

## **Envy and Inequality**

Francisco Alvarez-Cuadrado (McGill University)

We present an OLG economy populated by heterogeneous agents who care about consumption relative to others and the bequest they leave to their offspring. We show that saving and bequest rates vary across the income distribution, and obtain several interesting results. First, envy reduces the steady state capital stock and increases the degree of inequality in consumption, capital ownership, and bequest. Second, if the bequest motive is sufficiently strong the equalizing effect of bequests disappears. Third, income inequality for a given cohort increases with age. Fourth, the distribution of inherited wealth becomes more unequal than that of wealth in general. Fifth, economic position becomes more persistent across generations.