

Publication**Social planning and coercion under bounded rationality with an application to environmental policy****JournalArticle (Originalarbeit in einer wissenschaftlichen Zeitschrift)****ID** 3653019**Author(s)** Hintermann, Beat; Rutherford, Thomas F.**Author(s) at UniBasel** [Hintermann, Beat](#) ;**Year** 2016**Title** Social planning and coercion under bounded rationality with an application to environmental policy**Journal** International tax and public finance**Volume** 24**Number** 5**Pages / Article-Number** 854-878**Keywords** Coercion, taxation, energy policy, public goods, paternalism

We develop a theory of social planning with a concern for economic coercion, which we define as the difference between consumers' actual utility, and the "counterfactual" utility they expect to obtain if they were able to set policy themselves. Reasons to limit economic coercion include protecting minorities, preventing disenfranchised groups from engaging in socially costly behavior, or political economy considerations. If consumers are fully rational, we show that limiting coercion is equivalent to placing more welfare weight on coerced consumers at the expense of others. If, however, consumers' rationality is bounded, counterfactual utility becomes endogenous to current policy, and the welfare loss associated with limiting coercion increases. We set up a numerical version of our model and find that the bias-related welfare loss can be substantial.

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