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Identity Economics: How Our Identities Shape Our Work Wages and Well-Being

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Princeton University Press (Feb 10, 2010)
Unknown $24.95 (200pp)
978-0-691-14648-5

“The curious and uncanny part of it all is that there is no firing,” Major John Hay Beith wrote, describing the strange periods of inaction on the Western Front during the First World War. Ignoring their high commands’ exhortations to kill the enemy, British and German infantrymen—fellow sufferers in the trenches—followed a policy of live-and-let-live. On one occasion, when a missile landed on the British side as the soldiers were having tea, the Germans apologized and blamed the Prussian artillery for breaching the informal truce.

Individual agendas often conflict with organizational goals; groups of all sorts go to great lengths to secure members’ commitment to their mission. On their first day at the United States Military Academy at West Point, new students get haircuts, put on uniforms, and learn to salute older cadets. George Akerlof, the 2001 Nobel Laureate in Economics, and Rachel Kranton, professor of economics at Duke University, view these rituals as first steps in a personal re-engineering process that promotes a military identity. Four years later, the students step out as officers who are ready to serve the nation, placing service before self.

Organizations can keep salaries low when employees value incentives other than money. Army personnel take pride in their military identity and gain self-esteem from their association with a force that defends the nation. Such intangible rewards sometimes matter even more to them than the paycheck. In *Identity Economics*, Akerlof and Kranton relate the experience of a West Point graduate who explored civilian work after his obligatory military service. Disenchanted by the companies’ focus on money during his job interviews, he remained in the army, saying, “None of them ever really talked about what was important to me and that was service.”

The authors encourage researchers to examine the influence of identity on the choices individuals and groups make in the marketplace, at school, and at home. In the past, economists have neglected sociological and anthropological explanations for behaviors and outcomes that appear irrational from an economic standpoint—women doing much of the work around the house even when they earn more than their husbands, African-Americans dropping out of school and the workforce, and men dominating science and engineering jobs. Business managers, economists, policy makers, and school administrators will all gain fresh insights into similar enigmas that confront them if they bear the book’s message in mind: identity matters.
(February 13, 2010)

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