

Social status, preferences for redistribution and optimal taxation: a survey

Reply to Referee Report #1

Dear Referee,

Thanks a lot for having read the paper and for all the comments and suggestions about how to improve it. In what follows, I reply in a detailed way to your remarks (the latter appear in italics).

Summary

This paper offers a brief survey on how status-seeking modifies our understanding of positive and normative models of redistributive taxation. Its first part deals with status and preferences for redistribution by individuals; its second one deals with preferences over tax-transfer schemes by a benevolent planner.

Assessment

This is an interesting, balanced, and competently executed survey. The analysis is well structured and the interpretations offered for the various analytical results are helpful. I think that some revision work is however necessary in order to make this piece more valuable to researchers outside this literature. Some suggestions follow.

Suggestions

1. Introduction. In order to better motivate the survey, it would help describing the empirical evidence in support of the hypothesis that people desire status and explaining why taking this into theoretical models give insights that cannot be obtained from the standard approach.

R1. I agree with the point that you raise. I will better motivate the paper along the lines of what you suggest. In particular, I will refer to the empirical/experimental literature that recognizes the achievement of social status as one of the goals that people pursue and thus acknowledges the relevance of social status considerations in affecting agents' behavior.

2. P.5, line 5: "...the standard mean via which..." should be replaced with something like: "...the standard way in which..."

3. P.5, below: It should be defined what "cardinal" and "ordinal" status mean.

4. P.7, lines 9-10 are obscure.

5. P.9, top. The author should carefully distinguish the income concepts: market or gross income versus disposable or net income.

6. P.11, bottom. "...voters who have the same income support different preferred tax rates." Please, correct.

R2-R6. I will correct the sentences and clarify the passages, concepts and definitions that are not incorrect or ambiguous.

7. P.12., since the model by Shayo is a bit different from the other ones, the author should explain more carefully his approach. Maybe, it could be related to a distinction between social esteem and self-esteem.

R7. Indeed the model by Shayo is less akin to the other models that I discuss in Section 2. I will introduce it and discuss it more carefully. I will also include your suggestion about the distinction in the notions of social esteem and self-esteem.

8. End of Section 2. Here there should be a summary of what we have learnt from the surveyed papers.

R8. I totally agree on this point. A concluding paragraph that summarizes the content of the Section is needed. I will certainly include it in the revision of the paper.

9. Title of Section 3. The current title is ambiguous since optimal taxation can also refer to indirect taxes, while the focus of the survey is direct taxation. I would use "optimal redistribution" or "optimal direct taxation".

R9. I will change the title of Section 3 to "optimal direct taxation" to avoid the ambiguity.

10. P.13, middle. "... what matters to a policymaker are not status concerns per se but rather...". This is too strong: even with given behaviour, taking status concerns into account generally modifies the pattern of marginal utilities and thus prompts the planner to change the tax schedule.

R10. I agree with your comments. I will rewrite and tone down the statement.

11. P.15. Maybe, it could be interesting to notice that under some circumstances social status incentivizes activities that generate positive externalities; then, status seeking improves welfare by

counteracting a pre-existing distortion. The classic example is capital accumulation in an endogenous-growth framework (Corneo and Jeanne, On relative wealth effects and the optimality of growth, Economics Letters 54, 1997, 87-92).

R11. The fact that in some circumstances status seeking behavior could lead to welfare improvements is indeed an interesting possibility that I neglected to mention in the initial submission of the paper. In revising the paper, I will certainly discuss this finding and include relevant references.

12. End of Section 3. Here there should be a summary of what we have learnt from the surveyed papers.

R12. As it was the case with your remark #8, here as well I concur that a summarizing paragraph at the end of the section would indeed be very useful. I will add it.