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‘The Prince and the Pauper’: The effect of inherited-wealth status on productivity in the lab

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This experiment contributes to the developing literature on the relationship between inherited-wealth status and effort provision in the labor market. This relationship is of interest beyond the lab the context of continuing national and global concern about intergenerational inequality. Inequality, and differences cultural and class backgrounds may be expected to dominate behavioral differences in South African workplaces and classrooms. This is suggested by lingering racial prejudice and patriarchal attitudes in the labor market and educational institutions. However, this experiment supports the behavioral economics literature that posits that individuals are highly susceptible to framing in ways that augment or mitigate differences in background. This phenomenon occurs even in the brief minutes spent in the artificially constructed context of the laboratory. The implications are profound for the manner in which workplace hierarchies are framed/constructed, and for South African educational institutions, in which the issue of ‘decolonizing’ education is currently being explored.

There is limited theory and empirical evidence about the effects of inherited wealth and social comparison on individual labor-market behavior. Investigating the impact of inherited-wealth status – an accident of birth rather than an outcome of competition – contributes to the understanding of the mechanisms underlying intergenerational inequality. This lab experiment analyses whether framed inherited endowments (ITR) influence real-effort task performance. Performance is measured by the number of sliders correctly positioned in a computerized slider task. In particular, the analysis concerns the interaction between a framed inherited status in the lab and participants’ real intergenerational wealth status outside the lab. The results indicate that inheritance-framed endowments trigger a race gap (in favor of non-black participants) but identity-neutral lottery-framed endowments (CTR) do not trigger this effect. Inheritance framing in the lab appears to prompt significant changes in behavior for Princes (participants that expect to inherit wealth from their parents) while opposite but non-significant effects are found for Paupers (who do not expect to inherit wealth from their parents).

Below, three significant effects on individual task performance are summarized.

1. Inheritance-framed endowments trigger an unexpected race gap in task performance, in favor of Non-Black participants. Since there was no significant difference in CTR, it is inferred that in identity neutral situations Blacks and Non-Blacks are equally productive. It is posited that the inheritance frame has affected behavior through activating latent identities. On average, given treatment frame and endowment level, Black participants perform worse than Non-Black participants. The race gap between Blacks and Non-Blacks can be attributed to differential behavioral responses to inheriting a low endowment.¹ A part of the race gap is due to Non-Blacks performing relatively better when assigned a low endowment framed as an inheritance, as opposed to a lottery. The other part of the race gap is due to relatively lower performance by Blacks when they inherit a low endowment, versus a low lottery-framed endowment. In the present experiment, Blacks are almost half as likely to expect to inherit wealth from their (actual) parents than Non-Blacks. This motivates performing

¹ Where the rough race category *Non-Black* contains all self-reported White, Coloured and Indian individuals. Black was the most disadvantaged population group under the former Apartheid regime.

separate investigations of relative status effects for subjects who expect to inherit wealth (which we call Princes) and those who do not have this expectation (which we call Paupers). These terms are borrowed from Mark Twain's (1881) children's classic *The Prince and the Pauper*.

2. Low inherited-wealth status in the lab leads to more sliders solved by Princes, but high inherited-wealth status leads to fewer sliders solved by Princes. The results show significant differences in performance after controlling for endowment (using the lottery-framed endowments to isolate relative status from its associated wealth level). It is posited that the inheritance-frame activates an otherwise non-salient identity. Namely, whether one expects to inherit wealth. In the ITR, Princes that inherit a high endowment solve 5 sliders less than Princes that inherit a low endowment. The drop in Princes' performance is attributed to an entitlement effect, since high relative status is an indicator of dominance (Hoff and Pandey, 2014). In this case, a high-status Prince may feel less of a need to prove him (or her) self. No robust significant behavioral impact of status on Paupers is found but it is interesting that the direction of the effects is the opposite of Princes.
3. Inheritance-frame triggers productivity gap between Princes and Paupers. Prince-identity has no behavioral impact on task performance in lottery-frame. Prince-identity is non-salient in the CTR by design. Since the expectation of wealth makes no difference to performance the CTR, it is inferred that in the identity neutral context Princes and Paupers are equally productive. Demonstrating that Prince/Pauper-status is balanced across treatments strengthens the case that the inheritance frame activates an identity effect on Princes' task performance.