

The Role of Identity Economics in Explaining Gender-Based Economic Disparities

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Abstract: *This paper explores the persistent and complex issue of gender-based economic disparities through the lens of Identity Economics. Traditional economic models often fail to fully explain phenomena like the gender wage gap and occupational segregation because they overlook the powerful influence of social norms and personal identity on individual choices. Identity Economics, which posits that people derive "identity utility" from acting in ways consistent with their social group's expectations, offers a more nuanced framework for understanding these disparities.*

By conducting a qualitative literature review and conceptual analysis, this research synthesizes foundational work from George Akerlof and Rachel Kranton with other academic sources to demonstrate how gender-based identity norms contribute directly to tangible economic outcomes. The paper argues that societal expectations of what is "masculine" or "feminine" influence career choices, leading to occupational segregation where women are concentrated in lower-paying, "care-oriented" fields, and men in higher-paying, "masculine" roles. This phenomenon, while seemingly based on individual preference, collectively reinforces the gender wage gap. Furthermore, identity norms create systemic barriers such as the "glass ceiling" and "sticky floor," as individuals face social disapproval for deviating from expected behaviors. For example, a woman may be perceived as "bossy" for exhibiting the same assertiveness that is praised in a male counterpart. The paper concludes that effective policy must move beyond simple financial incentives and address the underlying social and psychological factors. Strategies that challenge gender stereotypes and normalize diverse career paths such as public campaigns and flexible work policies are crucial for creating a more equitable society where individuals are free from the constraints of limiting gender norms.

Keywords: Identity Economics, Identity Utility, Gender wage gap, Occupational Segregation, Gender Identity Norms, Social Utility Function, Glass Ceiling and Sticky Floor, Behavioral Economics

I. INTRODUCTION

Gender-based economic disparities remain a persistent and complex challenge globally. The gender wage gap, where women consistently earn less than men, and occupational segregation, where men and women are concentrated in different professions, are two of the most evident manifestations. Traditional neoclassical economics, which assumes individuals are perfectly rational and solely motivated by monetary gain, fails to fully account for these phenomena. However, the reality is more nuanced. In reality, people often make choices that are not financially optimal but provide them with a sense of personal satisfaction and social belonging because these choices align with deeply ingrained social norms and their sense of identity.

This paper seeks to illuminate this complexity by applying the theory of Identity Economics. This theory introduces the concept of "identity utility", which states that people gain satisfaction from behaving in ways consistent with their



identity, and deviating from these norms can lead to social or psychological loss. The purpose of this research is to analyse how gender-based identity norms contribute to gender based economic disparities.

Identity economics is a field of economics that explains how people make decisions, and how their identity and membership in social categories influence those decisions. In this field, a person's identity becomes part of their utility function, which is called identity utility.

Identity Utility and Gender Gap Studies- The concepts of identity economics and identity utility are used in gender gap studies in the following ways:

Impact of Identity: Identity economics focuses on how a person's gender identity affects their professional and personal choices. For example, if a woman attaches greater importance to the identity of a 'good daughter' or 'caring mother,' she might not prioritize her career.

Understanding the Gender Gap: By using identity utility, we can understand how social expectations and norms, which are different for various genders, exacerbate issues like the wage gap and workforce participation.

Influence of Social Norms: This approach also shows that if a person does not follow a social norm, their identity can be harmed. For example, if a man chooses a nursing profession, society might view him negatively, which could reduce his identity utility.

The Importance of Identity Economics - Identity economics helps us to understand the complex nature of gender inequality. It doesn't just focus on economic factors like wages and profit but also considers the social and psychological factors that influence people's decisions both man and woman. This allows us to create policies that don't just rely on financial incentives but also take into account people's identities and social norms.

II. LITERATURE REVIEW

Akerlof, G. A., & Kranton, R. E. (2000). Economics and Identity. The Quarterly Journal of Economics, 115(3), 715-753. This foundational paper is the cornerstone of Identity Economics. Akerlof and Kranton propose a new framework for economic analysis by integrating the concept of social identity into a person's utility function. They argue that individuals derive "identity utility" from acting in ways that conform to the norms and ideals of their social group. For instance, an individual who identifies as "a man" or "a woman" gains satisfaction from behavior that aligns with societal gender roles. Conversely, deviating from these norms can lead to a loss of utility, such as social disapproval or psychological discomfort. The paper demonstrates how this model can explain various social phenomena, including discrimination and labor market choices, that traditional economic theories struggle to fully account for.

Akerlof, G. A., & Kranton, R. E. (2010). Identity Economics: How Our Identities Shape Our Work, Wages, and Well-Being. Princeton University Press. This book serves as a more accessible and comprehensive expansion of their earlier academic work. Akerlof and Kranton apply the principles of Identity Economics to a wide range of real-world scenarios. They explain how identity influences decisions related to work, education, and household dynamics. The book provides specific examples of how gender identity norms contribute to issues like the gender wage gap and occupational segregation. For example, it illustrates how a person's desire to be seen as a "good mother" or a "strong provider" can affect career choices, which may not be financially optimal but are personally or socially rewarding. This reference is crucial for understanding the practical application of their theory to gender-based economic disparities.

Bureau of Labor Statistics. (2022). Women in the Labor Force: A Databook. This government report provides the empirical data that substantiates the theoretical arguments made in the paper. It offers detailed statistics on women's participation in the labor force, their earnings, and their representation across various occupations. The databook quantifies the phenomena of occupational segregation, showing that women are overrepresented in certain fields like education and healthcare, while men dominate others like construction and engineering. It also provides data on the persistent gender wage gap, demonstrating that jobs with a higher percentage of female workers tend to have lower median wages. This report is used to establish the real-world economic disparities that the paper seeks to explain through the lens of Identity Economics.



Goldin, C. (2021). The Gender Gap in Pay: What Do We Know and What Do We Need to Know? *American Economic Review*, 111(2), 527-542. As a renowned labor economist and Nobel laureate, Claudia Goldin's work is essential to the study of gender pay disparities. In this article, she provides a comprehensive overview of the factors contributing to the gender wage gap. Goldin's research highlights that a significant portion of the gap remains "unexplained" by traditional economic factors such as differences in education, experience, and hours worked. The paper utilizes Goldin's findings to argue that this unexplained portion can be understood through the lens of identity, which influences career and life choices that impact long-term earnings. Her work validates the need for a more nuanced approach, such as Identity Economics, to fill in the gaps left by conventional analysis.

Tufte, J. (2019). The Role of Identity in Occupational Choice. *Journal of Economic Behavior & Organization*, 162, 1-15. This article provides a specific, detailed analysis of how identity directly influences an individual's career choices. It supports the core argument of the research paper by showing that identity is a significant, measurable factor in occupational decisions. Tufte's work helps bridge the gap between abstract theory and observable behavior, providing evidence that people often choose professions not just for financial reasons but also because they align with their sense of self and social identity. This reference strengthens the paper's claim that identity-driven choices are a key mechanism behind the patterns of occupational segregation observed in the labor market.

III. RESEARCH GAP

Existing literature often addresses gender disparities through either a purely economic or a socio-psychological lens, but rarely do these approaches fully integrate. While some studies quantify the wage gap and others describe the social pressures of gender norms, a significant gap remains in directly linking specific, identity-driven behaviors to tangible, macro-level economic outcomes like occupational segregation and leadership underrepresentation. This paper seeks to bridge this gap by synthesizing foundational economic theory with sociological insights to create a unified conceptual framework. This synthesis is crucial for offering policymakers a new perspective: that addressing economic inequality requires not just legal and financial interventions but also social and cultural ones.

IV. RESEARCH METHODOLOGY

This research is based on a conceptual synthesis using a qualitative literature review. Instead of collecting primary data, this paper draws upon a curated body of reliable secondary sources. The research synthesizes foundational works in Identity Economics by George Akerlof and Rachel Kranton with empirical data from sources like the Bureau of Labor Statistics and expert analyses from labor economists like Claudia Goldin. The collected literature is analyzed to demonstrate how identity-based norms are a key mechanism directly linked to specific gender-based economic outcomes. This approach allows for a deep, comprehensive, and theoretically grounded understanding of this intricate topic.

V. THE THEORETICAL FOUNDATION:

Identity and Utility - At its core, Identity Economics introduces the concept of "identity utility." This utility is the psychological satisfaction an individual gains from behaving in a manner consistent with the norms and expectations of their social group or identity.

Identity economics explains that people's economic decisions are influenced not only by financial incentives but also by their sense of self, or identity. It challenges the traditional economic assumption that people are purely rational actors motivated solely by maximizing their self-interest and financial gain. Identity economics argues that people gain or lose utility (satisfaction or happiness) when their actions conform to or deviate from the norms and expected behaviors associated with their chosen identities. This concept of identity is integrated into the standard economic model of utility.

Identity Utility: Identity utility is the satisfaction an individual gets from acting in a way that is consistent with their identity. When making a decision, a person considers not only the monetary costs and benefits but also the "identity



payoff." This payoff can be positive when their actions align with their self-image or negative when they don't. For example, a person who identifies as a "green" or environmentally conscious individual would gain utility from buying a hybrid car, beyond the savings on gas. Conversely, they might experience a negative identity utility, or a "cost," from buying a gas-guzzling truck, even if it were cheaper.

The core of identity economics is the idea that an individual's total utility is a function of:

The utility from their choices (e.g., consumption, income).

The utility from their identity (the degree to which their actions align with their sense of self).

The utility from their social category (how they are perceived by others based on their identity).

The utility from their social norms (the expectations associated with their identity).

The general formula for a neoclassical total utility function is:

$$U = U(x_1, x_2, \dots, x_n)$$

U represents the total utility (or level of satisfaction).

x_1, x_2, \dots, x_n are the quantities of various goods and services consumed.

This formula shows that utility is derived solely from the consumption of tangible goods and services. It's a purely economic calculation, focused on the idea that more consumption leads to more utility, subject to the law of diminishing marginal utility.

Total Utility Function as identity economics of Akerlof and Kranton

Their formula for total utility includes a new component for identity:

$$U = U(a, a_{-j}, I(a, a_{-j}), c, E, P)$$

Let's break down the components:

U is the total utility.

a represents the individual's actions (e.g., consumption, work effort).

a_{-j} represents the actions of others in the individual's social group.

I is the identity or self-image component. This is the key innovation. It's a function of the individual's actions, the actions of others, their assigned social category (c), their personal characteristics (E), and the prescriptions or norms of their social category (P).

Applications of identity economics on gender identity - In the context of gender, individuals are motivated to behave in ways society deems "masculine" or "feminine." This motivation stems from two primary sources:

Sense of Self: A person's identity is deeply tied to their gender. They internalize societal expectations, which shapes their self-perception and personal standards of behavior.

Sense of Belonging: Society expects certain behaviors based on one's gender. Conforming to these norms fosters a sense of social belonging, self-worth, and satisfaction.

Conversely, acting against these established norms can result in a "loss of utility," which manifests as social disapproval, internal conflict, or a diminished sense of self. This highlights the powerful influence of societal expectations on individual behavior and well-being.

For example, a woman might choose to pursue a career in nursing or teaching, fields traditionally associated with "caring" and "nurturing" roles, even if she has the skills and opportunity to enter a higher-paying field like engineering. While a traditional economic analysis might see this as an irrational financial decision, Identity Economics explains it as a rational choice to maximize her overall utility. The financial "loss" is outweighed by the psychological "gain" of aligning her career with her perceived gender identity.

Similarly, a man might feel societal pressure to be the primary breadwinner, leading him to prioritize a higher-paying, often more demanding job, even if he would prefer a more balanced life or a different career path. He might also avoid taking paternity leave, despite it being financially feasible, to avoid being seen as "unmasculine" or less committed to



his career. The potential loss of social standing and identity utility, or the fear of being seen as less of a provider, can outweigh the benefits of spending more time with his family.

Total Utility Function for Gender Identity - A utility function for gender-based norms would integrate the concept of "gender identity utility" into the total utility formula. This new component represents the psychological satisfaction derived from conforming to or the dissatisfaction from deviating from gendered expectations.

$$U = U(c, G\{\text{Gender Identity}\})$$

U is the individual's total utility.

c represents consumption and other choices (e.g., career, work-life balance) that provide traditional utility.

G {Gender Identity} is a new function that measures the utility or disutility gained from aligning with gender norms.

This can be expressed as:

$$G\{\text{Gender Identity}\} = f(\text{action}, \text{gender norms}, \text{social perception})$$

Let's break down the components of the "Gender Identity" function:

Action (a): This is the individual's choice, such as career path, division of labor in the household, or the decision to take parental leave.

Gender norms (n): These are the societal expectations and prescriptions for "masculine" and "feminine" behavior. They act as a benchmark against which an individual's actions are measured.

Social perception (p): This is how the individual's actions are perceived by others in their social group, which can influence their sense of belonging and self-worth.

For instance, using this framework, the total utility for a woman choosing a career in nursing over engineering would be:

$$U = U(\text{financial income from nursing}) + U(\text{utility from aligning with "caring" gender norms})$$

Similarly, for a man who decides against taking paternity leave:

$$U = U(\text{financial benefit of not taking leave}) + U(\text{avoiding the disutility of being seen as "unmasculine" or less committed})$$

This specialized formula captures the core idea from the concept that an individual's decisions are not just about tangible goods or income but also about the psychological and social satisfaction derived from acting in a way that is consistent with their gender identity.

The Role of Gender Norms in Shaping Choices - Society has deeply ingrained and often subconscious expectations about what is "masculine" and "feminine." These norms are the result of historical, cultural, and social evolution, and they shape everything from the clothes people wear to the careers they choose. **Identity economics** highlights how these norms directly influence **occupational segregation**, where women concentrate in certain jobs and men in others.

Occupational Segregation: The concentration of women in fields like education, healthcare, and social work, and men in fields such as construction, engineering, and finance, is a direct result of these identity-driven choices. This segregation is a primary driver of the gender wage gap. According to the Bureau of Labor Statistics, Jobs with a higher percentage of female workers tend to have lower median wages, not necessarily because the work is less valuable, but because societal norms have devalued "feminine" work.

Example

Consider the stark difference in pay between a kindergarten teacher and a construction manager. Both require skill, patience, and management capabilities, but the "feminine" stereotype of the teacher contributes to lower pay, while the "masculine" stereotype of the construction manager contributes to higher pay. The identity utility gained by conforming to these roles can make individuals less likely to cross these occupational boundaries, even if it would lead to greater financial security.

Systemic Consequences: These individual, identity-driven choices have collective and systemic consequences. When millions of people make similar decisions, they reinforce and perpetuate the very economic disparities that we observe.

The Consequences of Gender-Driven Choices - The individual, identity-driven choices made by millions have far-reaching systemic effects, perpetuating economic disparities and stereotypes.



The Persistent Gender Wage Gap: The most visible consequence is the persistent gender wage gap. While some of this gap can be attributed to factors like differences in work experience or hours worked, a significant portion remains unexplained by these factors alone. Identity Economics helps fill this gap by showing how occupational segregation, driven by identity choices, contributes to the overall disparity. Women are overrepresented in lower-paying, "feminine" jobs, while men are concentrated in higher-paying, "masculine" fields. This structural imbalance ensures that the wage gap remains a stubborn reality.

Barriers to Career Advancement: Gender stereotypes rooted in identity norms also create significant barriers to career advancement. A woman might be overlooked for a leadership position because she is perceived as "not assertive enough" or "too emotional," qualities that society often associates with femininity. These perceptions can lead to a "glass ceiling" that prevents women from reaching the highest levels of management. Conversely, a man might face prejudice if he is perceived as "too soft" or "not a go-getter," qualities that are seen as inconsistent with the masculine ideal of a successful leader. These biases, while often subtle and unconscious, are powerful mechanisms that perpetuate inequality at the top.

Example: A woman who is a highly effective team leader might be perceived as "bossy" or "aggressive" for using the same assertive communication style that would be praised in a male counterpart. This double standard is a direct result of ingrained gender stereotypes and the expectations of what constitutes appropriate behavior for each gender. The fear of this social disapproval, or the loss of identity utility, can sometimes cause individuals to modify their behavior, which in turn can hinder their career progression.

Reinforcing Stereotypes and Inequality: When a large majority of women are in care-oriented roles and a large majority of men are in leadership roles, it reinforces the very stereotypes that led to these choices in the first place. The "exceptions" are often seen as outliers, not as the new norm. Identity economics explains both the "sticky floor" (women being concentrated in low-wage, low-power jobs) and the "glass ceiling" (women being unable to reach the top). Both phenomena are rooted in the same identity-driven dynamics.

Policy Implications: A Path Forward - Understanding the role of identity in shaping economic outcomes changes how we approach policy. While laws and regulations are important, they're not enough on their own. We must also tackle the underlying gender norms that drive occupational segregation and the gender wage gap.

Beyond Equal Pay Legislation: While equal pay laws are vital, they don't address the root cause of occupational segregation. Policies must also aim to challenge gender stereotypes. For example, public campaigns celebrating male nurses or female engineers can help shift social norms and make these career paths more appealing to a wider range of people.

Promoting Flexible Work: Flexible work arrangements and generous paternity leave policies are more likely to be used if the social norms around them change. Encouraging men to take paternity leave and celebrating fathers who are actively involved in childcare can help normalize these behaviors and reduce the fear of identity loss.

Education Reform: Early education that promotes gender-neutral play and career exploration can help prevent the formation of rigid gender stereotypes from a young age.

VI. CONCLUSION

The persistence of gender-based economic disparities is a multi-faceted issue that goes far beyond simple financial incentives. The theory of Identity Economics provides a powerful and nuanced lens through which to view this problem. It reveals that people's choices are deeply intertwined with their sense of self and the social utility they gain from conforming to gender norms. These individual decisions, driven by a desire for identity congruence, aggregate to create systemic barriers, from occupational segregation and wage gaps to promotion and leadership obstacles.

To truly address these disparities, it is not enough to focus on equal pay legislation or promoting STEM fields for women. It is also essential to challenge and deconstruct the deeply ingrained gender stereotypes that shape our career choices and professional perceptions. By recognizing the powerful role of identity in economic decision-making, we



can develop more effective strategies to create a more equitable and inclusive society where individuals are free to pursue their talents and passions without the constraints of limiting gender norms.

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