



Value Formation: The Role of Esteem



Robert Akerlof¹

University of Warwick, United Kingdom

ARTICLE INFO

Article history:

Received 29 September 2015

Available online 5 November 2016

JEL classification:

Z10

J01

Keywords:

Identity

Culture

Values

Organizational resistance

ABSTRACT

People's values are a critical determinant of their behavior. But, how do values form and what causes them to change? This paper proposes a theory of value formation. In the model, agents choose values, motivated by economic considerations and, crucially, also by the desire for esteem. The comparative statics are driven by the following tension: agents obtain more esteem from peers if they conform in their choice of values; but they may obtain more self-esteem if they differentiate. This tension explains why, for instance, peer effects are sometimes positive and sometimes negative. Three applications are considered, related to: schools, inner cities, and organizational resistance.

© 2016 Elsevier Inc. All rights reserved.

1. Introduction

The values people hold are critical determinants of outcomes in many different contexts: for instance, in schools, in inner cities, and in firms. But, how do they form? What causes them to change? This paper proposes a theory of value formation. The model has applications to many disparate problems: to give three examples, why some schools fail, while others succeed; why US inner cities suffer from persistent high unemployment; and why workers, in many firms, put up resistance.

Agents in the model choose their values.² The choice of values is motivated by economic considerations but, crucially, also by the desire for esteem. There are two components of esteem; these components result in conflicting desires. On the one hand, people have a desire to be esteemed by peers, which is satisfied by conforming to them. On the other hand, people have a desire for self-esteem, which is often best satisfied by differentiating. This basic tension – between the desires to conform and differentiate – drives the paper's results.

The baseline model is a two-player, simultaneous-move game. Players make three choices. First, they choose effort at two activities. The example of a school is carried through the paper. Corresponding to two traditional categories in US schools – “nerds” and “burnouts” (who are sometimes in rock bands) – these activities are referred to as academics and rock music (music for short). Achievement at academics (music) depends upon a player's effort and upon his ability. Second, players choose whether or not to value achievement at academics and achievement at music. Third, players choose whether to initiate social interaction (potentially at a cost). Social interaction takes place if either player initiates it.

E-mail address: r.akerlof@warwick.ac.uk.

¹ I am grateful to George Akerlof, Jean-Paul Carvalho, Robert Gibbons, Rachel Kranton, Laurence Kotlikoff, Margaret Meyer, and Dennis Snower for helpful discussions, and to seminar participants at Oxford, the University of Warwick, the Colloquium on Identity Economics, the VFS Annual Conference, the Workshop on Dysfunctional Institutions, and the AFSE Annual Conference. I acknowledge support from the Institute for New Economic Thinking (INET).

² The assumption that people select values is consistent with a large literature in social psychology, discussed below. Note that I do not mean to suggest people are fully conscious of choosing values, just as agents in standard models make choices more or less consciously.

There are three key assumptions. Assumption 1: the basis upon which a player confers esteem depends upon his values. A player who only values academics (music) confers esteem only on the basis of academic (musical) achievement. Assumption 2: players are esteemed for their relative achievement. Assumption 3: players value self-esteem; when they interact, they also value the esteem of the other player. There is an extensive discussion below of how these assumptions match the psychology literature.³

Equilibria of the model resolve the tension between the desire to conform and the desire to differentiate. In equilibrium, players focus their effort on a single activity (whichever has the highest esteem-returns to effort). They may or may not focus on the same activity. Players choose to value the activities they focus on when their achievement is sufficiently high. Players with the same (different) values tend to seek (avoid) interaction: a property known as value homophily.⁴ Values can be said to shape players' behavior, since they affect the esteem-returns to effort.

The model's comparative statics show how different policies and shocks affect values and behavior. Consider the effect in the model of encouraging social interaction (an example would be putting students in the same classroom). Players have a greater desire to conform when they interact, since only when they interact do they care about receiving the other player's esteem. Thus, encouraging interaction – reducing its cost – makes players more likely to focus on – and value – the same activities.

The model also makes predictions about the effect of peer quality on own performance. An increase in peers' academic ability, it turns out, has an ambiguous effect on own academic achievement. Own achievement is increasing in peer ability when peer ability is low and decreasing in peer ability when peer ability is high. On the one hand, the desire to conform can lead a player to exert more effort at academics when his peer's academic ability increases. On the other hand, an increase in peer academic ability makes it harder to obtain self-esteem through a focus on academics. Thus, a player might decide, when his peer's academic ability increases, to switch from a focus on academics to a focus on music. This finding reconciles conflicting results on peer effects. While most studies report positive peer effects (see, for instance, [Hanushek et al., 2003](#)), a significant number report negative peer effects. For example, [Carrell et al. \(2013\)](#) find that low-ability students at the US Air Force Academy perform worse academically when they are placed in higher-ability squadrons.

The model's assumptions accord with the theoretical perspectives and empirical findings of a large literature in social psychology on esteem. Dating back at least to William [James \(1890\)](#), esteem has been seen as related to values. In *Principles of Psychology*, James observed that a person's self-esteem depends not only upon his achievements but also upon the value he places upon them. Contemporary approaches assume that people implicitly choose values, placing more value on domains where they perform well, so as to enhance self-esteem (see [Crocker and Wolfe, 2001](#) and [Osborne and Jones, 2011](#) for reviews).⁵ A variety of findings are seen as providing empirical confirmation. For instance, developmental studies find that as children grow older, they increasingly describe as "important" those activities at which they excel (see [Harter, 1986](#)); the esteem of poorly performing students has been shown to improve when they adopt deviant values (see [Rosenberg, 1979](#); [Gold, 1978](#); [Kaplan 1978, 1980](#), and [Rosenberg et al., 1989](#)); when individuals become disabled, they typically devalue physical attractiveness and physical accomplishments (see [Wright, 1960](#)); and values have been shown to change in old age as competencies decline (see [Brandtstädter and Greve, 1994](#)).⁶

It has also long been recognized that self-esteem depends upon individuals' comparisons with peers: the seminal paper being [Festinger \(1954\)](#). Several experiments have found that the value subjects place on activities depends upon how well they perform relative to peers – rather than how well they perform absolutely (see [Tesser and Campbell, 1980, 1982](#)). Additionally, recent work by Marsh and coauthors argues that students find it harder to achieve high self-esteem through a focus on academics when peer academic ability is higher (see especially [Marsh, 2008](#) and [Seaton et al., 2009](#)).

The model also accords with a third important idea in psychology: that people seek the esteem/approval of peers and are motivated, in consequence, to conform. Psychologists refer to this as "normative social influence" (see, for instance, [Latané, 1981](#); [Lerner and Tetlock, 1999](#); [Cialdini and Goldstein, 2004](#), and [Zaki et al., 2011](#)). Experiments on normative social influence date back to [Asch \(1951\)](#); he showed subjects a line and asked them to judge which of three other lines was of equal length; they answered after observing seven other participants – confederates of the experimenter – give an identical, wrong answer. Most subjects followed suit with the wrong answer on at least one occasion. In contrast, when subjects' responses were kept private, in a slight modification of the experiment, conformity significantly decreased (see [Asch, 1956](#)): suggesting that subjects had conformed in the original experiment largely because they sought peer esteem/approval, rather than because of changes in their beliefs. Neurological evidence is in line with this interpretation. In a further replication of the Asch experiment studying subjects' brain activity with fMRI, [Berns et al. \(2005\)](#) found subjects who failed to conform (by

³ While one approach to these issues is to derive status/esteem preferences from economic primitives (e.g., [Cole et al., 1992](#)), the approach in this paper allows for simple comparative statics and further insights into policy changes. The present paper bases its "reduced form approach" on robust findings in psychology and thus affords insights into the implications of preferences for esteem and status on economic outcomes.

⁴ For a survey of work on value homophily, see [McPherson et al. \(2001\)](#). There is considerable evidence that people have a tendency to sort into groups according to values.

⁵ In their *Psychological Review* article, [Crocker and Wolfe \(2001\)](#) note that: "the view that people are selective in the domains on which they stake their self-esteem has shaped theory and research on self-esteem for decades." (p. 598).

⁶ [Crocker and Major \(1989\)](#) also argue that the low observed correlation between esteem and achievement is, in large measure, explained by individuals' "selectively devaluing...those performance dimensions on which they...fare poorly." (p. 616).

Download English Version:

<https://daneshyari.com/en/article/5071276>

Download Persian Version:

<https://daneshyari.com/article/5071276>

[Daneshyari.com](https://daneshyari.com)