the various identities adopted by the same person. It is also possible that social identities, and they imply multiple identities, might have a degree of incoherence and conflict between beliefs. Aguiar and Francisco argue that “belief structures are sets of meanings that form a shared semantics” and are therefore “subject to revision and reinterpretation”. The first element is essential. It implies a linguistic logic which is removed from any realist foundation. Indeed they go on to imply that their second claim about beliefs, that they may be ‘irrational’ or unexplained by the accumulation of empirical evidence or Bayesian learning, is in fact rooted in a semantic logic as opposed to a misalignment of the subject-object relation.

This position becomes fully apparent in their conclusions. They argue that there are major obstacles to reconciling the mechanisms of rational choice theory with the requirements of behaviour motivated by social identity within a broader model of rational choice. However, “there is something that is unquestionable, namely that our analysis of identity in terms of beliefs strongly points to the need for a *linguistic analysis* to gain a full understanding of human behaviour” (emphasis in original). Here they make the surprise revelation that they take the structuralist position that thoughts are language. Quoting Davidson (2001) they say that “our sentences provide the only measure of the mental”. Not only this, they close by saying that;

*When we speak of social identities, we refer to beliefs about the social world and about ourselves insofar as we are members of that world. We are speaking, then, of meaning, of shared meaning, of semantics that are socially constructed through language. In this case, what individuals say about themselves appears to be a central factor that must be analysed if we are to understand their behaviour. (Emphasis in original)*

What they are calling for, then, is that individuals give an account of themselves. Language has received little to no attention in the identity literature relating to economics. The focus has instead been on research imported from cognitive, behavioural and social psychology and related branches of sociology. As Aguiar and Francisco point out, this may be a not insubstantial oversight. More importantly, there is already a body of work associated with what is often called ‘continental’

philosophy which provides a linguistic and cultural theory of identity as well as addressing many of the issues relating to the problem of a pre-social individual and the evolution of social identity. This literature is related to post-structural, critical feminist and Marxist schools, the Frankfurt school and has its origins in what Althusser called the “materialism of the encounter” (Althusser 2006). Amongst the leading theorists in the contemporary literature are Foucault and Judith Butler.

### 1.8 Identity without the individual

As we have seen, the literature addressing the individual, identity and social identity suffers a real lack of clarity in terms of concept and the direction of critique. Researchers are often satisfied by relatively straightforward operational definitions of terms which they take to be self evident or simply a question of definition. Those attempting to clarify the terms and concepts circulating in the literature are overwhelmed by the variety of sources from which ideas have been borrowed or adapted and the lack of guidance within the analytical tradition as to what a theory of social identity which addresses its construction and contingency might look like. In essence, the entire literature lacks a robust and substantive theory of identity from which to critique theoretical applications of concepts and associated methodologies. Such a theory would need to account for the constitution of the subject and the identity of the subject, the relationship of the subject to ‘social’ identities in a manner which accounts for their manifestation in language and in behaviour. Failure to account for the history of the subject and a general lack of sophistication in the analysis of language in the psychology literature as it is applied to economics means that such a theory cannot be formulated. However, there is a large and strong literature on language and identity in the philosophical literature. In particular, the work of Judith Butler addresses many of the challenges facing such a theory from a very different starting point to the theories best known to economists.

We start with the question which is not asked enough; what fundamentally is identity? Is it something a person has, something a person is, something that is assigned? What is included under the purview of identity? Does it encompass all human activity as it might be argued it does in Heidegger’s conception of *dasein* as a being that takes a stand on its own being? Or is it merely a limited label for a discrete and limited set of beliefs or desires as discussed earlier? Is an identity something with an existence outside of the person, something social, a universal? Do we need to make the distinction between individual and social identity and if so what sort of distinction can be made? What are the behaviours associated with certain identities and where do they come from? What form does this association take? Judith Butler in her 1990 book *Gender Trouble* proposed a

theory of identity radically different from those generally considered in the literature on identity in economics. Her work relates to a long tradition of so-called 'continental' philosophy and more specifically post-structuralism, with which she self-identifies. Her clearest intellectual debts are owed to French radical feminists such as Luce Irigaray and Monique Wittig, the psychoanalytic tradition and to the philosophers Nietzsche, Hegel, Derrida and to a lesser extent Heidegger. The clearest influence on her work, however, is that of Foucault, whose theories underpin much of her analysis, although she seeks to surpass his methodological techniques to produce an explicit theory of identity and the subject.

Her theory of gender identity was a direct response to problems within the feminist literature establishing a philosophically coherent idea of identity is within their theory and at the heart of their movement. As such, she is looking to expose exclusionary tendencies within the definition of 'woman' while establishing a subject who is never pre-social, or more accurately pre-discursive, and whose identity is related to practice and belief. In her later book *Giving an account of oneself* (2005), she approaches the problem from a different angle, that of moral philosophy and the question of constructing a morality in a post-structural world. We should make clear at this point what Butler means when she says she is a post-structuralist. Post-structuralism is the subject of a variety of definitions but for Butler it refers to something quite specific. It is tied to the theory of language developed by Ferdinand de Saussure and structuralist authors mostly located in France in the 1960s and 1970s and the critique of their work by Jacques Derrida. De Saussure saw language as a totality in which the relationship between the signifier – the sign or word – and the signified – that which it indicates – might be arbitrary but was always understood in relation to the totality of significations. Language was thereby subject to a structure and logic which organises and is organised by social systems and concepts. For Butler, the post-structural moment comes when the relation between the signifier and signified is disrupted.

*The post-structuralist break with Saussure ... refutes the claims of totality and universality and the presumption of binary structural oppositions that implicitly operate to quell the insistent ambiguity and openness of linguistic and cultural signification. (Butler 1990, pp40)*

In this way Butler views all linguistic categories as necessarily ambiguous because they attempt to constrain through definition sets of practices which are ambiguous, open and subject to change. But more than this, categories are said to signify these practices, making them intelligible, while the practices create the illusion that the categories are natural, stable and coherent. In this sense

categories are 'performed', they are given the impression of reality by the practices they make intelligible.

For Butler, a person behaves in ways made intelligible through the relationship between the person and certain discursive principles, which create the impression of an identity which then appears natural but is in fact constantly shifting because it has no basis in any 'reality'. Identities are therefore categories – not something one has, something one is or something assigned - but something performed which is constituted and reconstituted by a set of practices. "Consider gender, for instance, as a corporeal style, an 'act', as it were, which is both intentional and performative, where 'performative' suggests a dramatic and contingent construction of meaning", Butler says (1990, pp139). Identity is thus a performative process which *gives* meaning to practices, in the sense that practices are understood in relation to identity. But individuals are not acting towards an ideal in this framework and there is no fundamental essence of an identity based *within* them. Consider the following sentence; "Because there is neither an 'essence' that gender expresses or externalises nor an objective ideal to which gender aspires, and because gender is not a fact, the various acts of gender create the idea of gender, and without those acts, there would be no gender at all" (Butler 1990, pp140).

Butler sums up the process of constitution and reconstitution of identity in the following way;

*In the place of an original identification which serves as a determining cause, gender identity might be reconceived as a personal/cultural history of received meanings subject to a set of imitative practices which refer laterally to other imitations and which, jointly, construct the illusion of a primary and interior gendered self or parody the mechanism of that construction.*  
(Butler 1990, pp138)

Here we see again the idea of a "personal/cultural history" as something integral to identity. This binary constitution of the identity and the subject becomes more important in *Giving an account of oneself*, where she explores the relationship between discourse and agency, looking at the way in which linguistic and discursive structures operate on a different timescale from the individual lifespan. The implication is that the words by which individuals accounts for their histories and actions are not their own and are therefore inadequate for the account.

The ability to give an account of oneself is thus at the heart of the theoretical and methodological challenges establishing a theory of identity but is by no means straightforward. Citing Adorno's (2001, pp28) claim that "it will be obvious to you that all ideas of morality or ethical behaviour must relate to an 'I' that acts", Butler wants to ask what this 'I' is and its relation to societal norms and morality. She wants to investigate the question of what Davis would call 'individual identity'. But as we have already seen, individual identity, for Butler, is always discursive and therefore social and is an illusion if it is thought of as something that is natural or essential to the body. Here Butler wants to go further and begin to elaborate the constitution and reconstitution of this decentred identity in light of its discursive nature. We can see already that the fundamental referent of analysis appears to be shifting from the individual as the mechanism onto some linguistic construction. However, this is not necessarily the case and Butler vehemently denies that her theory removes agency from the picture. Rather, agency must always be understood within the discursive constraints in which it is constituted. No person can escape the referential framework into which they are introduced. But there are strategies by which incoherence and ambiguity within this framework might reveal its construction and allow it to be reconceived. In this sense the individual has a kind of socialised agency, an agency which is mediated and structured by a set of linguistic categories which are themselves the product of cultural discourse and motivated by political power. Butler thus attributes ontological priority to the social, rather than the agent.

Butler sees the subject, the 'I', as something which is always socially constituted – there is no prediscursive being, no "doer" behind the deed (Butler 1990, pp24). "There is no 'I' that can fully stand apart from the social conditions of its emergence", she says (Butler 2005, pp7). This becomes clear when a person is asked to tell its own story; "when the 'I' seeks to give an account of itself, an account that must include the conditions of its own emergence, it must, as a matter of necessity, become a social theorist", Butler argues (2005, pp8). This is because "the 'I' has no story of its own that is not also the story of a relation – or a set of relations – to a set of norms" (Butler 2005, pp8). So the individual emerges as a subject – that is, achieves a kind of identity – via the conceptual tools and according to the logic of the prevailing discursive matrix. In this way, the individual has no means of conceiving or explaining their being, their actions, their desires, their beliefs, outside of this matrix, even when they challenge it. "The very terms by which we give an account, by which we make ourselves intelligible to ourselves and to others, are not of our making", Butler (2005, pp21) argues. "They are social in character and they establish social norms, a domain of unfreedom and substitutability within which our 'singular' stories are told". Any challenge must be posed from within as anything else, any other kind of practice, would not be intelligible either to other people or



to the individual themselves. In this sense even 'deviant' activity can be understood only in relation to the norms or modes of intelligibility from which the activity deviates. Agency "takes place in the context of an enabling and limiting field of constraint" (Butler 2005, pp19).

So how does a subject – understood here as an individual with an identity – emerge from this matrix of intelligibility and how does the subject live and appropriate the norms set out by this matrix? For Butler "a subject produced by morality must find his or her relation to morality" (2005, pp10). She argues, starting with Nietzsche but going on to take issue with his claims, that a person begins to reflect on their actions in the face of another person who demands an account of them. In order to answer the person questioned must form a narrative of their action, its purpose and their relation to it. So giving an account of oneself must take a narrative form. For Foucault, the reflexivity of the subject emerges not as a response to punishment connecting the perpetrator to the crime, as it is to Nietzsche, but in response to particular moral codes. In this way the subject establishes itself in relation to its position on the right or wrong of its action. In this sense the narrative of the account aims to persuade – either another or the subject itself – of the correctness of their position, it critiques the moral codes and its stand on them and it depends also on the 'scene of address'. Foucault (1985, pp28) claims that the acts of critique "delimit that part of the self that will form the object of his moral practice", that is, the subject does not write its own narrative from nothing, but undertakes a process of making part of itself intelligible with reference to norms. Thus the norms set "the limits to what will be considered to be an intelligible formation of the subject within a given historical scheme of things" (Butler 2005, pp17). Furthermore, the critique undertaken as part of this process "exposes the limits of the historical scheme of things, the epistemological and ontological horizon within which subjects come to be at all" (Butler 2005, pp17).

The implication of accepting these conditions of emergence is that the subject can never give a full account of itself, because to do so would require a complete understanding of the conditions of their emergence, conditions which predate the subject. To make matters more complicated, for Foucault and Butler the process of self-reflection which brings to life the moral being is a creative process, one that requires 'practices of the self' and reference to a moral totality which must be to some extent invented along with the moral subject, who must "act upon himself, to monitor, test, improve, and transform himself" (Foucault 1985, pp28). Butler also relates unknowingness about oneself to the idea that moments of lack of knowledge about ourselves tend to be in relation to other people, and that this suggests "that these relations call upon primary forms of rationality that are not always available to explicit and reflective thematisation" (2005, pp20). For this, she will look

at psychoanalytic theories which ground primary relations in the subconscious. This aspect of her theorising will not be covered here.

There are two central implications of self-reflection. The first is that any relation to what Foucault terms the “regime of truth”, the discursive framework which “decides what will and will not be a recognisable form of being” (Butler 2005, pp22), is in fact a relation to oneself. This is because any encounter with the ethical system takes the form of a reflection on the self and the delimited ethical being one which forms “the object of his moral practice” (Foucault 1985, pp28). More precisely, any relation to the regime of truth must take the form of critique, and “to call into question a regime of truth, where that regime of truth governs subjectivation, is to call into question the truth of myself and, indeed, to question my ability to tell the truth about myself, to give an account of myself” (Butler 2005, pp22-23).

Second is that an account is always given to another person, real or imaginary, and this means that the scene of address becomes important. The norms within which an address is made structure the recognition of the other and the form that the account will take. This can be thought of in terms of the terms on which the address is made, the way in which the other is intelligible, the way in which the account itself can be intelligible. However, as with norms more generally, the scene of address is neither transcendent or a structural totality, but a referential grid from which intelligibility is derived, grappled with and reconstituted. Having said this, there are limits to this type of agency. For Butler, recognition of the other can only be conferred in terms which are not yours, and once this is realised the subject is in effect “dispossessed by the language that I offer” (2005, pp26). Not only this, the subject “becomes an instrument of that norm’s agency” (Butler 2005, pp26), in that the norm is applied and reinforced by its use and application by the subject. But the necessity of intelligibility means that this struggle with alien language and norms must be engaged with in order that the scene of address is established and I can give an account of myself and of the other. Similarly, there is a tacit reciprocity to the address; I cannot confer recognition without some expectation of reciprocation, or any account I give of myself would be meaningless.

This theory is by no means necessarily causally neutral or aleatory. Foucault sees power as the structuring force behind discourse, expressed in language and societal practice (see for example Foucault 1972). As a consequence, the act of critique can be seen as bringing about “the desubjugation of the subject in the course of what we could call, in a word, the politics of truth” (Foucault 1997 cited in Butler 2005). Clearly this has particular relevance for feminism for categories

such as gender and sexuality and how such rules come to be constructed in accordance with certain power relations, such as patriarchy or compulsory heterosexuality (Butler 1990), takes on particular importance. This will not be discussed in detail here but also has clear implications for economic theories of identity. Butler illustrates the importance of discourse to discrimination using the example of interpreting visual recognition, which it is worth quoting at length;

*If one is to respond ethically to a human face, there must first be a frame for the human, one that can include any number of variations as ready instances. But given how contested the visual representation of the 'human' is, it would appear that our capacity to respond to a face as a human face is conditioned and mediated by frames of reference that are variably humanising and dehumanising. The possibility of an ethical response to the face thus requires a normativity of the visual field: there is already not only an epistemological frame within which the face appears, but an operation of power as well, since only by virtue of certain kinds of anthropocentric dispositions and cultural frames will a given face seem to be a human face to any one of us ... There is a language that frames the encounter, and embedded in that language is a set of norms concerning what will and will not constitute recognisability. (Butler 2005, pp29-30)*

Here we have a theory where the subject has a history, where this history can only be told through modes of intelligibility mediated by norms and language which have performative effects on the identity of the individual and where these norms and language have an origin in the political relationships present in society. In its basis in discourse analysis, power-relations and language, it offers a useful counterpoint to the theories of identity in the economic literature and an important framework for clarifying certain aspects of Akerlof and Kranton's work.

## **PART 2: WHAT IS THE POINT OF IDENTITY ECONOMICS?**

Akerlof and Kranton developed their work on identity economics in five papers and one book spanning a decade from 2000 to 2010. In these works they argued that economics could not overcome some of the challenges which have emerged in the literature without including some element of social context in the analysis. Social context is not explicitly defined in their work but it seems clear from their analysis and the intellectual tradition within which it falls that they understand it in the limited sense of linguistic or cultural structures connect certain social categories to prescriptions for behaviour. Social context is therefore that which exists as a discursive or mental

entity with no simple and direct recourse to a physical object. Clearly this conception might only be understood if we then accept a 'real' or 'factual' counterpart to the social. Such a division is apparent in their construction of the utility function, as will be discussed later, and implies that such a conception of non-discursive reality is included in their theorising and that this includes not only physical objects but also a naturalised system of pricing, supply and demand. The authors accept the association which logically derives from this position between social context and social identity. This appears to be the particular rationality by which they come to identify economics.

They draw primarily on three literatures to build their models. The neoliberal economics literature already been discussed provides the rational choice framework and underlying logical structure of the models. The process they develop to incorporate identity into this framework is in large part constructed with relation to the social identity approach associated with Henri Tajfel (1971, 1972, 1981)) and John Turner (1985, 1987). This provides the structure of social categories, norms and ideals as well as some of the legitimacy for taking these as exogenous. The third literature they draw from is the sociological, ethnographic and anthropological literature. This body of work is the source from which Akerlof and Kranton draw the social categories, norms and ideals and against which they measure the conclusions of their models. But more than this, the literature plays a role in the construction of the internal mechanics of the identity element of the utility functions which will ultimately generate the conclusions.

This combination of literatures which have often incommensurable assumptions poses a problem for the economist; how exactly is one to understand the modelling process, the models themselves and the conclusions they generate? Akerlof and Kranton seem ambivalent about the need for commensurability amongst the building blocks of their models and do not examine the implications of deploying such divergent intellectual constructs for their framework or their conclusions. This makes sense in the context of the aims they set out to achieve and also for issues around the status of models in relation to theory, epistemology and methodology which remain in the literature. The authors refer to their models as 'prototypes' and are happy to refer to a huge range of sources to indicate that their approach is consistent. They claim that "useful models, like revealing cartoons, focus on interesting features of the situation" (Akerlof and Kranton 2010, pp23). This is a viewpoint similar to that of Gibbard and Varian (1978) and is one shared by many economists. It highlights some of the issues understanding models brought out in Morgan and Morrison (1999). Morgan and Morrison point to the role of models as autonomous agents, that is something partially removed from both theory and empirical observation. They point to four modes of accounting for models;

addressing their construction, function, representation and the way in which an analyst learns from the modelling process (Morgan and Morrison 1999a).

But while considering Akerlof and Kranton's models in this manner helps us address some of the issues relating to the diverse literature they draw upon, the problem of understanding what their models mean for economic theory becomes more pressing. This is an area which is still poorly understood and is little explored in Morgan and Morrison's work. To what extent are Akerlof and Kranton offering a theory of 'economic identity' rather a modelling procedure which might allow identity to be factored into economic analysis as an exogenous variable. The question is complicated by the way in which identity is split into three parts which appear in the utility function. The utility function incorporates a mechanism by which the subject is assigned – or more accurately chooses – to a social category which becomes their own identity and the frame through which the subject views the actions it will take. As a result there are serious questions which need to be asked about whether this approach constitutes a technique of representation or a formal model of personal identity. Furthermore, amidst all of this, how are we to understand Akerlof and Kranton's advocacy of the "observation of the small" (Akerlof and Kranton 2010, pp116)? These are the issues I will try and address.

## 2.1 The models

We will begin by looking at the modelling procedure in isolation from the theory and discussion surrounding it. Akerlof and Kranton sum up their modelling approach succinctly when they say;

*We first associate individuals with particular social categories. Second, we specify the prevailing norms for these categories. And third, we posit individual gains and losses from different decisions, given identities and corresponding norms. These gains and losses, combined with the standard concerns of economic analysis will determine what people do. (IE, pp14)*

They use three analytical categories to make up the moving parts of identity; social categories, ideal types and norms. Social categories are the 'available' modes of identity. Ideal types are the archetypal characteristics associated with each social category and norms are the sets of behaviours associated with each social category. Here it is more intuitive to look at one of their more fully worked out models. Their model of education is a useful example because it is their most detailed paper and offers one of the richest views of identity and identity allocation.

The educational identity model is explored in depth qualitatively in the book while the model itself is set out in a 2002 paper in the Journal of Economic Literature. In the model they begin with a standard utility function to which they add a second, identity based element in the style of Gary Becker. They set out three social categories, the “leading crowd”, “nerds” and “burnouts”. Each category has an associated prescription, or norm, for the amount of effort to be put into academic work with the effort of the nerds greater than the effort of the leading crowd which is greater than the burnouts. In addition, each category has an associated “initial” level of “self-image” which appears somewhat synonymous with self-confidence or contentedness, with the self-image of the leading crowd taken to be greater than that of the nerds while the self-image of the burnouts is taken to be zero. The categories and associated features are derived from ethnographic and anthropological study. Each student has a specified amount of two characteristics – looks and ability – which are independently and uniformly distributed throughout the population. With quantities normalised to one, the ideal member of the leading crowd will have looks of one, the ideal nerd will have ability of one while the burnouts have no ideal type. The individual will select an identity to adopt on the basis of a utility maximisation. The utility payoff is then determined on the basis of the relationship between their own characteristics and effort and the ideal characteristics and effort of the category they have been assigned to as they suffer a penalty from deviating from the ideal. The final utility function therefore takes the form;

$$U_i(S) = p \left[ w \cdot k_i - \frac{1}{2} e_i^2 \right] + (1 - p) \left[ I_S - t(1 - s_i) - \frac{1}{2} (e_i - e(S))^2 \right]$$

Where  $S$  denotes the social category,  $s_i$  is the characteristic (ability or looks) which minimises utility losses,  $p$  is the weighting of identity against standard utility,  $w$  is the wage,  $k$  is marketable skills which is a function of ability and effort,  $e$  is effort,  $I_S$  is the initial self-image associated with a social category. Akerlof and Kranton cite ethnographic studies as evidence that  $p$  generally has a low value, meaning that students do not tend to consider future earning potential very much when deciding how much effort to put in at school. In this case, then, students choose their identities on the basis of which social category will minimise the utility losses. This means that an identity is chosen largely on the basis of the difference between the prior characteristics of ‘looks’ and ‘ability’ as well as on the initial self-image associated with each category, assuming a low value of  $p$ . With low  $p$  the resulting amount of effort the student puts into schoolwork will largely result from their choice of identity. With a higher value of  $p$  the amount of individual effort will be based on a tradeoff between a loss of identity utility plus the psychological cost associated with effort and an

increase in future income due to a gain in marketable skills. They conclude that reducing  $t$ , which means reducing social difference or promoting a school identity, is the mechanism by which educational attainment can be improved.

## **2.2 Construction and function**

We have already seen that Akerlof and Kranton's models are built using 'ingredients' from three different literatures. Boumans (1999) argues that model building involves an active process of combining intellectual elements from a variety of sources, both theoretical and empirical. A successful model is then one which manages to combine these elements in a manner which achieves the goals for which the model is designed. Morgan (1999) suggests that the process of establishing which elements can work together and which cannot teaches the analyst something about the subject under enquiry. The position taken by these two authors emphasises the degree to which the combination of elements of different theories occurs according to the logic of what the analyst wants to achieve with the model. This is part of what makes models autonomous. Viewing Akerlof and Kranton's modelling from this perspective yields some understanding of the construction of the models and also shows that they might be considered only a partial success, even on the authors' own terms. However, neither author considers the way in which these elements are selected or the implications for the model in terms of how it is theory laden.

### **2.2.1 *Social identity theory and exogenous social construction***

Taking the example of Akerlof and Kranton's education model we can begin to see the way in which their particular combination fits into a particular discursive formation. The pair draw from the social psychology literature the conclusion that "identity is bound to social categories"; "Psychologists have long posited a self or 'ego' as a primary force of individual behaviour. They have further associated an individual's sense of self to the social setting" (Akerlof and Kranton 2000). As we can see from the model of education this link between a person's sense of self and social identity can be seen as more than simply an association. Behaviour is fully determined by the relationship between certain exogenous characteristics of the individual, the exogenous characteristics of identity, the parameters  $p$  and  $t$  and the market value of marketable skills. As a result, the model is structured such that the principles which might underpin the initial formation of the social categories themselves and the norms and ideals associated with them are denied to the analyst. What this implies is an overemphasis by Akerlof and Kranton on the representative function of models. That is

to say that they explain the outcomes documented in the case studies. In Bouman's terms, the successful construction of a model will be its ability to represent the phenomena described within a framework recognisable to economists.

There seem to be two reasons for this focus on the representative function of models, both related to the difficulty assessing the conclusions of the models. First is the problem of identity as an epistemological entity. As Aguiar and Francisco (2008) point out, preferences can be revealed by observation, whether or not they obey the axioms of standard microeconomics or have any 'reality' being another matter. Identity, however, must be either self reported or assigned by the analyst through some process of social 'decoding'. But identity is a constructed reality which may be understood variously by different individuals (Butler 1990). One person identifying themselves as a Catholic may have a completely different understanding of the behaviour this entails than another person. So the analyst cannot be sure if they are recording the same object. It is similarly impossible to know whether the identity reported or attributed is truly experienced as a causative motivation or how these things have changed over time. For some people an identity might be all consuming while for others it might be a label with no meaningful impact on their behaviour. Furthermore, it means that it is impossible to dismiss the hypothesis that identity is an effect of interests shared by a particular group of individuals, for whom a standard conception of homo economicus would be enough to explain adoption and promotion of group identity. For example, all women or ethnic minorities have something to gain in a selfish sense from supporting women or minority rights so there is no need for identity to be seen as having an effect on preferences; there has been an unnecessary proliferation of variables (Aguiar and Francisco 2008). As already discussed, Butler provides a theoretical explanation of identity in which a person is never able to give a full account of themselves or their actions.

This relates to, and is partly responsible for, a methodological problem assessing the conclusions of the model. In order to overcome the epistemological challenge of identity, the analyst might attempt, as Akerlof and Kranton do, to prove the association of a particular identity to a particular set of commonly understood norms influencing behaviour. This might be done with a survey or ethnographic or anthropological study. If it can be shown that a certain social category is associated with certain behaviours by the individuals who identify with it then we can say with a certain degree of confidence that the identity reported is associated with the behaviour. But does this solve the problem highlighted above? No, because the logic works in reverse. The behaviour might be the result of underlying shared preferences which result in a group identity being adopted (Aguiar and



Franciso 2008). This position is weak as it fails to explain non-selfish behaviour carried out in the name of a group. But there is a second position for which the logic might plausibly be reversed. Butler (1990, pp144-145) argues that identity is produced as effect, the consequence of cultural norms and moral principles which signify aspects of the body and cultural practices and create the impression of 'being' something. These norms and practices relate to underlying political relations. Here the structuring variable is the underlying political relationship and it is this which shapes the norms and founds the social categories as well as the agency of the individual within the constraints of the discourse. An empirical association between identity and behavioural norms is unable to distinguish between these different positions.

So how might we understand conclusions from these models, such as that increasing the identification of students with the aims of the school will improve educational attainment? The model has been structured on the basis of the characterisation of different social groups of students in a number of ethnographic studies and several surveys. But as we have seen, demonstrating a causality which runs from the 'assignment', for want of a better word, of identity to effort at school via norms is not at all straightforward. While the ethnographic studies show that members of a group behaved in a particular way which related to the norms of behaviour associated with this social category, the research they undertook found that these students were often motivated by underlying feelings of disenfranchisement and anger sometimes related to underlying political and economic relations. Were the social identities which became prevalent amongst students of Hamilton High the result of understanding the practices of a political and economic system which was structured so as to disenfranchise certain groups of people upon apparently racial lines through the matrix of intelligibility available to them at the time, i.e. were the identities performed by the practices as Butler might argue? This is not a possibility in Akerlof and Kranton's model because identity is taken as exogenous. While this simplifies the analysis and is in keeping with their intellectual origins in social identity theory, it removes an entire layer of possible conclusions and solutions from the analysis.

These challenges mean that in order to convince the community of economists of the salience of social context and identity, Akerlof and Kranton are pushed towards over-emphasising the representative capacity of their models. This points to the important rhetorical role which the models play in their analysis. The models illustrate that social context might be playing a causal role in economic outcomes in a 'language' which economists understand and relate to. The form of the representation does allow Akerlof and Kranton to draw some interesting conclusions, as will be

discussed in the next section, but the challenges emanating from the rooting of their models in social identity theory are a constant challenge.

But more than these methodological challenges, the social identity approach drives the conceptualisation of identity as broadly fitting an opposition of insider against outsider. This can be seen by the choice variable in all of the models being the amount of effort to put in, which is in turn driven by whether or not the individual feels some affinity with the aims and values of the institutional setting within which the decision takes place. In the case of schools, students decide how much to work on the basis of the degree to which the school can promote a unified positive identity (Akerlof and Kranton, 2002), in the workplace workers will work hard if they identify with the values of the organisation (Akerlof and Kranton, 2005) or if they identify with their workgroup (Akerlof and Kranton, 2008). This identification with a social grouping is necessitated by an insider-outsider framework, otherwise what would the individual be inside or outside? But while this type of structure proves quite analytically tractable, it is only capable of producing a particular view of any situation. In this way its adoption has some quite severe normative implications which might be seen as a partial reversal of the logic Foucault associates with the neoliberals. Responsibility for developing a positive identification between the individual and the organisation lies with the organisation. Schools should invest in promoting school identity and businesses should develop and push positive values which chime with those of their employees. This is an investment of power with the institution, the situational sovereign, whose task is to manipulate the discursive structure of identity in order to achieve the aims of the organisation, for example maximising profits by inducing employees to work for less via an 'togetherness' scheme. As Davis (2011) points out, this is a worrying implication; "identity economics may be used by people interested in nudging people's identities, and not in their own interest but in the interest of organisations with which they are to identify".

Their model of supervision might seem to be an exception. It is the only model which posits identity as something bred by a relationship between authority – the supervisor and through the supervisor the owners – and the individual. Indeed, this model adheres to a somewhat different logic to early models in that the owners are unable to extract a full identification. The supervisor may only push the supervisees so far before they begin to resist and output is reduced. However, this is an empirical induction of the psychological response to oversight and is not, therefore, associated intrinsically with the nature of the individual as it is with the neoliberal subject discussed earlier. Thus we seem to have a reappearance of the long banished economic sovereign. Because the

variables are socially constructed the logic of the model encourages their manipulation. Thus there is always a normative element whereby a sovereign might ask; how can identity and norms be manipulated in order that my aims are satisfied? This strikes at the heart of the principle of liberal and neoliberal economics whereby any government interference in decision making will necessarily produce a suboptimal output. There is no 'equilibrium identity' which might be destabilised by intervention.

Thus there is a fundamental change of emphasis or of internal rationality in the author's approach as compared with Becker's. The logical governmental response to Akerlof and Kranton's system is to promote identity and normative structures which serve its agenda and there is no limitation on the extent to which this might be done. Indeed, it might even be necessary if a maximal economic outcome is to be achieved. Akerlof and Kranton do attempt to impose an internal principle of limitation – an equilibrium in economic parlance – in their models. Given the absence of an explicit theory of identity formation and individual identity in social identity theory it is perhaps unsurprising that the pair turn to simple financial investment as that which might bring about a change in identification. Thus the limiting principle they turn to in their modelling is the financial cost of changing identity. As Davis (2011) points out this excludes from the analysis the possibility that employees have a set of values, perhaps derived from other identities perhaps from other sources, which are the cause of identification or otherwise with the firm. If the firm can frame its work in a manner which is commensurate with the prevailing norms of society the cost of identification may be very little, although the political implications are large. Furthermore, as we have just seen, this is an external not an internal principle of limitation. It is a technological imposition; as the technology of identification becomes more or less sophisticated, the degree to which the economic sovereign might intervene in the preferences of the subject becomes more or less pronounced. Neither the nature of identity itself nor the nature of the subject form the basis of the principle of limitation.

However, the form of the principle is not so different from that found in the neoliberal theory of crime from which it is derived. In Becker's theory of crime, the decision to commit a crime is a straightforward optimisation of pecuniary gains and losses. The individual will commit the crime if the expected financial payoff of the crime is greater than the expected financial loss of being caught. The state endeavours to increase the expected loss of being caught to the point where a further increase would cost more than is saved by preventing the crime. While this is not the case with identity, the principle of limitation brings the same rationality to bear on the economic sovereign. The sovereign must weigh the cost of implementing an identity altering strategy against the benefits

of an altered identity. The difference comes in the sense that in Becker's theory this results in a changed external situation for the individual. In Akerlof and Kranton's work the object being weighed is a psychological notion of "anxiety and discomfort" (Akerlof and Kranton 2000) and this is weighed some supposed comparable psychological benefit derived from pecuniary gains and losses. But these psychological losses are based on social constructions – norms and ideals associated with a social category – which act to form the individual's preference for one action over another. In this sense the choice of identity shapes homo economicus itself, changing its conception of its own desires and what is best for it. In this way it is a violation of the principle of limitation of governance. Given enough incentive the economic sovereign is able to reach into the individual's mind and change the form of his or her rationality.

### **2.2.2 Neoliberalism and the utility function**

At the heart of the models is a rational choice set up which acts as their organising mechanism. This is based around a utility function intended to reflect both traditional economic arguments, wage and effort, and identity arguments. This allows for an analytical trade off between pecuniary gains and losses of standard microeconomics and potential losses from acting in discord with one's self image. It also allows the authors to attempt to differentiate some 'basic' preferences from social preferences. While they understand this as an ontological distinction – something I will join Davis in contesting – it could also be interpreted as a requirement of modelling which allows a partial equilibrium type analysis to take place. The basic preferences in the latter case would refer to tastes which are exogenous to the situation under analysis, for example that the taste for pears rather than apples is exogenous to whether or not someone is an insider or outsider at work. The question of consumer preferences is in any case somewhat academic as none of Akerlof and Kranton's models cover people acting as consumers but rather as producers of actions related to work.

There are a number of theoretical questions to be asked of their utility function and the success or otherwise with which the rational choice framework has been integrated with social identity theory. Davis (2011) makes two criticisms of this type of augmented utility function. Firstly, he questions the feasibility of separating a naturalised or basic type of preference from a culturally mediated type of preference. This criticism is strong and has significant implications. The separation is only really justified in the 2010 book and even there only briefly. The authors argue that behaviours derived from identity norms "are not basic tastes such as 'I like bananas' and 'you like oranges', which are the foundations of the economic theory of trade" (Akerlof and Kranton 2010, pp4). This claim can

easily be disputed. Taking their example, it is quite clear that a preference for bananas in Uganda and for oranges in Morocco has little to do with the 'basic tastes' of either country but is a culturally founded preference likely based on the historic availability of both fruits in each country. Similarly, it is not a straightforward claim to argue that the economic theory of trade is founded on a principle of difference between basic tastes. The economic theory of trade was historically based on the idea of comparative and then relative advantage and to a large extent these ideas still underpin modern trade theory, albeit augmented by ideas of human capital, technological advance, quality etc. Can it really be argued that the preferences in one country for particular models or colours of car are basic and not related to culture and, according to Akerlof and Kranton's theory, therefore identity? It seems clear that this distinction is an implication drawn from the limited conception of identity in social identity theory.

Davis (2011) points out that if this separation is rejected, as it should be, and basic preferences are also seen as culturally determined, then social context "could be altogether determinative of choice and behaviour so that an 'individual' might have many sources and kinds of identity". As we have seen, Davis is particularly concerned in his work about the presence and constitution of a single subject as well as the relationship between social and personal identity and between the individual and the group. He argues that after rejecting 'basic preferences' the utility function allows many sources of social identity, "but evidently not a personal identity that would somehow single them out and hold them together as an independent being". This argument can be addressed in two ways. We have already discussed why rational choice models, taken as to some extent autonomous agents, do not necessarily need a discrete personal identity. In this sense Davis' critique fails to recognise the function models play in Akerlof and Kranton's work. The model functions here as an instrument of explanation, explaining social phenomenon in the moment of its decision as faced by the individual. Social categories, norms, ideals and the subject are exogenous and the model is structured with the explicit intention of explaining how these factors come together to produce an action through a parsimonious, partial representation. In its representative function, therefore, a model which was unable to effectively relate and assign various identities would simply be a bad model.

There is also a theoretical response to Davis' critique. Davis argues that without addressing the relationship between 'social' and 'individual' identity the model is left without a centred and essential subject. But this is not a requirement of a theory of identity. Butler's post-structural gender theory posits an individual whose coherence as a subject, its identity, is created as "the

resulting effects of a rule-bound discourse that inserts itself in the pervasive and mundane signifying acts of linguistic life” (Butler 1990, pp145). The key point with respect to Davis’ critique is how Butler views personal identity as *an effect* of rule-bound discourse – in particular signifying moral norms – which signifies the body and cultural practices in relation to a principle of identity; “acts, gestures, and desire produce the effect of an internal core or substance [an individual, as far as Davis is concerned], but produce this *on the surface* of the body, through the play of signifying absences that suggest, but never reveal, the organising principle of identity as a cause” (Butler 1990, pp135, emphasis in original). The gendered body “has no ontological status apart from the various acts which constitute its reality” (Butler 1990, pp135). This decentres the subject, who now enacts identity as a fantasy which acts as the principle which makes the subject and its behaviour intelligible and which in turn enact the fantasy of a coherent and continuous identity. The idea is reminiscent of Heidegger, for whom a person must take a stand on its being. Such a stand must take place according to some principle of intelligibility. This idea is at the centre of Butler’s conception of identity as performative; “Such acts, gestures, enactments, generally construed, are *performative* in the sense that the essence or identity they otherwise purport to express are *fabrications* manufactured and sustained through corporeal signs and other discursive means” (Butler 1990, pp135, emphasis in original).

So there is no subject and no physical characteristic which is prediscursive, that is personal rather than social. Personal identity must always be constituted in the terms which are available culturally, that is to say not only in relation to but from within the language and structure of signification which constitute the forms of identities present at the time. Indeed, all objects are not only interpreted but created discursively. As for Foucault, these objects – which might come to be seen as universals – are given reality only through their constitution by discursive signification; there is no prior essence which can be tapped. From the point of view of a utility function which is entirely discursively determined, then, the problem of identifying the individual becomes meaningless. The individual is brought into being as a subject discursively according to the available modes of intelligibility which centre on notions of identity. Identities are “publicly regulated”, so they exist in discourse, and are therefore available for identification and deconstruction by scholars by means of a variety of strategies which need not be discussed here. As social norms and laws regulate and to an extent found these identities and are signified by it, all behaviour in Butler’s system must be understood with reference to social norms and identities. The absence of a personal identity and determination by social categories is in reality the problem of agency in fully determined rational choice systems and the normative problem discussed above which arises from including exogenous

forms of identity in a deterministic decision making structure. We can therefore dismiss Davis' second objection to the utility function while accepting the first at both a theoretical and methodological level.

### **2.2.3 *Ethnography, anthropology and observation of the small***

Akerlof and Kranton do not just build models. They tell a series of stories which seek to explain cultural practices in terms of identity and particularly the form of insider and outsider identity they adopt from social identity theory. The example of the military is one they use on several occasions to show the way in which diverse social identities are broken down while a new military identity is constructed. This new identity is considered to illustrate the importance of the inculcation of values in the motivation of some people to work hard. These stories are explicitly designed to persuade the economist of the importance of identity. In their initial paper published in 2000 there is a section entitled "Examples of identity-related behaviour" which provides short thought experiment type case studies deployed purely as illustrative and rhetorical tools. The section is broken down into four groups of examples which "demonstrate" firstly "that people have identity-related payoffs from their own actions", secondly that "people have identity-related payoffs from others' actions", thirdly that "to some extent people choose their identity", and fourthly "the creation and manipulation of social categories". Examples range from thought experiments in self-mutilation to psychological experiments to advertising.

Their models are for the most part based on sociological studies of the situations they want to represent. By sociological I mean here ethnographic or anthropological. It is from these studies that they draw not only their social categories, ideals and norms but also the conclusions they want to achieve. In Boumans (1999) terms, these studies provide the criteria for the success of the models. Due to the problem of generating predictions discussed earlier this is the central criteria by which the models are judged, although this is not explicitly stated. More than this, as already discussed, Akerlof and Kranton explicitly advocate an "observation of the small" (2010, pp116), by which they seem to mean the in depth study of particular instances of what are understood to be larger phenomena. This includes ethnographic and anthropological studies as well as formal psychology type experiments. Certainly, this seems to be their answer to the methodological challenges associated with their models. They argue that "the internal consistency of these ethnographies gives a criterion for their validity" (Akerlof and Kranton 2010, pp116), suggesting the role they see this type of research playing in validating the success of their models. Interestingly, they also claim

that “the very best ethnographic studies do not just record what people say; they decode what people say and do” (2010, pp117).

More than this, Akerlof and Kranton believe that “observation of the small” can add a new layer of understanding onto economic analysis;

*The studies that successfully identify causality are surely useful, but they may only hint at what we really want to know. For example, we earlier saw how Rivkin, Hanushek, and Kain showed, with a special data set, that teachers make a difference to student’s academic performance. As important as that finding may be, it opens up another question: how and why do teachers matter? This issue is, of course, yet more difficult to explore with statistical methods. What is it that good teachers do – perhaps in their overall strategy and planning, or perhaps in their minute-by-minute interactions – that leads to their success? (Akerlof and Kranton 2010, pp117)*

It is perhaps curious, then, that they do not outline any formal role for this method in economic analysis or outline how an analysis of the small might contribute to economic practice. They do not undertake any such research themselves and while this style of research comprises a large bulk of the analysis of their work, it is at no point formally linked to modelling. Thus while the reader might draw from their discussion of methodology that the economist should undertake these studies, the reader might equally intuit from their practice that the role of the economist is to engage in an economic stylisation of such research carried out by ‘others’ in order to represent certain particularly ‘economic’ processes; equilibria, cost-benefits, rational decisions. There is similarly no hint that economists might need to familiarise themselves with the theoretical underpinnings of ethnographic and anthropological research into the operation of identity and other socially constructed objects – which is some theories of sociology is all objects as we have discussed – in order to fully appreciate and engage with this body of literature. The economist then functions as a scavenger, swooping in on the research of other disciplines, devouring the observations without engagement with the theory and regurgitating an economic representation of the situation under observation.

This is a methodological ambiguity. Take, for example, the work of an anthropologist who is not cited in Akerlof and Kranton’s work but with whom many will be familiar and whose theoretical position makes this ambiguity clear. If Akerlof and Kranton were to apply their procedure to the work of Clifford Geertz in *The interpretation of cultures* (1973) they might his social categories,



norms and ideals of the Bali cockfight and seek to incorporate it into a model with rational choice and social identity theory not only as categories and prescriptions, but also in the structure of the mathematics. In the latter case Akerlof and Kranton would be in effect be merging his symbolic explanation with an insider-outsider set up which emphasises social difference. They would judge their work a success if they were able to show that the social categories would enact the behaviours Geertz sees. But Geertz is not engaged in an attempt to collect raw data. He is explicitly and, in his case, obviously engaged in a theoretical-empirical practice. He makes some observations of the practice of the cockfight and proceeds to use and develop a theory of symbolic anthropology to divide the audience into social categories and to assign meaning to their action. Thus any observations are theoretically conceived, expressed and understood, including the categories which Akerlof and Kranton might take as 'common sense'. This means that a model which took Geertz as raw data would itself be using symbolic anthropological theory by proxy. But symbolic anthropology views identity and human behaviour in a way fundamentally different from social identity theory and rational choice theory. So the identity and mathematical mechanics of the model would be merged from two sources which are opposed. How then can we understand the conclusions? While the work of Geertz is taken as a more extreme example to illustrate the point, the same theoretical-empirical principle guides most – some would argue all – ethnographic and anthropological observation. Their division into categories and interpretation of norms and ideals is theory driven and theory laden.

### **2.3 From construction to representation**

I have argued that it is the capacity of Akerlof and Kranton's models to represent the conclusions of the studies on which their models are based which provides the criteria by which they judge their success. Morrison (1999) discusses the ways in which models form a partial or even deliberately inaccurate representation of the phenomenon they seek to explore in order to draw out the particular operation of one or several parts of a system. Akerlof and Kranton appear to agree. Their models represent the way in which an economic subject, homo economicus, might operate according to the tenets of social identity theory. The social identity theory of Tajfel and Turner (1979) posits that social identities form part of a person's self-conception, that they derive some psychological pleasure from the pride of group membership which can be boosted by the association of positive traits with the person's group or negative traits with the groups of others. It thus begins with a distinction between the insider and outsider which will lead individuals to exaggerate differences between groups and similarities within groups. They suggest a three stage process

beginning with social categorisation, in which individuals assign themselves and others to social categories which will not necessarily be commensurate in terms of assignment. The second stage is social identification. Here the individual takes on the identity of the social group, act according to its norms of behaviour and begin to feel some kind of emotional attachment to it. Finally there is social comparison, where the individual compares themselves with individuals belonging to other groups. In order to maintain self-esteem, this comparison needs to be favourable.

We can see this model at work in Akerlof and Kranton's models. Consider the model of worker supervision published in *The American Economic Review* (2008). The first thing the workers do is categorise themselves on the basis of whether the supervisor reports on them or not, this is a process of social categorisation. Once they are categorised they adopt the utility function associated with this category – that is adopt the social identity of the category – which in turn determines their action and their level of utility, which one might broadly associate with such terms as self-esteem, happiness, self-image etc. As a result, the criteria for the success of their models is their capacity to demonstrate that the economic subject, homo economicus, might act according to social identity theory using categories observed by an 'observation of the small' in order to produce outcomes which are consistent with this observation. The models are representing at a microeconomic level the workings of social identity theory as enacted by a rational choice subject. This leads to particular conclusions which are in line with those of social identity theory, as you would expect as the logical matrix underpinning the identity component of the utility function.

But this is at odds with Akerlof and Kranton's own narrative. They claim that "many standard psychological and sociological concepts fit our framework, with considerable generality and a common theme: self-image, self-realisation, situation, ingroup versus outgroup identification, self versus other, social structure, power, and difference" (2010, pp129). But as we have seen this can be seen as only very superficially true. Social identity theory in particular is built into the representational logic of their models, along with its cognitive processes, its emphasis on insider versus outsider structure and limited conception of identity. Power plays an extremely limited if not entirely implicit role in their modelling. This is because they associate power with authority and the ability to directly influence some physical reality, such as supervision or pay. For any student of politics this is immediately recognisable as the very limited – and flawed – notion of power associated with neo-realist theory, which is particularly popular in the United States. For some social constructivists and most if not all post-structural theorists power is not limited to authority but structures the discourse within which the idea of authority is created and the problematic is

formulated (Butler 2005, pp3). These are the “psychological and sociological concepts” associated with the so-called ‘interpretive turn’. Akerlof and Kranton (2010, pp23-24) do not seem to recognise this distinction, arguing that the question of identity is “semantic” and that multiple “definitions of identity” can be sustained by their procedure but that these are context specific. There is no recognition that the reality and structure of identity as social categories, norms and ideals might itself be open to dispute. Seen as well defined universals, they of course are and one must ask what purpose they serve in terms of the what conclusions are rendered meaningless by their use. This was shown to be the case in section 1.8.

## 2.4 Representation and learning

As we have seen, the manner in which these systems are combined results in a number of theoretical and methodological challenges for Akerlof and Kranton’s systems. One issue which has not yet been addressed however is the degree to which their approach is compatible with economic theory and it is here that the suspicion that the models fulfil more of a rhetorical function than a theoretical function is clearest. One possible reason for incorporating social identity theory into a rational choice framework is to spawn a school of economic analysis which incorporates identity into microeconomic modelling in order to solve new problems. This is indeed what Akerlof and Kranton advocate in their 2010 book and has to some extent happened, with numerous papers produced using their framework<sup>1</sup>, with some attempts being made to fill in the gaps, such as with an evolutionary explanation of the “innate proclivity to draw a distinction between ‘insiders’ and ‘outsiders’” and the implications of this for economic theory (Eaton, Eswaran and Oxoby 2011).

But the central challenge facing the school, and one which remains to be resolved by Akerlof and Kranton’s successors, is the problem of time. Casey and Dustmann (2010), for example, look at national – although they label this ethnic, an unfortunate conflation – identities across first and second generation immigrants and the effect of these on economic outcomes. This analysis is enabled by the fact that nationality appears comparatively stable. However, their model suffers because the identity and associated norms and ideals must be time invariant in the absence of a theory of formation and change. Davis (2011) critique of rational choice and Akerlof and Kranton that these models are unable to constitute an individual subject as a principle by which multiple identities might be organised and related becomes more important. Such a perspective would necessarily involve different understandings of the socioeconomic situation confronting the

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<sup>1</sup> See for example Austen-Smith and Fryer (2005), Casey and Dustmann (2010), Manning and Sanchari (2010) and Patacchini and Zenou (2006), amongst others

individuals according to the manner in which they combined identities, here the national identity of the parents and the national identity of the adopted country. To make matters more complicated such a theory should be able to account for different conceptions of the two identities between the parents and the children. The children no doubt often have a very different understanding of what it is to 'be' from their parents' home country than their parents have. The same is likely to be true of the identity of the adopted country.

Thus we are faced with a series of major theoretical problems; that the identity may change over the time of leaving the initial country and the children growing up, that as the identity changes according to discursive factors the initial country identity as understood by those still living in the country might diverge from the identity of the immigrants, the problem of the origin of identity which is relevant to the children born abroad, the consolidation of both the initial and adopted country identities within one being, the difference of this between the parents and children. While there is of course debate on this, it seems clear to me that these changes are not only contingent but also to an extent aleatory. Casey and Dustmann (2010) manage to avoid getting caught up in these issues because the stylisation of a stable identity is sufficient to illustrate the logic they want to bring out, that of the incentives facing the parents to instil a particular identity in their children and whether this is likely cause the children to become insiders or outsiders in their adopted country.

Identity choice over time is also a challenge. It might for example become necessary to distinguish between types of identity within a theory of identity formation and evolution, something Akerlof and Kranton attempt as they assign categories according to the frequency with which they change (2010, pp126). As argued previously, in a static model the assignment of identity can be represented by a matching of individual characteristics to the ideal *because* both the subject and the identity as taken as prior to the decision. If taken over time, the subject, if not the identity, can no longer be taken as prior because identity becomes entangled with the narrative of the person (Butler 2005). The person can only explain their past actions in terms of an identity which is formative in terms of the choices they will make. In other words, once an identity is established all future decisions will be seen from within the perspective of this identity. While some identities may be more readily subject to re-evaluation than others – such as being an outsider at work rather as opposed to a racial identity – there is a structural divergence in perception at the point of assignation to categories which must be taken into account in all future decisions, including those about identity. At least, this is one theoretical position. It serves to illustrate the fact that once the model ceases to be static, the

theory of identity, the constitution of the subject, theories of norms and agency, all become increasingly important. As social constructions there is a complex agency at the heart of changes to identity and in the narrative of the individual which is connected to power relations in society as a whole and what might – in Bourdieu’s terms – be referred to as the symbolic power to direct and transform discourse. It is in no way restricted to internal psychological principles. There is thus a serious question about whether identity can form the basis of orthodox economic theory, at least as currently understood. Interestingly, Akerlof and Kranton entirely reject this position, stating simply that “the preferences of the new selves come from the new identities and their associated norms and ideals” (2010, pp126).

## **2.5 Is identity economics an economic theory of identity?**

This leads to an interesting question which is not satisfactorily addressed in the literature addressing the relation between ‘models’ and ‘theory’. The influential book *Models as mediators: Perspectives on natural and social science* argues that models mediate between ‘theory’ and ‘reality’ and are partially independent from both. Models are seen as ways of connecting theory to reality in relatively autonomous ways, combining aspects of both, in order to learn something about theory or reality. However, this triple tiered ontology is difficult to sustain in practice. The boundary between models and theory – and, for some, models and reality – is impossible to draw, with the conclusions and insights of models often becoming principles of theory. In the case of Akerlof and Kranton it is relatively straightforward to see the apparent autonomy of the model and its theoretical and empirical ‘ingredients’, as has already been discussed. But it is worth asking the question, does their work amount to an economic theory of identity?

To answer this it is first worth considering what an economic theory of identity might look like. While branding homo economicus a “stick figure” who is “only interested in goods and services” (Akerlof and Kranton 2010, pp113), Akerlof and Kranton do not view homo economicus as synonymous with the subject of rational choice theory. It is clear, although not explicit, that they view this subject as the basis of economic analysis and therefore any theory of identity requires a rational subject, a utility function and an optimisation. What, then, might an economic identity look like? An identity as it relates to economics must be something which affects economic behaviour. But the key question here is; would an economic identity necessarily state explicitly the structure, nature and processes of identity itself? Here Akerlof and Kranton’s methodological ambiguity appears clearly as a contradiction for the first time. As we have seen, the authors (2010, pp23) claim

that models are similar to a “revealing cartoon” in that they “focus on interesting features of the situation”. This suggests a methodological position whereby the ‘reality’ of assumptions and mechanisms do not matter, just the conclusions. It is a position, therefore, which appears close to Friedman’s which they are at pains to dismiss. Similarly their modelling process seems related to Friedman’s approach. Akerlof and Kranton say that people act *as if* the maximised utility. Variables are selected with parsimony in mind. Conclusions are checked against empirical data, albeit of a kind that Milton Friedman may not have approved of. It does not matter that people may not ‘in reality’ be rational utility maximisers, what matters is the success or failure of the conclusion. It seems Akerlof and Kranton act *as if* they were following Friedman’s methodology.

This jars with their emphasis on psychological experiments which demonstrate the importance of group identity and on studies which look to produce a thick description of social phenomena. But what precisely do they mean by ‘observation of the small’? They argue that by observing the small details of particular instances of social phenomena, rather than trying to produce population representative analyses, the analyst can intuit or decode processes which might have theoretical importance. But what role does this observation play in their modelling/theorising? As already discussed, observation of the small has roughly three functions in their work. It has a rhetorical function convincing economists that incorporating identity into economic analysis is important. It has role as a resource, by providing the raw material from which social categories, norms and ideals can be drawn. It has a role validating the models in that it provides the observation against which the models must be contiguous. These criteria might be seen in Friedman terms as providing the data which might falsify the model’s construction. But as we have seen there is no formal role for these studies or for ethnographic, sociological, philosophical or anthropological theory in their analysis.

The reason this is important and the reason it becomes a contradiction is that the methodological position associated with Friedman – which they reject but appear to deploy nonetheless – is a black box approach to theory. In this case an economic identity could be a black box with specified empirically observable predictions or conclusions. This is of course recognisable of the system of identity Akerlof and Kranton use in their models. On the other hand, ‘observation of the small’ implies that it is what happens within the black box which is important. Not only this, there is a contradiction even within the idea of ‘observation of the small’ they set out. The psychological studies they cite imply, as Aguiar and Francisco suggest, recognition that the processes of cognitive dissonance associated with deviation from expected norms or effectively real. In these studies it is

the internal processes of the mind which are causal. However, ethnographic and anthropological study takes the social as its starting point. What is important is the logic and discursive form of culture and language and it is these processes which operate within the black box.

The authors refer to the division in the literature already discussed – using the terms individualistic versus interactionist rather than internalist versus externalist – but claim to straddle it. While their framework talks about “an individual maximising a utility function” the gain in utility can “represent the enjoyment people experience when they do something that makes them fit in with a group” or “the gains from differentiating one group from another” (2010, pp24). They claim that “this wider view of our identity utility matches an interactionist understanding of identity among sociologists and anthropologists, where identities and norms emerge from social interactions and power relations” (2010, pp25). While it is true that social interactions and power relations might potentially be represented in the mechanics of their models as a reaction to an external agent, effectively becoming a game, there is no role for such factors in structuring identity itself, at least not a role that is explicit. As discussed above, this is one of the more troubling aspects of their work, masking as it does the structural and deterministic role played by authority in the shaping of identity. In this way it appears that for Akerlof and Kranton, ‘observation of the small’ is a technique of data collection and falsification, rather than a theoretical act of deconstruction which might uncover the internal dynamics of identity itself.

So where does this leave the prospective economic theory of identity? Of course this is an entirely speculative exercise but the implications are important. It seems fair to conclude from this that Akerlof and Kranton do not see the need for a fully worked out theory of identity in its relationship with the subject, the other, discourse, language etc. They see it as effectively a common sense phenomenon. This is made near enough explicit as they discuss the frequency with which identities change over time; “Some types of identity are permanent. For example, race and gender only rarely change over the course of a lifetime” (2010, pp126). This proposition is in the first instance incorrect, or at least inaccurate, as identity incorporates three elements in their set up and the norms and ideals associated with race and gender can be viewed as changing frequently. There is also the argument that the identities themselves are not permanent as they are created as real only discursively and organised into categories which mask the underlying process which designates them as natural, stable and coherent. Similarly in their discussion of the creation and evolution of norms (2010, pp125), they do not state the need for a theory of identity in order to understand these

changes. In effect then, it appears that Akerlof and Kranton do not believe that they need a theory of identity per se in order to theorise using identity.

What are we left with? Akerlof and Kranton propose a “procedure” which assigns economic subjects to a social category according to certain criteria which may or may not relate to ideals. This social category comes to define the subject from an economic perspective. The person is from this point subject to a utility function and situational analysis particular to its social category. This is its economic identity. It can therefore be concluded that Akerlof and Kranton have developed a theory of economic identity. In the terms of microeconomic analysis and taking homo economicus as economic man, this could be equally said to be an economic theory of identity. It is not economic factors which determine the identity of the subject but it is economic man as a rational subject. The invasion of economics into a still broader spectrum of disciplines is therefore also apparent, with economic logic now extending to identity and the social formation of man.

## **CONCLUSION**

This work has sought to shed some light on the precise nature of Akerlof and Kranton’s identity economics in terms of its relation to the history of economic thought and the implications of its social scientific practice. Due to the massive and diverse literature on identity – which spans social science, psychology and philosophy as well as pervading popular consciousness – this work picks a very particular route through it, highlighting the issues and arguments which become pertinent in the discussion of Akerlof and Kranton in the final section. In order to avoid being drawn into a wider debate about psychology in economics the focus is on literature pertinent to the logic and implications of identity economics. The paper begins by exploring Foucault’s characterisation of the liberal and neoliberal schools of thought which Akerlof and Kranton identify as the intellectual tradition from which they derive. Foucault’s work identifies the economic subject and its relationship to power through the invisible hand as the central innovation of liberalism. It is the particular nature of this subject which underpins a principle of self-limitation on the part of the government, establishing the impossibility of an economic sovereign in the character of economic activity and the economic subject.

The paper then moves on to discuss some of the issues raised in the identity and rational choice literature. This literature draws a distinction between externalist and internalist conceptions of



rational choice but it is a distinction characterised by ambiguity and a lack of clarity. Internalist is taken variously to mean a belief in the reality and importance of mental processes or to reference any theory which places analytical weight on the individual. Externalist might mean that decisions are made on the basis of factors external to the individual or it might refer to theories where identity is a relationship between individuals. The difference in conceptions relates to an epistemological distinction about whether identity is something which can be known and an analytical distinction between the appropriate unit and style of analysis. What emerges from both discussions is a need for a theoretical account of a subject which has a history and whose identity is established in language and society. To explore an alternative theoretical account of identity which provides a useful perspective from which to view Akerlof and Kranton's work aside from the analytical tradition of philosophical discourse on identity the paper moves on to set out certain aspects of Judith Butler's post-structural theory of performative identity. This account offers one of the most sophisticated views of the relationship between the subject, identity and behaviour currently available.

Armed with the insights from these various perspectives, the paper begins its analysis of Akerlof and Kranton. In this task, the work is immediately confronted by the problem of establishing the basis on which their identity economics is to be assessed. As the central innovation of their work is their formal modelling, an approach based on the functionalist approach to models is taken. This looks at the construction of their models, their function, how they represent social phenomena and how Akerlof and Kranton learn from the modelling procedure. In terms of construction, Akerlof and Kranton pull together three theoretical styles; social identity theory, rational choice theory and the 'observation of the small', although they do not seem to recognise the latter as theoretical. Each of these 'ingredients' comes with its own issues and the way in which they are combined also poses challenges.

Social identity comes with a focus on an insider versus outsider structure of identity and exogenous social categories. These two factors mean that models are restricted in the conclusions they can draw, for example, shifting emphasis away from societal divisions in education and onto school identity. This is symptomatic of a 'problem solving' type approach (Gunning 2007). Rational choice brings with it a problem of the nature of the 'identified' subject over time. Although Akerlof and Kranton insist that while identity may change the subject will always view its behaviour from the perspective of the identity they have at the time, so that the subject's history has no meaning, this can be disputed and relates to a fundamental problem of time in the models, particularly without an

explicit theory of identity formation and evolution. The inclusion of both psychological experiments, ethnographic and anthropological studies as the raw data for the models also brings problems. These disciplines are engaged in a theoretical-empirical exercise whereby social practices are interpreted and categorised on the basis of a particular theoretical perspective which cannot be ignored. The conclusions from such studies form the basis on which models are judged a success or failure as well as providing the empirical inputs. This makes the conclusions of these models ambiguous.

The particular construction, function and representation of the models also have troubling normative implications. The logic of the models appears to reintroduce the notion of an economic sovereign as a governmental practice of intervention in the internal mechanisms of the economic subject and enact a change in preferences – in economic terms equivalent to restructuring the whole worldview – in order to achieve its aims. Whether this makes the models more or less ‘realistic’ is not the point, rather it indicates a fundamental logical shift from liberal and neoliberal thought. As one of Akerlof and Kranton’s reviewers Chris Bidner (2010) says; “The relative costs and benefits of putting identity – or anything else for that matter – ‘in the utility function’ is a very important issue, with many subtleties”.

The paper concludes with a brief discussion of whether this procedure constitutes an economic theory of identity. With the relationship between models and theory ambiguous and poorly understood in the literature – if such an ontological distinction can be said to exist at all – a somewhat speculative approach was taken to addressing this problem. This involved envisaging what an economic theory of identity might look like within the orthodox tradition of economics. Such an identity would likely adopt the Friedman-type framework in which the model serves as a kind of proxy for a black box. Despite their protestations to the contrary, this is in fact also the approach taken by Akerlof and Kranton. An economic identity would involve an alteration to preferences in accordance with identity from the ‘normal’ economic optimum in a manner specific to the identity. Such a system would posit a mechanism relating identity to economic behaviour and a framework by which such a mechanism could be tested empirically. Given the strong tendency towards parsimony over the realism of assumptions and objects it seems unlikely that more would be required. As far as economic identity can be considered identity in economics, then, Akerlof and Kranton can be seen as proposing an economic theory of identity.

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