

# The Two Sides of Envy

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## Abstract

This paper examines the effects of envy on economic performance and welfare of individuals. The two sides of envy, destructive and competitive, give rise to qualitatively different types of equilibria, depending on economic, institutional and cultural environment. The focus is on the “fear” vs. “keeping up with the Joneses” (KUJ) equilibria. The former is likely to emerge if inequality is high, property rights are poorly protected and social comparisons are strong. In the fear equilibrium the better endowed agents restrain their effort to prevent destructive envy of the relatively poor. In the KUJ equilibrium there is no fear of destructive envy, and individuals are able to satisfy their relative standing concerns peacefully. The different nature of these equilibria leads to opposite predictions regarding the effects of inequality and envy on economic performance. In the fear equilibrium equality alleviates the fear constraint of the rich which, along with the direct wealth effect on the poor, increases total effort and production. In the KUJ equilibrium, however, equality undermines emulation and reduces total effort and production. Similarly, increasing the strength of envy in the fear equilibrium exacerbates the inherent tension and reduces economic outcomes, while in the KUJ equilibrium it fosters emulation which raises economic outcomes. In contrast, the effect of enviousness on the welfare of individuals is the same in both equilibria: weakening the importance of relative standing causes a Pareto improvement, albeit for different reasons. The theory bridges the gap between separate lines of research on envy in social sciences and is instrumental in understanding the changing role of envy in the process of development.

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