

SUMMARY

The paper provides a model where individuals in a finite population have to allocate a fixed income -- heterogeneous across the population -- between present and future consumption (2 periods), with the additional feature that they have concerns for status. Status is assumed to be the rank in the present-consumption distribution. A pooling equilibrium is studied where three classes emerge, with each class being homogeneous in terms of present consumption. The lower class comprises individuals with low incomes, and every individual (except trendsetters, i.e., those having maximum income in the class) over-consumes in the present (hence under-saves for the future). Similar over-consumption occurs in the middle and upper classes, which comprise individuals with intermediate and high incomes respectively. In this setting, the paper studies the impact of income growth and redistribution. In particular, a few questions are asked, and answers provided, each in a different section:

- 1. Is income growth for all individuals beneficial for everyone? it is surely beneficial for trend-setters, but it may be not beneficial for individuals that are sufficiently low in income within the consumption class (since the increase in consumption level due to income growth may so high to make them worse off overall).

- 2. Does more income equality:

2a. favour the poor? not for those who remain at the lower class, since their rank has reduced and they have to conform to a higher consumption level;

2b. increase utilitarian welfare? it remains undetermined (a discussion is provided);

2c. increase aggregate saving? it remains undetermined (a discussion is provided).

ASSESSMENT

I agree with the author that, while separating equilibria are the standard in the literature on status competition, pooling equilibria are probably better suited to provide a realistic account of status seeking phenomena. I think that the questions addressed in the paper are relevant, and the answers provided stimulate reflection. My overall evaluation is favorable. In the following I provide a few minor comments that the author may would like to take into consideration.

COMMENTS

A. While in the model studied there exists a variety of separating, pooling and partially separating equilibria, the author focuses the analysis on a particular instance of the latter. Even more importantly, he compares the same type of equilibrium in the comparative statics exercises in cases of income growth and redistribution (for instance, the number of classes might increase in response to the changed economic environment). I think that there is not much that the author can do in this respect to make the analysis sounder. However, I invite the author to add a sentence or two stating more clearly this limitation of the analysis.

B. I understand why the author speaks about "upward-looking comparisons" -- the reason is that an individual's rank is defined as the fraction of population whose consumption is not above the consumption of that individual. However, the term "upward-looking comparisons" may induce someone to think about cardinal status, as it is sometimes used in the literature for the case in which status concerns depend on how far an individual's

consumption (or income) is with respect to those ranked above. Also, the reference to Runciman is not fully apt in my opinion, because relative deprivation -- as I understand it -- means that an individual suffers from the amount of goods that he cannot afford while others can. I would suggest the author to briefly clarify this issue.

C. The analysis of the effects of more income equality on the poor crucially relies on the negative relationship between optimal present consumption and rank (and this has consequences also in the analysis of the following sections). For what I understood, this relationship holds for the baseline model, but not in general. I would ask the author to state this more clearly (and maybe to briefly discuss the alternative case).

D. The term "happiness" is sometimes used to denote self-reported measures of wellbeing (in this sense, it is different from utility; see, e.g., the discussion in Section 4 of Clark, Frijters and Shields, JEL 2008). I suggest that the author either clarifies the issue, or makes use of a different term (utilitarian welfare?).

TYPOS

The manuscript is clearly and competently written. I found a couple of typos:

- pag.5: "... and thus promote..." --> "... and thus promotes...";

footnote 9: "... generall..." --> "... generally...".