

For Accountancy
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The Green-Eyed Monster and Social Policy

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When I teach my course on Labour Economics, I give out to students a copy of one of my favourite cartoons (reprinted from the Financial Times). A tall employee is leaning over his boss's desk. The employee is grumpy. "I was happy with my pay rise", he complains to the boss, waving his arms around, "but then you had to spoil it by giving everyone else a pay rise too".

The reason I distribute this to students is that it seems to me to capture such a lot of truth about people. Of course it is not necessarily something that is easy to face up to, but feelings of envy and jealousy run pretty deep in many -- perhaps all -- human beings. So how strong are those emotions? And how far, in designing social and economic policy, can and should we go in accommodating this less attractive side of human nature?

An Oxford colleague and I recently ran an experiment to try to measure the extent of envy. We did so by inviting people, in groups of four, into a laboratory. Each one sat in front of a computer terminal; there was no talking or face-to-face contact with the others. Everyone was anonymous and screened off from one another. They had never met and never would; we even sent the test subjects away one at a time after the experiment so they did not bump into each other.

These people -- mostly students and university employees -- were given the chance anonymously to destroy each other's money. And they did, with gusto.

First, our laboratory subjects won money in an initial segment of the experiment. Actually they gambled against a random-number generator. After a 5-minute practice session, they played for cash in earnest, and at the end of the winning stage one person might have, say, 8 pounds (about 12 US dollars), another 12 pounds, another 20 pounds, and the last perhaps 5 pounds. We guaranteed everyone an extra flat fee of 3 pounds just for turning up to do the experiment.

This was played for real cash. Our subjects knew they would keep their winnings. Each person could see, on their computer, how much the others had won.

Second, as the experiment was finishing, we explained there was one last thing they could do if they wished. They could, if they chose to do so, give up some of their own winnings to reduce the cash of other people. It was made clear to them that they were not obliged to do this, and that it could not raise their own cash (indeed that it would reduce their take-away amount of money). We set 'prices' for this activity, which we called "burning other people's money", though we did not use that emotive language with the laboratory subjects, and these prices varied across different experimental sessions from 0.01 up to 0.25. A price of 0.25 meant that the burner had to give up 25 pence to destroy one pound (that is, one hundred pence).

Our big mistake was to set these prices way too low. It had not occurred to us that people would be burning others when the price was as high as 0.25. If we ever do it again, we shall have to set prices more like 0.5 or even more.

The bottom line was that the green-eyed monster of envy stalked very visibly through our laboratory. The majority of people burned some or all of other folk's cash. Even when they had to pass over 25 pence to destroy a pound belonging to someone they had never met, 62% of the test subjects (there were about 120 of them) decided to do so. The rich got burned the most.

We asked the subjects to fill in a questionnaire afterwards. One person, I remember, wrote "they were going to get me, so I decided to get them first", while another said "the whole thing was bewildering:

we should just have left each other alone and we would have come out ahead”.

What has society to learn from our experiment?

Although a lot of this darker side to people is not a shock, except perhaps to those who read only within the cool-headed and rational world of economics textbooks, the beginning of the twenty-first century has seen society somewhat try to forget that envy exists. Most countries have moved away from strongly progressive income taxation. When I was a boy, rich British people paid more than 90% of every extra pound to the government in tax. Now they pay 40%. The bit of me that wants to stick up for personal freedom applauds the move to lower marginal tax rates. But the other part thinks maybe it is likely that we are going to have to return, one day, to more punitive income taxes at the top end. The mathematical theory used by economists to set income taxes in an optimal way ignores the green-eyed monster. Rightly or wrongly, Tony Blair also seems to turn his mind away from it.

One might argue, of course, that we should not pander to the darker side of people. Unfortunately, human beings are not perfectible, and presumably never will be. They come as an incredibly interesting package. You get the bright side and the dark side. It seems sensible to face up to both.