

The two sides of envy, destructive and competitive, give rise to qualitatively different equilibria, depending on the economic, institutional, and cultural environment. If inequality is high, property rights are poorly protected, and social comparisons are strong, society is likely to be in the "fear equilibrium," in which better endowed agents restrain their efforts to prevent destructive envy of the relatively poor. In the opposite case, the standard "keeping up with the Joneses" competition arises, and individuals satisfy their positional concerns through suboptimally high efforts.

The different nature of these equilibria leads to strikingly contrasting effects of envy on economic performance. From a welfare perspective, the adoption of better institutions that move the economy away from the low-output fear equilibrium may not be Pareto improving since it aggravates the negative consumption externality. In a dynamic setting, envy-avoidance behavior, dictated by the destructive side of envy, reduces inequality and paves the way to emulation, driven by its competitive side. The paper provides a foundation for understanding the evolving role of envy in the process of development.