

*Garden-variety tastes or the power of  
belonging – critical explorations in the  
economics of identity*

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## **1. INTRODUCTION**

If one naively enters a database in the social and psychological sciences and searches on the keyword ‘identity’, the result is a dizzying array of citations to books and articles from dozens of different literatures - from psychoanalytic theory to the sociology of social movements. Postmodern theorists have challenged traditional conceptions of identity by arguing that the fixed subject should be replaced by an individual whose identity is fluid, contingent, and socially constructed (Butler 1990; Villancourt Rosenau 1992). Sociologists have explored the tensions between individual identity and the constraints of social structure (Giddens 1991; Jenkins 1996; Stryker 1980). Anthropologists have examined the cultural expression of identity, its meanings, and how it is maintained at group boundaries (Barth 1969; Cohen 1986). Social psychologists have focused on the multifaceted and situationally contingent nature of individual identity (Gergen 1971; Hogg, Terry and White 1995; Markus 1977; Tajfel, 1981; Turner, Hogg, Oakes, Reicher and Wetherell 1987). Economists, primarily following the work of Akerlof and Kranton (2000, 2002, 2005, 2007, 2010) have incorporated identity, a person’s sense of self, into utility functions.

However, there is little or no cross-citation or mutual influence in these literatures. This paper is an attempt to bridge some of these gaps by demonstrating neglected relationships between existing ideas. In particular, links are drawn between social identity theory and game theoretical experiments, between psychological explanations and identity representations as preferences, between the sociology of markets and the economics of networks. At the same time the paper aims to identify some of the key shortcomings of the theory of identity in economics, pointing in particular at problems such as the representation of identity as an exogenous, static and ascribed characteristic that constitutes a zero-sum game. The paper should thus be seen as a first attempt at dealing with these problematic features, with specific suggestions for further theoretical as well as empirical research (in particular with respect to survey design) being pinpointed throughout.

The paper is structured as follows: section 2 highlights some of the key theoretical shortcomings of the economics literature on identity, criticising in particular the simplistic ‘in-out’ group distinction of game theoretical experiments, and links this back to social identity theory. Relying on findings from sociology and psychology, it argues for a representation of identity as a choice, a conscious investment and emphasizes the need to see it as a matter of degree, allowing for multiple identities that may change over time. Section 3 deals with

empirical problems, providing suggestions for further research. Section 4 points to the difficulties related to stated preferences and emphasizes the need to consider the manifestations of identity. Section 5 concludes.

## **2. IDENTITY IN THEORY**

The notion of identity is relatively new to the field of economics. However, while direct analyses of it are a characteristic of the past decade, indirectly it has already made its appearances in fields such as game theory, development and the economics of networks. The following section is devoted to the analysis of the theoretical shortcomings of the existing literature on identity, in particular the strict, often binary distinctions and ‘exogenous’ group boundaries characteristic of game theoretical experiments and social identity theorists’ minimal intergroup situations. It is argued that we need to better define and understand what it is we are trying to measure (identity) to ensure that our tools (surveys) are indeed measuring what we want them to as the way in which survey questions are posed directly impacts the measurement of attitudes, which of course clearly impacts our results.

### *2.1 THE CHOICE OF WHO TO BE – IDENTITY AS A CONSCIOUS INVESTMENT*

The argument that people are motivated to form and maintain interpersonal bonds is not new. Donne (1975) has for instance been widely quoted for the line ‘no [person] is an island’. Our need to have an identity, our ‘need to belong’ is a fundamental human motivation that has been investigated by social psychologists such as Baumeister and Leary (1995), who suggested that this need is innate, although the intensity and expression of the desire varies amongst individuals and cultures<sup>1</sup> (similar ideas were expressed by Maslow 1943; Bowlby 1969, 1973 and many others, for a survey of the literature see Baumeister and Leary 1995). We thus all have a predisposition to want to belong, although naturally one would expect there to be individual differences in strength and intensity, as well as cultural and individual variations in how people express and satisfy this need (Baumeister and Leary 1995). Multiple evolutionary reasons could be suggested for the ‘need to belong’. Already as hunters and gatherers groups could share labour, resources and information, provide protection, diffuse risk, and cooperate to overcome stress or threat. Defence against rival groups would also be a significant factor:

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<sup>1</sup> A parallel could be drawn with Chomsky’s ‘language acquisition device’ and the Principles and Parameters approach claiming that the grammatical principles underlying languages are innate and fixed, while the differences among the world’s languages can be characterized in terms of parameter settings in the brain (Chomsky 1957).

groups thus needed clear distinctions of the ‘other’ and group formation/ cohesion patterns increased as a result of external threat (Hogan et al 1985, Fiske 2004). However, even today human beings are fundamentally and pervasively motivated by a need to belong and protect those in their groups – as Baumeister and Leary (1995) concluded, ‘the desire for interpersonal attachment may well be one of the most far-reaching and integrative constructs currently available to understand human nature’ (p. 522).

This psychological motivation, the ‘need to belong’, thus causes people to form groups easily. This is aptly illustrated by the minimal intergroup situation, the experimental setting popularized by social identity theorists such as Tajfel and his followers, in which groups are designated by nothing other than a common label (for a review see e.g. Diehl 1990). In these studies ‘the subjects believed they had been assigned to groups simply for administrative convenience’; they had no contact with each other, and no reason to believe that they held shared interests (Turner et al 1987, p.27). Tajfel had not expected this situation to work: ‘[Tajfel's] idea was to establish a baseline of no intergroup behaviour’ and then examine what was additionally needed to foster intergroup discrimination (Turner 1996, p.15). However, numerous papers since have shown that such categorization, even if based only on artificial and temporary distinctions, can greatly affect individuals’ perception and evaluation of others, and cooperative behaviour (Robinson 2009). Group identity has also been shown to influence attitude formation (Mackie et al 1990), cooperation (Wit and Wilke 1992), reciprocity (Stroebe et al 2005) and negotiations (Kramer et al 1993). Empirical evidence suggests that working through unfavourable out-group biases such identities may also result in polarization (e.g. Mackie 1986) and in the differential treatment of out-group members (e.g. Bernard et al 2006; Durlauf 1999; Gerber 1998; Wann and Grieve 2005).

A similar setting has gained popularity in game theory, based on the idea that people who are members of a group and identify with it may behave differently from people who perceive themselves as isolated individuals. Rigotti and Rustichini (2007) for instance used two strategic environments, the Battle of the Sexes and Prisoner’s Dilemma, and created groups by allocating subjects to be row or column players. They then manipulated the saliency of group membership by letting a player’s own group watch as a passive audience as decisions were made and by making part of the payoff common for members of the group. There was a strong and significant effect of group membership: it increased the aggressive stance of the hosts (people who had their group members in the audience), and reduced the one of the guests. In a similar vein, Chen and Li (2009) found that when participants were matched with an in-group

member they showed an increase in charity concerns and a large decrease in envy. Likewise, participants were more likely to reward an in-group match for good behaviour and less likely to punish an in-group match for misbehaviour. Various other papers have conducted similar laboratory experiments that showed how group identity affects individual behaviour, including those by McLeish and Oxoby (2007), Eckel and Grossman (2005) and Heap and Zizzo (2009).

While the results noted above come from two distinct and distant fields - social identity theory and game theory – they share a common limitation. Both avoid the crucial issue of how to explain an individual group member's decision to identify as a group member, i.e. how do we account for the existence of identities acquired by choice. This aspect of choice has typically been ignored both by game theoretical experiments with simple 'in-out' distinctions and by social identity researchers whose minimal intergroup situation discussed above simply assumes the uniform development of group identity (e.g. participants are randomly assigned to be dot overestimators or underestimators, lovers of the paintings of Klee or Kandinsky). There is no choice of identity and no exploration of individual differences in the willingness to adopt such experimentally ascribed identities (see e.g. Perreault and Bourhis 1999 for a similar criticism). Similarly, game theory, with its assigned 'in-out' group distinctions fails to account for identities of variable strength that persist across situations.

Identity choice however matters as it is a common feature of identities outside the laboratory. This paper argues that it is difficult to gain a useful understanding of identity and its (economic) manifestations without coming to terms with issues such as identity choice and (as will be discussed in the following) gradations in identity strength, the presence of multiple, complementary identities and identity dynamics. It is stressed that identity should instead be seen as an investment, whether for affective or functional reasons.

Psychologists provide a possible explanation for such investments: individuals are at times uncertain about their own 'deep values' and infer them from their past choices, which then come to define 'who they are'. This could also explain the non-monotonicity of individual identity investments. Identity investment may for instance be inverse-U shaped with respect to the strength of prior beliefs, being highest when people are most uncertain of their long-run values: adolescents, immigrants, traditional societies faced with globalization (Benabou and Tirole 2006). Fitting this into an economic framework, it could be argued that investments in identity as membership of a particular group can be seen as a rational response to an information problem. Instead of viewing identity investments, along with peer effects and

social norms as being in conflict with rational behaviour, the selection of a 'reference' group can in essence be seen as a way to mediate the constraints of imperfect information and uncertainty by consciously introducing 'controls' (for a similar discussion see Koczan 2010). Surveys should thus allow for questions such as 'do you feel...', 'would you consider yourself...' rather than simply asking 'what is your ethnicity...' suggesting a more flexible rather than strictly deterministic approach. Of course a balance has to be struck between giving enough information to make the question clear to the respondents, but at the same time not suggesting (or limiting/ excluding) particular responses.

Considering identity as a choice raises questions such as the role of labels and the factor of (self)categorization. While a large literature sees identity as a form of categorization, setting one group apart from the 'others' (e.g. Harvey 1993; Keith and Pile 1993; Massey 1993; Soja and Hooper 1993; Natter and Jones 1997), there is a subtle but important distinction depending on the source of the labels. While one view sees identity as the basis around which categorization schemes are applied, others consider it the product of categorization rather than its raw material (Natter and Jones 1997) with the boundaries between identities socially maintained and the 'outside' an active part of this process (Harner 2001). Surveys that deal with identity should thus be careful in the formulation of questions – e.g. do they allow a pick in a multiple choice sense between a list of (say ethnic or tribal) identities or do they allow 'free' answers (for instance even allowing associations with villages or regions) which are later grouped. While the latter may be more difficult from a methodological perspective, it may be more reliable when labels are sensitive or ambiguous when used by 'outsiders'.

In one of the few studies to inspect acquired versus ascribed identities, Turner, Hogg, Turner and Smith (1984) examined the distinction between participants who were either assigned to or could choose to belong to one of two teams competing in a problem-solving exercise. Members who voluntarily chose their teams were more likely to report high self-esteem and group cohesion when they had lost, suggesting a stronger sense of group commitment when identity is acquired than when it is ascribed. Perreault and Bourhis (1999) extended this research and found that group identification increased in strength with the sense that group membership was voluntary. Results such as these thus suggest that particular care has to be taken when designing surveys or interpreting results from experiments as conclusions based on assigned categories may differ significantly from real-world scenarios. Survey questions could for instance be extended to investigate what conscious investments respondents

make in their respective identities (e.g. in the case of immigrants asking about language spoken at home, strength of ties with home country, membership in clubs based on ethnicity...).

It may however be added that groups differ in the extent to which they allow individuals the freedom to acquire or discard a group identity (such social constraints are elaborated on in the context of network formation in section 4.3). Both a group's permeability and the degree of ambiguity surrounding group membership are likely to influence identity acquisition. Mummendey, Kessler, Klink and Mielke (1999) for instance found that East Germans differ in how easy they think it is for an East German person to be considered West German, and that individuals who think passing as West German is quite difficult hold stronger East German identities. In contrast, East Germans who view regional boundaries as relatively more permeable are more likely to think of themselves as just German. This can be linked back to the discussion of (self)categorization and the influence of external labelling on identity acquisition. If group membership is obvious to others, it will be more difficult for a group member to avoid being labelled as such. Surveys could thus be usefully extended with questions asking to what extent respondents perceive group boundaries as permeable, how easy they think it is to pass for a member of the in/ out-group.

## *2.2 A ZERO-SUM GAME OR A MATTER OF DEGREE*

It has been emphasized above that identity can be acquired as well as ascribed. It is however also a choice of degree. Political behaviour researchers are often struck by the absence of group conflict despite the existence of distinct and salient groups, or by the weakness of identities (e.g. Asian American) among members of salient groups (Huddy 2001). This raises the important question why, despite salient group distinctions, individuals vary in the degree to which they identify with a group. Individuals have many potential identities derived from diverse group memberships, but these vary greatly in strength, with few of them strong enough to become economically/ politically consequential (Huddy 2001). It is thus not only important to understand identity formation and the factors that affect it in a static sense, but also, and perhaps even more importantly, to explain what accounts for the transitions from weak or non-existent to strong identities, and vice versa.

This process is however difficult to understand from the current literature, focusing mainly on static models and evidence from single cross-sections rather than following individuals over time. Also, most analyses are examining the weak identities that arise in the minimal intergroup situation, or the very powerful identities that characterize ethnic or national

conflicts (Huddy 2001). Membership in real-world groups is probably on average weaker (a product of ambiguous criteria and permeable group boundaries), and occasionally much stronger (with a well-established group prototype, a clear-cut outgroup, associated with values that are linked to definitive historical moments or cultural practices) than the identities observed in a typical experimental study. A related issue is then to what extent politicians can redirect or intensify identity by making specific meanings of group membership salient.

Further research on the spectrum of and change in identity investments could thus serve as a valuable complement to the usual static cross-sectional studies, examining in particular to what extent questionnaires tap into stable identities, how robust results are to the timing of surveys. Micro-level panel data following the same individuals over time could provide insights into identity developments over the life-cycle, though already comparisons of answers among household members of different ages could provide us with information on the aspect of transitions captured by generational differences (in a sense controlling for ‘family’ fixed effects).

### *2.3 MANAGING MULTIPLE IDENTITIES*

It has been stressed in the previous sections that identity is most usefully represented as a choice, a conscious investment, that is not strictly ‘in’ or ‘out’ but a matter of degree, hence raising the question how multiple identities can be managed. As noted by Brewer (2001) considering group identities as loyalties or allegiances to a collective, there are numerous different strategies that an individual can use to manage manifold identities. One possibility is to commit to one dominant identification and subordinate all other affiliations to this identity (e.g. selecting national identity as primary and supporting subgroup interests only to the extent that they converge with national interests). A different strategy is to segregate different group identities to different domains so that multiple identities are not activated at the same time (e.g. adopting national identity in the international arena, occupational identity when economic interests are at stake and ethnic identity in the cultural domain; Brewer 2001). Different identities could also be invoked at a particular time as a function of the relative salience and centrality of identities within and across social situations (Stryker and Serpe 1994). In this case the individual (either consciously or subconsciously) weighs and assesses available aspects of the self to determine which are activated as guides to behaviour in the current situation. The individual may be aware that different identities have conflicting implications for behaviour, in which case actions reflect some choice or compromise among different aspects of the self-

concept (Brewer 2001). Finally, when two identities are likely to compete for time or resources in the future, for instance because they entail different lifestyles or locations, investing in one could 'depreciate' the other, at least in relative terms (Benabou and Tirole 2006). This decision is further complicated if comparison is between more long term and uncertain sentimental or cultural attachments and easily quantifiable short term monetary benefits. This mechanism could help explain resistance to globalization, or to integration by immigrants and their descendents.

Contrary to popular belief, identity is thus not a zero-sum game and people can and do hold multiple identities. Ethnic identities for instance do not necessarily compete with attachment to the state (Human Development Report 2004). Robinson (2009) explored the relative importance of national and ethnic identities in sub-Saharan African countries and found that, contrary to expectations, the degree of ethnic partition is positively related to national identification. Eifert, Miguel and Posner (2007) followed the growing literature on the multidimensional nature of social identities (Chandra 2006; Hobsbawm 1996; Horowitz 1985; Posner 2005; Scarritt and Mozaffar 1999; Young 1976) and defined their main dependent variable in terms of the group that the respondent felt they belonged to first and foremost from among four main categories: ethnic, religious, class/occupational and gender. A multinomial discrete choice logit framework then permitted inferences about the kinds of identities that voters switched out of when, in response to politicians' ethnic appeals, their attachments to their ethnic groups moved to the forefront. This is an important methodological contribution that could form the basis of further research.

The preceding discussion highlighted several important directions for future identity research. It is important to acknowledge (and correspondingly adopt survey questions to) identity as a conscious investment in some of the numerous and diverse identities that an individual may hold. Surveys could hence be extended to allow for an examination of how respondents manage multiple identities. For instance, relying on rankings of different identities, further questions could ask about perceived contrasts, contradictory implications of these and try to assess if and how these may be combined or segregated, e.g. whether they vary by activity or location. Pilot rounds as well as freer, open-ended interviews could thus serve as helpful complements to the standard question sets since as Schuman and Scott (1987) and Hochschild (1981) underlined, people give quite different (often more shaded) answers to open-ended questions than to questions that ask them to choose among a series of pre-specified options.

#### *2.4 FLUID OR STABLE – THE DYNAMICS OF IDENTITY*

There is continued disagreement among researchers on the relative fluidity and stability of social and political identities. As noted in previous sections, social identity researchers tend to emphasize the fluidity of identity, highlighting how identities change with social context. It is not just the salience of existing categories, however, that influences the lability of social identities - categories themselves can change across social settings. Several social scientists (Anderson 1983, Bates 1983, Horowitz 1985) have thus argued that the boundaries of ethnic groups and the strength of ethnic ties are not exogenous - they are likely to be affected by social/ economic conditions and policy choices (Clots-Figueras and Masella 2009). Furthermore, there is abundant evidence from everyday politics that identities can be manipulated by the words and actions of political leaders (Huddy 2001). Kuo and Margalit (2010) provided evidence that individuals do not necessarily answer questions about primary identification consistently over time, suggesting either that identities are unstable or that survey questions are not tapping into stable identities.

Others (e.g. Alwin, Cohen and Newcomb 1990; Converse and Markus 1979; Ethier and Deaux 1994; Sears 1983; Sears and Henry 1999) have however argued that identities demonstrate remarkable stability over time when assessed in surveys on social and political topics, and they are much more robust than a range of other social and political attitudes. Also the sustained commitment that underlies the actions of individuals in social movements seems at odds with the notion of identities as highly contingent and changeable (Huddy 2001). Placing these questions in an economic framework, identity dynamics should not only be considered from the viewpoint of the individual, but also from a more general equilibrium perspective as an evolving social equilibrium (for details please see section 4.3). To date, however, only limited research has been carried out to examine the extent to which identification and identities change over time and can be shifted by policies or regulation.

A paper of particular interest from this point of view is that by Eifert, Miguel and Posner (2007). The instrumental use of ethnic appeals by politicians is well documented, both in Africa (Bates 1983; Ferree 2006; Posner 2005; Young 1965, 1976) and elsewhere (Gagnon 2004; Horowitz 1985; Mendelberg 2001; Wilkinson 2004). Drawing on individual-level data from ten African countries Eifert, Miguel and Posner (2007) found strong evidence that the strength of ethnic ties is shaped by political competition as politicians ‘play the ethnic card’: in particular, respondents were more likely to identify in ethnic terms the closer their country was

to a competitive presidential election. This result challenges empirical work that takes ethnic identities as static and historically determined. Political scientists and economists have used the concept of ethnic salience to help explain issues from economic growth to civil conflict and the effectiveness of foreign aid, frequently employing lagged measures of ethnic diversity as indicators of current ethnic salience. Yet Eifert, Miguel and Posner (2007) found evidence that the salience of ethnicity can change even over the course of a few months, providing a caution that the timing of data collection can have significant effects on the answers respondents provide about their (ethnic) identifications.

The theoretical focus on identities as static and stable (and the corresponding empirical work based on cross-sections) is hence a dangerous limitation of most of the existing literature. An important area of further research will be to determine if self-proclaimed measures from survey questions are capturing identities that are stable over time, for instance comparing the results with subsequent rounds of surveys, relying in particular on panel data at the micro level. A valuable complement to this would be to track the different manifestations of identity as well, as we may expect stated self-proclaimed answers to identification questions to be more variable compared to their effects on everyday choices, which may exhibit substantial inertia. Combining analyses of the dynamics of identity with its inherent multidimensionality could thus be a further promising area of research, comparing in particular the respective fluidity/stability of different identities.

### **3. IDENTITY IN PRACTICE**

#### *3.1 SURVEY DESIGN AND MEASUREMENT PROBLEMS*

Most empirical analyses use individual-level survey data based on stated, self-proclaimed identification. To study different senses of belonging, questions often have the following structure, contrasting two main identities (denoted here by [A] and [B], e.g. questions asked in Eurobarometer surveys contrast ‘own nationality’ or ‘European’, Afrobarometer contrasts ‘ethnicity’ and ‘nationality’, ‘Centro de Investigaciones Sociologicas’ contrasts feeling ‘Catalan’ or ‘Spanish’; similar ‘categorical’ choices are offered by the World Values Survey):

*Which of these two groups do you feel most strongly attached to?*

*1 = I feel only [A]*

*2 = I feel more [A] than [B]*

*3 = I feel equally [A] and [B]*

*4 = I feel more [B] than [A]*

*5 = I feel only [B]*

These questions are often preceded by ones asking what the respondent's nationality is, where they and their ancestors are from or what their ethnicity is (e.g. asking 'What is your tribe? You know, your ethnic or cultural group', Afrobarometer). A key shortcoming of such questions is that they rely on stated preferences. While ideally we would like to have separate survey questions dealing with the consequences, manifestations of these self-proclaimed identities (a point elaborated on in section 4), already careful formulation of the stated identity question may increase reliability somewhat. For instance, even asking 'Please tell me whether you *have ever described yourself* as any of the following...' (e.g. as in the 2002 survey of Latinos by the Kaiser Family Foundation and the Pew Hispanic Center, italics mine) introduces in a sense a 'control' element. Perhaps this could be further improved by asking 'would you *usually* describe yourself as...' if we are interested in primary identification and would like to avoid 'atypical' situations. However, as already noted in section 2, a trade-off has to be struck between making the question clear, but leaving answers as open-ended as possible. This could for instance be achieved by an introductory sentence such as 'People choose different terms to describe themselves. I'm going to read you a few different descriptions...?'

A further limitation of such measures is that they are inherently 'categorical' (1 to 5 above) and often binary (contrasting just two identities, as in the examples above). It is unfortunately even common in the literature to dichotomize 'categorical' measures in order to capture the strongest signal in the data, for instance defining 'nationalism' as identifying with the state *more* than one's ethnic group (categories 4 and 5 above, 'nationality over ethnicity' and 'nationality only'). Furthermore, even if more options are considered, the question provides information about the salience of the reported group membership in relative, not absolute, terms. We have no way of knowing how much importance respondents attach to their first- (or second- or third-) ranked group memberships, making comparisons over time as well as in cross-sections difficult.

The subjective meaning of identities is also implicitly ignored by these questions. As for instance research on patriotism demonstrates, a national identity does not mean the same thing to all and it is the meaning of such an identity, not its existence that determines its economic or political consequences (Huddy 2001). Yet identity researchers have tended to ignore this subjective aspect, paying attention to the existence of simple group boundaries while ignoring their internal meaning. Meaning is created over time by culture and history and requires careful investigation. Search may for instance begin by looking at the characteristics of common out-groups: these can help define what the in-group is not as much of the meaning of identity is created at its boundaries in the interaction with out-group members (Barth 1981). Nevertheless, there are practically no studies examining the portrayal of out-group members to shed light on the meaning of category membership.

Careful attention should also be paid to how categories are defined. For instance, empirical investigations of reactive ethnicity generally fail to distinguish between identification in pan-ethnic terms (e.g. Latino) and national origin terms (e.g. Dominican). However, looking at the causes and consequences of reactive ethnicity among Latino citizens in the United States, Schildkraut (2004) pointed out that there are reasons to expect that pan-ethnic identifications are more consequential than national origin identifications. The latter appears to be more of a straightforward attachment to one's culture and heritage whereas the former might emerge as a political and instrumental response to the experiences of minority groups. These results warn us that we should be careful not to conflate the different levels at which people perceive the groups with which they identify. Again, as noted before, this could serve as an argument for more open-ended answers to survey questions or even less structured interviews.

### *3.2 THE IMPORTANCE OF CONTEXT*

Context is an important determinant of how individuals identify (e.g. Schildkraut 2004) and typically survey questions like the ones discussed above do not account for variation in situational context. The salience of any identification - be it ethnic or otherwise - is however necessarily specific to the environment and survey responses only permit us to ascertain the way respondents identified themselves in the specific context in which they were asked (Eifert, Miguel and Posner 2007). Identification may change with activity (e.g. as documented by Yoshida 2001 in the case of Japanese children in Canada), or even factors such as location or language in which the question is asked.

Care should thus be taken with self-identification questions in surveys, and it may be worth asking about 'home' as well as country of residence (if the two do not coincide) to control for the effects of 'code switching'. We should also use what we know about the context - in particular, when the survey was administered, but also the characteristics of the enumerator and the nature of the interview itself - to make inferences about the factors that determine when particular group memberships become most salient.

### *3.3. REPORTING BIAS*

Quite apart from the issue of reliability of responses across contexts, the use of self-reported identities introduces the possibility of bias. Respondents in societies where the social norm is not to talk openly about ethnicity might be less likely to confess that their most important affiliation is with their ethnic community, and this would generate a downward bias in measured ethnic salience in that society. For instance we might be worried that the taboo of 'tribalism' would lead to an overestimation of the level of nationalism in Africa. As just one example of the complexity of this problem, we may quote Robinson (2009) on the differing effect of being interviewed by a co-ethnic on an individual's choice of national or ethnic identity: in Botswana, Lesotho, Madagascar, Senegal and Zambia co-ethnics influenced one towards identifying with the state; in contrast, co-ethnic enumeration was negatively correlated with national identification in Nigeria, South Africa, Tanzania and Uganda.

Reporting bias may be particularly likely in a context where open confessions of ethnic solidarity are frowned upon by the regime and/or where survey enumerators are suspected of being affiliated with the government. While this concern cannot be ruled out, it may be dampened by the way large surveys are conducted - confidentially and in private by enumerators who are not affiliated with the government or any political party. Also, if surveys are not primarily about identity respondents are likely to treat the 'with which group do you identify' question as a background query rather than as the central issue around which the survey revolves. In addition, to the extent that such social norms vary by country, adopting a country fixed-effect framework in estimation could control for these differences (as in Eifert, Miguel and Posner 2007).

#### **4. FROM STATED PREFERENCES TO ECONOMIC MANIFESTATIONS**

As has been alluded to in previous sections, a key problem with stated preferences is that even if respondents answer honestly and the question provides an appropriate context (or subsequent questions control for situational effects), we can still not be sure that measured attitudes substantively influence behaviour. As noted by Zaller and Feldman (1992) surveys are burdened by two major types of ‘artifactual’ variance: large response instability over time and the common tendency for seemingly trivial changes in questionnaire design (order in which options are presented, non-substantive changes in questions wording) to affect the expression of attitudes (see e.g. Bishop, Oldendick and Tuchfarber 1984; Feldman 1989; Tourangeau and Rasinski 1988). It has been argued that rather than assuming that most people possess opinions at the level of specificity of typical survey items, a more realistic assumption would be that most people are internally conflicted over such issues and that when questioned they call to mind a sample of these ideas, including an oversample of ideas made salient by the questionnaire and other recent events (Zaller and Feldman 1992). The following section is thus devoted to the analysis of this shortcoming of the literature, suggesting that research should be extended to incorporate identity’s manifestations, emphasizing in particular the micro rather than the macro aspects.

##### *4.1. GARDEN-VARIETY TASTES OR THE ECONOMICS OF BELONGING – IDENTITY AS PREFERENCES*

The psychological literature underlines the tremendous power of identity to constrain choice, suggesting that if we can understand how people see the world and themselves in relation to others, if we can decipher their cognitive frameworks, i.e. the organizing categories by which they sort and analyze the information around them, we may begin to determine why identity exerts such a powerful influence (Monroe 2003). In a sense such arguments could be seen as the psychological basis for the representation of identity as preferences by economists.

Akerlof and Kranton (2000, 2002, 2005, 2007, 2010) incorporated identity, a person’s sense of self, into an economic model of behaviour. They developed a framework based on the assumptions that people have a view of who they are (a social category) and corresponding to who they are (this identity) they have an ideal for behaviour and lose utility insofar as they do not live up to that ideal. Individuals thus have a ‘conventional’ utility function, which depends on standard economic variables but also includes an additional argument depending on the

distance between this ideal and actual behaviour. For the mathematical formulation and a critique of this representation of identity as preferences please see Appendix 1.

Several theoretical studies followed the work by Akerlof and Kranton, including research by Benabou and Tirole (2007), which endogenized identity payoffs and categorical prescriptions. Related models also include Shayo (2009), where social identification is again defined in terms of preferences, but consists of two novel components: the status of the various groups that exist in society and the perceived similarity between an individual and the other members of the group (modelled using the notion of distance in conceptual space from cognitive psychology). Becker and Murphy (2000) dealt with an extension to socially interdependent preferences. Similarly, Calvó-Armengol and Jackson (2005) allowed for neighbourhood effects in preference formation. Self-representation and self-categorization effects of identity were emphasized by Fang and Loury (2005) and Fryer and Jackson (2003). In Bisin and Verdier (2005), Horst et al (2005), Wichardt (2005) and Mookherjee, Napel and Ray (2008) preferences evolve across generations through parental investments and evolutionary selection. Earlier, Sen (1985) put forward a view of identity as a pro-social disposition, arguing that one of the ways in which the sense of identity can operate is through making members of a community accept certain rules of conduct as part of obligatory behaviour towards others. Bowles (1998) also discussed how political and economic institutions shape preferences through their effects on social norms or cultural transmission.

A common weakness of this literature representing identity as characteristics, based on the idea of ‘merely’ extending utility functions in different ways is that it sees identity as just another aspect of preferences, that are given and simplistic like desires for apples versus oranges. In this sense it is related closely to the crude measures of identity based on survey questions. A promising area for further research would thus be not only to deal with the determinants of individual identity, but also to examine how a person’s sense of self affects individual behaviour. The following sections thus emphasize the need to consider the manifestations of identity, arguing for analyses at the micro level, focusing on networks rather than searching for (often vaguely defined) macro links.

#### 4.2 HETEROGENEITY & DEVELOPMENT, CULTURE & INSTITUTIONS

##### – IDENTITY AS THE MACRO-LINK

‘Traditionally’, identity’s manifestations have been analysed in the context of ethnic heterogeneity and development or the role of culture and institutions. It will be argued in the following that it would be more appropriate to consider its effects at the micro level from the perspective of networks, influencing individuals’ choices in everyday life as not only are such macro-analyses burdened with measurement problems and endogeneity, but their fundamental limitation is that they step away from the issue of pinpointing particular consequences of heterogeneity or characteristics of culture that are harmful/ beneficial for development, using them instead as residual, ‘umbrella’ terms.

In recent years, there has been increasing interest in the economic consequences of ethnic heterogeneity. Mauro (1995) showed that a high level of ethno-linguistic diversity implies a lower level of investment. Easterly and Levine (1997) confirmed that ethnic diversity has a direct negative effect on economic growth. La Porta et al (1999) suggested that ethnic diversity is one of the factors explaining the quality of government. It may however be added that there is no unambiguous evidence of a clear relationship between diversity and development. Although, as noted above, some authors have argued that diversity has been an obstacle to development, this is to a large extent dependent on the data used and the selection of countries examined. As emphasized by the 2004 Human Development Report, while it is undeniably true that many diverse societies have low levels of income and human development, there is no evidence that this is related to diversity. Although some studies have concluded that heterogeneity has been a source of poor economic performance in Africa (with this discussion often being linked to the Africa dummy), this could be related to political decision-making that follows ethnic rather than national interests, not to diversity itself. Reference may also be made to the far less clear-cut evidence on religious diversity, democracy and economic development (e.g. Collier and Hoeffler 2002, Alesina et al 2003, Barro 1997, Tavares and Wacziarg 2001) as with a few exceptions, these studies found that religious heterogeneity has no effect on economic growth or quality of government.

However, numerous problems arise already with the measurement of diversity used by most of these studies. Measures of characteristics like ethnicity, but even race and colour are, to some extent, socially constructed. Furthermore, although most studies acknowledge that identities are, to some extent, fluid, as there are no good data on the degree of fluidity of races

and ethnic groups with the exception of a few countries and cases, they adopt a definition of ethnicity based on a purely biological or genetic point of view (e.g. race, colour, or ethnicity as defined by main name by which people are known – particularly problematic).

If we are interested in measuring religious and ethnic heterogeneity within countries, measures such as constructing a dummy that captures the largest ethnic/ religious group in each country or the percentage of the largest group (or the largest minority) are far from perfect. Researchers have generally used two types of indices to capture religious and ethnic diversity: indices of fractionalization and indices of polarization. In principle, these should have a high correlation for two groups, but they may be very different if the number of groups is greater than two. Figure 1 in Appendix 2 (Figure 2 in Montalvo et al 2005) presents the relationship between ethnic polarization and ethnic fractionalization using data on ethno-linguistic diversity: for low levels of fractionalization the relationship between ethnic fractionalization and ethnic polarization is positive and close to linear. However, for the medium range, the correlation is zero and for high levels of fractionalization the relationship with polarization is negative. Figure 2 in Appendix 2 (Figure 3 in Montalvo et al 2005) presents the scatter plot of religious fractionalization versus religious polarization showing a similar pattern. Both of these results warn us of the reliability and comparability of different indices as conclusions will depend strongly on the type of measure selected.

Also, the relationship between heterogeneity and conflict is not necessarily linear. Horowitz (1985) for instance argued that the relationship between ethnic diversity and civil wars is not monotonic: there is less violence in highly homogeneous and highly heterogeneous societies. Posner (2004, 2005) underlined that ethnic identity will be most salient when ethnic cleavages create groups big enough to produce a collective outcome (e.g. win an election). Such observations of non-monotonic relationships thus also call for a more detailed analysis of the micro-foundations of the effects of heterogeneity – a goal that could possibly be achieved by looking at the role of identity for markets and network formation.

A field closely related to ethnic/ religious heterogeneity and development is the area linking identity to culture and institutions – asking the question whether culture has a causal effect on economic development. From an economic perspective culture is usually defined as the social norms and individual beliefs that sustain Nash equilibria as focal points in repeated social interactions (e.g. Schotter 1981; Myerson 1991; Greif 1994). In this interpretation, culture is one aspect of the set of broadly defined institutions and contributes to shaping

individual incentives<sup>2</sup>. Schematically, this line of research argues that: historical institutions => contemporary institutions => economic development (Tabellini 2005). This is then often narrowed to instead explore the link: historical institutions => culture => economic development, trying to identify specific cultural traits that are shaped by history and that influence current economic performance.

As is generally acknowledged, the key difficulty in estimating a causal effect of culture is that it is endogenous to economic development (e.g. Inglehart and Baker 2000). Hence, to identify a causal effect from culture to economic development researchers have to find some exogenous source of variation in culture<sup>3</sup>. The literature on social capital often follows a similar line of argument, linking measures such as trust and confidence to development and the quality of institutions. However, besides these well-known measurement problems and difficulties in identifying exogenous variation to deal with endogeneity and simultaneity issues, the perhaps most crucial shortcoming of this line of research is that it is too broad, in a sense calling everything that is 'left' the effect of culture, institutions or social capital – running into the 'trap of the Solow residual'. An active and promising line of research in macroeconomics and development is studying specific features of institutions, and how they propagate over time (e.g. Helpman 2004). Research on identity could provide a useful addition to this field, especially if focusing on networks at the micro level: how identity influences their formation, and how the networks in turn affect individual choices and actions. In a sense this is in line with the interpretation of social capital suggested by Dasgupta (2005) as interpersonal networks. Rather than relying on country-level cross-sectional data, analyses could rely on survey questions asking about the networks of the respondents: their circle of friends, their colleagues, in their country of residence as well as in their 'home' country, the language they use at home or in the workplace, whether their acquaintances help in job search or to what extent they influence the educational choices of their children. We could also measure the degree of correlation within such networks of savings decisions, residential choices or political behaviour to determine whether identity matters<sup>4</sup>. This would have the advantage of pointing at

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<sup>2</sup> A more radical view is that culture directly influences individual behaviour through values and preferences (e.g. Akerlof and Kranton 2000, Rabin 1993). Others have pointed out that social norms and individual values could interact in a systematic fashion (Bernheim 1994).

<sup>3</sup> The usual methodology is to follow Acemoglu, Johnson and Robinson (2001) with an instrumental variables approach, e.g. Tabellini (2005) measured culture by aggregating individual responses from World Value Surveys and exploited variation among European regions as controlling for country fixed effects removes the effect of the common national institutions, so whatever is left is then explained as the effect of history on culture, and then the effect from culture to output.

<sup>4</sup> Bertrand, Luttmer and Mullainathan (2000) found that ethnicity strongly matters for welfare participation. Banerjee and Munshi (2004) documented large differences in levels of capital stock and capital intensity of production in firms owned by people from two different community groups that could not be explained by productivity differences alone. Duflo and Saez (2003) used an experimental study to assess the effect of networks on the choice of pension policy.

particular characteristics of culture, formal and informal institutions, rather than just using the notion of diversity to soak up remaining, unexplained effects.

#### *4.3 THE SOCIOLOGY OF MARKETS – IDENTITY AS NETWORKS*

Customarily, economists have studied social and economic phenomena using a framework in which interaction is centralized and anonymous and prices coordinate among individual actions. The usual dictionary definition of a market is ‘generally, any context in which the sale and purchase of goods and services takes place; there need be no physical entity corresponding to a market’ (Pearce 1986, p. 263). In other words, the usual ‘economic’ market is shorn of social relations and institutions, and is devoid of concerns such as power, norms or networks. However, a growing body of empirical work shows that personal and social relations are important for a variety of economic activities. Although such factors are largely absent from the rational, identical Robinson Crusoes of standard economics, anthropology, sociology and ethnographic studies provide vivid descriptions of their effects on networks of exchange (e.g. Gregory and Altman 1989; Firth 1939; Bohannan and Bohannan 1968; Strathern 1971; Beatty 1992). Ranging from Bohannan’s (1955) discussion of distinct spheres of exchange to Douglas’s (1967) analysis of controlled exchange, discussions are filled with implications for analyzing contemporary markets. Several lines of inquiry in economic anthropology could be of interest: Skinner’s (1965) classical work on rural Chinese trading networks, Smitih’s (1976) views on local and regional trading networks or Hill’s (1972) analysis of local markets of the Hausa economy (Nigeria). Macfarlane (1987), Halperin (1988), Gudeman (1986) and Gudeman and Rivera (1990) stressed the importance of culture in shaping economic categories and institutions. Work on women traders (Clark 1994) or Dilley’s edited collection (1992) echoed similar observations on the role of networks in markets. There are also numerous studies of the relationship between inequality and markets (Hill 1982; Harriss 1984).

Special reference may be made here to the embeddedness approach, rooted in Granovetter’s seminal (1985) article. The core assumption of this approach is that social networks sustain economic relations and institutions (Granovetter 1985). The basic idea is as old as sociology itself, arguing for the existence and necessity of pre-contractual elements in contracts. The insight is however not unique to sociology. Marshall (1920, p.182) wrote that ‘Everyone buys, and nearly everyone sells (...) in a ‘general’ market (...) But nearly everyone has also some ‘particular’ markets; that is, some people or groups of people with whom he is in somewhat close touch: mutual knowledge and trust lead him to approach them (...) in

preference to strangers'. As Dasgupta (2005) noted, all societies rely on a mix of impersonal markets (ideally involving anonymous exchanges, as is reflected in the oft-used phrase: 'my money is as good as yours') and communitarian institutions (based on networks).

Granovetter (1994) noted that '...despite modernization, technology, and the dizzying pace of social change, one constant in the world is that where and how we spend our working hours (...) depends very much on how we are embedded in networks of social contacts' (p. 141). Indeed, this has been the area of economics where the networks approach has first stepped in following a growing body of empirical work arguing that the standard approach concentrating on search and matching frictions is inadequate (e.g. Calvó-Armengol and Jackson 2004; Conley and Topa 2002; Topa 2001; Montgomery 1991). The study of networks in labour markets relaxes the anonymity assumption. It examines how the pattern of social ties between individual workers shapes the matching process and determines employment and inequality (Goyal 2007).

But networks have roles outside the labour market as well. Firms collaborate to introduce new technologies, doctors prescribe new drugs based on conversations with colleagues, farmers learn about crops from neighbouring farms, pupils strive to conform to the work ethic of their peers at school (Goyal 2007). It is therefore important to model networks explicitly, to understand the different ways in which they matter, and examine how they are formed. In relation to identity we would be interested in questions such as: How does our self-proclaimed identity affect which networks we are part of, what ties we invest in, and how does this in turn affect our behaviour and our payoffs? How are links structured at the borders between in- and out-groups? How does individual behaviour and wellbeing respond to changes – the adding of links or the redistribution of links – in a group? How do we measure to what extent identification affects network formation?

Introducing networks also brings methodological problems to be solved. While economics is good at dealing with single decision makers, small groups (game theory) and large anonymous groups (competitive markets), social connections lie in between (Goyal 2007), suggesting a new type of mathematics: graph theory, and in relation to identity, new types of survey questions to be asked. Are you a member of ethnic clubs? Do you go to church? Who are your friends? What language do you speak at home or with colleagues? What is the mother tongue/ best language of your children? However care needs to be taken when identifying effects, since as Manski (1993) noted there may be several reasons why agents in

the same group behave similarly: (a) endogenous (social) interactions as the propensity of an agent to behave in a certain way varies with the behaviour of the group members, (b) exogenous (contextual) interactions as the propensity of an agent to behave in some way varies with the exogenous characteristics of the group members and (c) correlated effects as agents in the same group behave similarly because of similar characteristics or similar institutional environments (neighbourhood effects).

While the above discussion dealt with identity as a choice, a conscious (possibly multidimensional) investment by the individual, we should remember that agents do not exist in a vacuum. Groups are created by the interplay of people, networks are thus endogenous to the system, though may be exogenous for the individual. There is thus an argument for a more general equilibrium approach dealing with (1) network formation through social interaction (this could be linked to club models such as Buchanan 1965 or Oates 1972, or the question what determines whether multiple identities are allowed e.g. in professions or more ‘narrow’, exclusive identities are demanded e.g. by religion) and (2) the constraints that existing groups represent for an individual (groups are often exogenous to the individual, who may wish to become a member but does not fit into the prototype requirements of the group). The first issue brings up the notion of commitment, not only in the individual sense of self-command or self-testing (‘who you are’), but also the commitment individuals have to make to be accepted by others (‘who you wish to belong to’). A key issue faced by groups which wish to have exclusive memberships is that the criteria must be easy to verify at a decentralized level – whether an individual meets or does not meet the criteria must be self evident. Strict behavioural rules could then be used as signs of commitment (Dasgupta and Goyal 2009). Turning to the second issue, although the choice aspect of identity has been emphasized above, reference may be made here to the constraints we face in this decision, in particular how our choices are circumscribed by our inherited networks creating lock-in effects as the destruction of links is costly (Dasgupta 2000; Goyal 2007). We are not blank slates even as newborns - an individual necessarily depends on others to develop into a person, with parents and siblings chief among those others (e.g. Wintrobe 1995; Dasgupta and Goyal 2009).

As noted in the introduction to this section, much of the existing research attempts to answer the question whether identity, or in their words heterogeneity or culture, matter by identifying a macro-link, a channel leading directly from such vague factors to development. It has been argued here that rather than avoiding the difficult task of pinpointing particular characteristics that could influence the decisions of individuals and communities, further

research linking identity to network formation and network effects could provide a valuable addition.

## 5. CONCLUSION

Does identity matter then? Rather than answering the question in the title directly, this paper has taken a critical first step, carefully analyzing *how* answering this should be attempted, theoretically as well as empirically. Dealing first with the notion of identity in theory, in particular the issue of how identity should be interpreted, it has been stressed as the *choice* of who to be, a conscious investment, that is not a black and white zero-sum game, but consists of multiple, diverse parts, with potentially different dynamics. It has been argued throughout that there is a lot to be gained by drawing on sociological, psychological and anthropological insights. Turning then to identity in practice and how it should be measured, recommendations have been derived for survey design, emphasizing the ‘what do you consider/ usually describe yourself as’ aspect of questions, calling for more choice, more open-ended answers, paying attention to context and focusing on manifestations as well as stated preferences, advocating in particular the micro-level network approach. While an attempt has been made to highlight the gaps and overlooked links in the existing literature and provide directions for further research, it should be remembered that the above treatment is far from exhaustive. In particular, emphasis has here been on the individual and on the individual in an exogenous world, only briefly touching on general equilibrium aspects of group formation and subsequent social constraints/ demanded behavioural rules, detailed discussion of which is outside the scope of the current paper.

## APPENDIX 1

## Akerlof and Kranton's (2000) utility function with identity – a critique

Akerlof and Kranton (2000) proposed an extension of standard utility functions, with identity based on social categories,  $\mathbf{C}$ . Individual  $j$  thus assigns people to these categories  $\mathbf{c}_j$  so that each person has a conception of his own categories and that of all other people. (An individual  $j$ 's mapping of another individual  $k$  into categories need not correspond to  $k$ 's own mapping and social categories are not necessarily mutually exclusive). Prescriptions  $\mathbf{P}$  then describe the behaviour appropriate for people in different social categories in different situations and may also indicate an ideal for each category in terms of physical characteristics and other attributes. Utility is thus proposed to depend on  $j$ 's identity or self-image  $\mathbf{I}_j$ , as well as on the usual vectors of  $j$ 's actions  $\mathbf{a}_j$  and others' actions  $\mathbf{a}_{-j}$ :

$$U_j = U_j(\mathbf{a}_j, \mathbf{a}_{-j}, \mathbf{I}_j)$$

with the following suggested representation of  $\mathbf{I}_j$ :

$$\mathbf{I}_j = \mathbf{I}_j(\mathbf{a}_j, \mathbf{a}_{-j}; \mathbf{c}_j, \varepsilon_j, \mathbf{P})$$

A person  $j$ 's identity  $\mathbf{I}_j$  thus depends on  $j$ 's assigned social categories  $\mathbf{c}_j$ ; on the extent to which  $j$ 's own given characteristics  $\varepsilon_j$  match the ideal of  $j$ 's assigned category (indicated by the prescriptions  $\mathbf{P}$ ) and on the extent to which  $j$ 's own and others' actions correspond to prescribed behaviour indicated by  $\mathbf{P}$ . Increases or decreases in utility that derive from  $\mathbf{I}_j$  are referred to as gains or losses in identity.

Following from the discussion in section 2, several problems arise with this representation of identity as a component of preferences. First of all, this 'extended' utility function is simply taken as given and is then (instead?) used to explain observations. Akerlof and Kranton (2000) simply assumed that personal identity is a parameter in an individual's utility function, a socially constructed reference point - we should however go deeper and study the origins of those reference points in terms of individual incentives and group interests.

Secondly, the categories in this specification do not allow for the frequently ambivalent, permeable boundaries characterising identities in reality, implying a simple binary ‘in-out’ distinction. It is also unclear how prescriptions would be modelled in practice, especially when dealing with the management of multiple identities. Furthermore, the main concern in their model is for conformity – we may however want to allow a variety of responses, for instance a wish for differentiation as in the aspirations-based model of Calvó-Armengol and Jackson (2005).

Thirdly, Akerlof and Kranton (2000) allowed categories to have higher or lower social status, with the social status of a category being given by the function  $I_j(\cdot)$ . They thus argued that a person assigned a category with higher social status may enjoy an enhanced self-image. This seems to be an overly simplistic representation, conflating the effects of ascribed versus acquired identities. This confusion is also reflected in their use of the term identity to describe both a person’s self-image as well as his assigned categories, even though (as argued in section 2) it matters whether membership is the result of individual choice or is due to social constraints (e.g. prototype characteristics, inherited networks, parental investments e.g. as in Bisin and Verdier 2000).

Fourthly, even though Akerlof and Kranton (2000) argued that  $a_j$ ,  $a_{-j}$  and  $U_j(\cdot)$  are sufficient to capture the standard economics of actions and externalities, general equilibrium considerations such as endogenous network formation (discussed in detail in section 4.3) are difficult to incorporate in this framework.

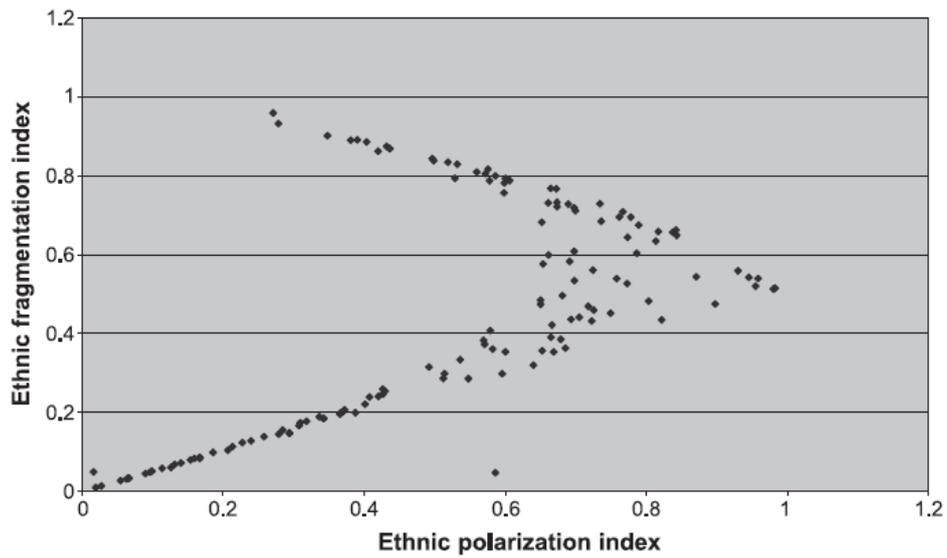
Finally, Akerlof and Kranton (2000) argued that in the simplest case an individual  $j$  chooses actions to maximize utility, taking as given  $c_j$ ,  $\varepsilon_j$  and  $\mathbf{P}$  and the actions of others. However, they also allowed some choice in category assignment  $c_j$  and some effect of individual actions on the prescriptions  $\mathbf{P}$ , the set of social categories  $\mathbf{C}$  and the status of different categories reflected in  $I_j(\cdot)$ . Yet it remains unclear how utility maximization, category choice and effects on prescriptions and the set of categories would interact in their formulation.

**APPENDIX 2**

**Figure 1: Ethnic polarization versus fractionalization**

Data: World Christian Encyclopedia

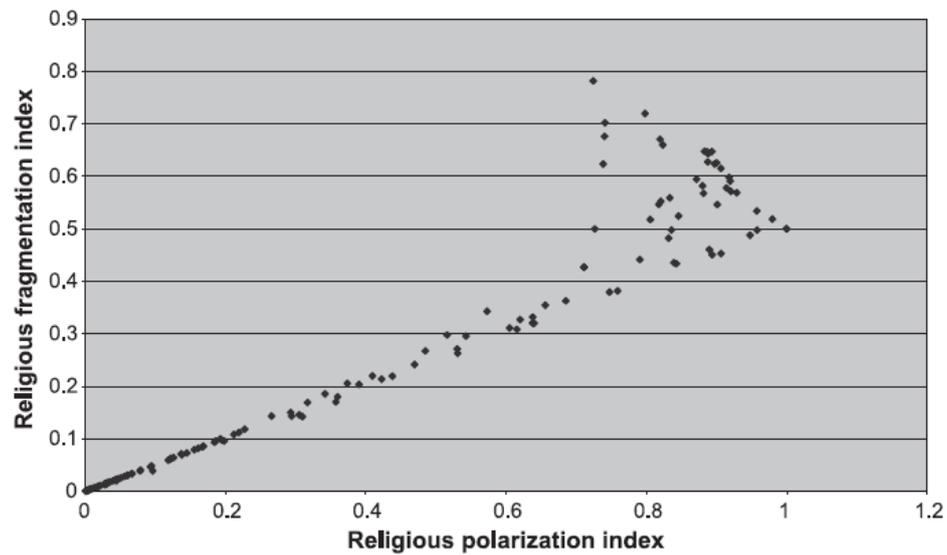
Source: Montalvo and Reynal 2005



**Figure 2: Religious polarization versus fractionalization**

Data: l'État des Religions dans le Monde

Source: Montalvo and Reynal 2005



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