Referee Report on Manuscript Economics MS 2616
"Social Limits to Redistribution and Conspicuous Norms"

Summary of the Paper and General Evaluation

The manuscript presents a theoretical model in which the desire of individuals to obtain social recognition (modeled through a matching technology grounded on the consumption of conspicuous goods) may induce the middle class to vote against its monetary interests and support low level of redistribution. The intuition is as follows. High tax rates equalize disposable income. Hence, individuals with relatively higher gross income (or initial wealth) are unable to distinguish themselves by consuming more conspicuous good. Because members of the middle class (which are pivotal) like to distinguish themselves from the poor, they may prefer a tax rate that is suboptimal, but enables them to achieve such separation (and possibly to pool with high-income earners).

The paper is overall well written and makes a nice point which extends our understanding of social interactions as modeled by Corneo and Gruner (2000). The topic is relevant. Results are correct and sensible.

Below, I raise a few points that I would like to see addressed and I point out some typos that I spotted while reading the paper.

Main Comments

a. The assumption of concavity in function $f(x)$ must be justified better. It implies that residual consumption (c_i) decreases less as the individual spends more and more in conspicuous good. I can think of situations in which this assumption makes sense, but also others in which this is not the case (for instance, an increase in conspicuous good consumption may push the individual to disregard other types of consumption in the attempt to maintain their status). I understand that the assumption is mainly a technical one and it has to be this way to guarantee that the FOC approach works. Nonetheless, I believe the author should write a sentence or two to highlight environments in which the assumption is sensible

b. My understanding is that the paper focuses on pure strategy equilibrium. I think that this is totally legitimate and that there is not much to gain from looking at mixed strategy equilibria, but the author should acknoledge this choice.

c. The definition of belief consistency that is provided in the paper is not general (in particular, it does not account for the partial pooling equilibria). The correct definition of belief consistency should refer to Bayes rule.

d. I would add some discussion to explain equations 3 an 4 (or 5 and 6) to readers that are not familiar with signaling game. Also, the role of out-of-equilibrium beliefs in supporting (destroying) an equilibrium is not clarified (and the reference to the Intuitive Criterion may be obscure to some readers).

e. I would expand the list of citations to include some quite recent work. Here, I report some suggestions. The author should definitely cite Levy and Razin (2015). Despite some modeling differences, this appears to me as a closely related paper. Windsteiger (2017) reports (with different modeling assumptions) a result that is similar to Lemma 2 in the present manuscript. In Köenig *et al.* (2017), individuals may consume private goods that are dominated by their publicly provided substitutes just to signal their status. Gallice and Grillo (2018a) presents a model of signaling enriched by status considerations, in which the dimension and the details of social comparison impacts on inequality. Gallice and Grillo (2018b) has a model in which high tax rate decrease the importance of consumption in determining social status. However, differently from the author's paper, in Gallice and Grillo (2018b) social status is determined by a second dimension of comparison as well.

Minor Comments and Notational Problems

1. Page 4: I would specify that the three classes have the same measures in both the continua.

2. Page 4: utility function U is not a "Von-Neumann Morgenstern" utility function (this wording is not correct because lotteries have not been introduced in the model and the utility is defined over deterministic outcomes). The wording utility function is better.

3. Page 6: unless I am missing something, $\rho(x_i)$ should be an index on types, not a probability $\Pr\{j \in K \mid x_j\}$. Moreover, if $\rho(x_i)$ is defined as a probability measure over classes (which, again, is inconsistent with the argument of function v) shouldn't be an element of the simplex $[0,1]^3$?

4. I would write "least-costly separating equilibrium" as opposed simply to "least-costly best separating equilibrium". Similarly, I would write "equilibrium marginal tax rate of redistribution" as opposed to "equilibrium marginal tax rate"?

5. Page 14: in the fourth line of the proof, there should be "increase" instead of "change".

References

[1] Gallice, A. and Grillo, E. (2018a). A Model of Educational Investment, Social Concerns, and Inequality. *Scandinavian Journal of Economics*. Forthcoming.

[2] Gallice, A., Grillo E. (2018b). Economic and Social-Class Voting in a Model of Redistribution with Social Concerns. *Manuscript*.

[3] Köenig, T., Lausen, T., Wagener, A. (2017). Social status concerns and the political economy of publicly provided private goods, *Manuscript*.

[4] Levy, G., Razin, R. (2015). Preferences over equality in the presence of costly income sorting, *American Economic Journal: Microeconomics*, 7, 308-337.

[5] Windsteiger, L., (2017). The Redistributive Consequences of Segregation, *Manuscript*