

Better to be in the same boat: Positional envy in the workplace

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Abstract

In a simple agency model of the labor market, we examine how fairness concerns affect the structure of optimal contracts. In the framework, we consider two types of workers, high and low ability, with the latter being envious and incurring a utility loss whenever the more talented earn a surplus from their contracts. We focus on the equilibrium payoff of the envied and show that, when the ability gap is relatively small, it is first increasing and then decreasing in the level of envy cost borne by the envious. In contrast, when the gap is large, the payoff is always decreasing. We also find that the utility loss of the envious is higher the lower the skill heterogeneity between types.

Keywords: asymmetric information; envy; fairness; other-regarding preferences; principal-agent model.

JEL Classification: D03; D82; M54.

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