Nudging Debt: On the Ethics of Behavioral Paternalism in Personal Finance

Mark D. White[a]

In recent years, experimental psychology and behavioral economics have cast doubt on the quality and reliability of individual decision making, especially in complicated choice contexts involving risk and time. These factors imply that financial decision making is particularly subject to such doubts, which has generated calls for increased regulation based on behavioral science to help people avoid imprudent decisions regarding borrowing, such as those implemented by the relatively new Consumer Financial Protection Bureau. This article argues that such interventions are fraught with ethical problems based on the regulators' inability to appreciate the complex, multifaceted, and subjective interests of borrowers and recommends alternative approaches to helping people make better borrowing decisions while respecting their personal interests.

Keywords: behavioral economics, borrowing, nudge, paternalism, regulation

"Neither lender nor a borrower be," wrote Shakespeare in *Hamlet*. Although lending has economic advantages as well as, in the best cases, the suggestion of generosity and helpfulness, borrowing almost never has a positive connotation. Economists normally portray debt as a tool for investment (in the business context) or a way to smooth out consumption over time (in the consumer context), but it is often painted by moralists as a weakness of character, reflecting an inability to live within one's means, especially if debts are not repaid in a timely fashion.

The insights of experimental psychology and behavioral economics seem to lend hard-nosed credence to the moralists' view. Researchers in these fields have identified several cognitive biases and dysfunctions that lead us to make bad decisions in many areas of our lives but have particular relevance to financial choices, especially those regarding debt. As a result, it is argued that people need help making better choices, and it is the purview, and perhaps even the responsibility, of financial regulators and policymakers to "nudge" people's suboptimal decisions in the direction of financial prudence.

In this article, I will discuss the use of paternalistic interventions, including "nudges" as well as more coercive measures, which are designed to help people make better choices in the area of borrowing. I will argue that there are a number of problems with such policies, including serious ethical issues that policymakers should confront. After reviewing several uses of behavioral interventions in the context of personal finance and the problems with them, I will suggest ways to promote borrowers' well-being that can improve their financial decision making while respecting their interests, regardless of whether policymakers approve of the choices they make.

Behavioral Economics and Paternalism

To understand why economists see some types of borrowing behavior as imprudent or irrational, we must know how economists conceptualize choice (Hargreaves Heap, Hollis, Lyons, Sugden, & Weale, 1992). The economist models decision making as *constrained preference-satisfaction*, a process with two parts. First is a person's preference ranking, or how she compares the various options available to her in a particular choice context. These pairwise rankings have no specific psychological basis; instead, they are formally empty and reflect merely which of two options she would choose if all else were the same. However, in practice, economists commonly assume that preferences are based on some version of hedonic self-interest, pleasure, or utility (in the substantive sense used by utilitarian philosophers such as Jeremy Bentham). In fact, this model of choice is

[a]*Chair and Professor, Department of Philosophy, College of Staten Island/CUNY, 2800 Victory Blvd, Staten Island, NY 10314. E-mail: profmdwhite@hotmail.com*

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often called *utility maximization*, but in this sense, utility is understood to be merely an index of preference satisfaction, unrelated to any meaningful mental state. Second is a set of constraints, such as limits on wealth or time, which limit the degree to which the agent can satisfy her preferences. Putting the two parts together, an agent makes decisions in the economic framework by satisfying the highest preference possible within her constraints. Within this framework, agents make the best decisions they can *by assumption* unless there is a problem with the preferences or constraints that are inputs into their choices—for instance, if they were based on incorrect information or unreasonable beliefs.

Behavioral economists, relying on the pioneering work of Simon (1955, 1956) and Kahneman, Slovic, and Tversky (1982), argue that human beings' decision-making processes are not perfect, as the models predict, and, in fact, fall prey to a number of predictable mistakes because of cognitive biases and dysfunctions, evolutionary adaptations that served humans well in earlier days but are detrimental now (such as our taste for sugar and fat). These aspects of real-world human choice (surveyed in Angner, 2016; Ariely, 2010; Kahneman, 2011) involve anomalies in the way we form or process our preferences and include *loss aversion*, by which we value a good more if we own it and may lose it than if we never had it at all; *confirmation bias*, by which we pay more attention to information that confirms our current opinions or biases; and *bounded rationality*, by which we do not make decisions with calculative precision or perfect resolve (as mainstream economic models claim). Taken individually or together, these choice "anomalies"—understood so in comparison to the idealized model of preference satisfaction—lead real persons' choices to deviate from the predictions of textbook models and are therefore understood to be suboptimal.

Based on these psychological findings, behavioral economists have worked various cognitive biases and dysfunctions into the preference satisfaction framework to derive new behavioral predictions. There are criticisms of behavioral economics, including that it consists merely of piecemeal, *ad hoc* "corrections" to the traditional model with no unifying methodology (Levine, 2012) and that it contains nothing that the standard economic model cannot incorporate without modifications (Posner, 1998); some scholars argue both, such as Berg and Gigerenzer (2010).

From a more practical and policy-based angle, legal scholars have incorporated behavioral economics into models of lawmaking and policy choice, resulting in *behavioral law and economics* (Jolls, Sunstein, & Thaler, 1998; Korobkin & Ulen, 2000). As well as applying behavioral predictions to explicitly legal situations such as jury instructions, these scholars design policies based on behavioral economics to help people make better choices, sometimes leveraging the same cognitive biases and dysfunctions that motivated the interventions in the first place.

In their 2008 book, *Nudge*, behavioral economist Richard Thaler and legal scholar Cass Sunstein promoted the idea of nudges, modifications in the choice environment (or "choice architecture") that make use of people's cognitive biases and dysfunction to steer them toward better choices. Two of the main examples prominently discussed in their work deal with retirement savings and food choices. Regarding the first, they claim that because of status quo bias or procrastination, newly hired employees accept the default of no 401k retirement plan rather than making the active choice to enroll. As opposed to this "opt-in" system, they argue that the default should be enrollment, with the option to "opt out," so the same tendencies to accept the default choice would work to increase employees' retirement savings. Second, they imagine a cafeteria manager who is charged with arranging food items and recommend that she arrange them so healthier choices are better lit and easier to reach, taking advantage of visual cues and laziness to promote healthy eating.

Thaler and Sunstein acknowledge the paternalistic nature of nudges but call them "libertarian paternalism" (Sunstein & Thaler, 2003; Thaler & Sunstein, 2003) as opposed to traditional paternalism (see Dworkin, 2017) because the noncoercive interventions neither foreclose any options (as do bans) nor impose nontrivial costs (as do taxes or fees). They argue that, if done right, nudges respect the interests of decision makers and help them make better choices in their own interests. Finally, they argue that the effects of choice architecture are unavoidable, so it would be unethical for policymakers to arrange choices in any way other than to promote individual interests, such as wealth and health: "In many situations, some organization or agent must make a choice that will affect the behavior of some other people. There is, in those situations, no alternative to a kind of paternalism—at least in the form of an intervention that affects what people choose" (Sunstein & Thaler, 2003, p. 1164).

Since the publication of *Nudge*, this approach has become enormously popular with governments around the world, with leaders in the United States, United Kingdom, and other countries establishing “nudge units” to explore the use of nudges in public policy. Although some interventions have been focused on benefitting individuals, such as the ones mentioned earlier, others are more socially oriented, such as initiatives to increase rates of recycling or organ donation (John et al., 2011). Nudges have been shown to be effective in affecting changes among individuals, but they have also been criticized as inappropriate for tackling large scale social issues such as climate change (Selinger & Whyte, 2012). Nonetheless, they are popular with a wide range of the population, depending on the nature and target of the intervention (Sunstein, 2016, chap. 6).

Problems with Nudges

In general, nudges suffer from three interrelated problems, which can be classified as epistemic, ethical, and practical, with the first being most important and leading to the other two. I will discuss them briefly in the following; more details can be found in White (2013), with similar criticism in Rebonato (2012).

In epistemic terms, the problem with choice interventions that claim to help people make better decisions in their own interests is that policymakers have no knowledge of what those interests are. They normally assume simple and general interests such as wealth and health, based on the myopic assumptions about self-interest made by both mainstream and behavioral economists, but the interests of actual people are multifaceted, complex, and subjective. They are multifaceted because they include not only self-interest but also the well-being of others, which can be a basis for preference rankings but are often excluded, as well as personal principles (such as honesty) and societal ideals (such as justice), neither of which the model of preference satisfaction can easily account for. They are complex because these many facets of interests are balanced and weighed against each other in constantly shifting ways according to individual circumstance, belying the pretense of a fixed and constant preference ranking. Finally, interests are inherently subjective, representing the personal concerns that motivate decisions and remaining opaque to external observers who can only try to infer them from observed behavior, which is difficult given the multifaceted and complex nature of interests. Although it is questionable whether individuals know their own interests as well as they imagine they do, it is impossible for a policymaker to know them well enough to claim to influence people’s choices in their true interests.

In ethical terms, based on this ignorance of individuals’ true interests, libertarian paternalist policymakers must impose externally chosen interests based on which they will design nudges. They may choose interests benevolently, imposing ones that they believe are common and general, but the more general the interests imposed, the less correspondence they will have to any individual’s true multifaceted and complex interests. Given the effectiveness of nudges in influencing decisions in the direction chosen by policymakers, they effectively coopt individuals’ true interests, which denies, to some degree, their autonomy to determine their own interests and ways of living as implied by the principle of liberal neutrality (Mill, 1859). For example, the new employee who plans to save money for a down payment on a home may be nudged into a 401k plan, which will promote a presumed interest in retirement savings but not his true interest in home ownership. He may have an active concern for his retirement savings but a more immediate interest in buying a home. Advocates would argue that he is free to opt out, but if nudges are effective at steering choice, he is as likely to be nudged as anybody. Libertarian paternalists cannot claim that we are irrational before facing nudges but somehow perfectly rational when it comes to resisting them.

In practical terms, the ignorance of individuals’ interests implies that nudges cannot do what they claim and instead promote goals and ends other than those of the individuals being nudged. Furthermore, the usurpation of choice and interests has deleterious effects on decision making because people’s choices deviate from their own true interests and they are prevented from making choices that may be suboptimal in the short run but will lead to better decision making in the future (Klick & Mitchell, 2006; Rachlinski, 2003). More generally, nudges act like the demon in Harry Frankfurt’s (1969) thought experiment on free will, who allows a person to make her own choices as long as they are the choices he would have her make, but as soon as she deviates, he “corrects” her and forces her to make the choice he wants her to make. Setting aside the metaphysical implications, this kind of interventionist regulation of decision making is akin to bowling with bumpers in the gutters—the bowler knocks down more pins but never learns to do it unaided and remains dependent on assistance. In the worst case scenario, nudges threaten the same sort of vicious cycle in which they ensure the kind of mistaken decision making that motivates their existence.

These problems speak against the claims made by libertarian paternalists in defense of nudges. They are not "libertarian" but rather are coercive to the extent that they leverage cognitive biases and dysfunctions to influence choices, often in subtle ways that individuals are not aware of (Hurd, 2016; Mitchell, 2005). They do not respect people's interests or help people make choices in them because policymakers have no knowledge of them. Finally, even though the effects of choice architecture cannot be avoided, they do not have to be manipulated for paternalistic purposes but can be designed neutrally. For instance, defaults can be chosen in the most nonintrusive fashion, such as nonenrollment in 401k programs, which maintains the status quo unless individuals actively choose change. With respect to choice architecture such as in a cafeteria, food options can be arranged according to logical or aesthetic norms rather than by health. It is question-begging to claim that a paternalistic choice architecture is the only reasonable choice without defending why that choice is appropriate for paternalists to make.

Paternalism and Borrowing

One area of consumer behavior that is particularly subject to the effects of cognitive biases and dysfunctions is finance, including borrowing in the form of credit cards, mortgages, and check cashing outlets; Thaler and Sunstein (2008) devote an entire chapter to borrowing. The temporally extended nature of debt agreements in which costs and benefits are separated in time, sometimes by years, and therefore more difficult to compare; imperfect resolve to pay debt back or to anticipate the future difficulty of doing so; and the complexity of many debt contracts all contribute to the chances that consumers will make borrowing decisions that do not further their true interests, financial or otherwise.

In the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (commonly known as Dodd-Frank) established the Consumer Financial Protection Bureau (CFPB) to address what the government regarded as predatory behavior on the part of financial institutions, including behavior that was believed to have led to the financial crisis of 2007–2009. Originally proposed in the Consumer Financial Protection Agency Act a year earlier (Evans & Wright, 2010), this agency and the rationale behind it were based on research from legal scholars and behavior economists, including Bar-Gill and Warren (2008) and Barr, Mullainathan, and Shafir (2008), who argued for stronger regulation on financial practices to protect consumers from their own mistaken decision making, especially when these rational defects are exploited by financial institutions for profit.

For example, Barr et al. (2008, p. 1) write that "individuals consistently make choices that, *they themselves agree*, diminish their own well-being in significant ways." Bar-Gill and Warren (2008, pp. 5–6) write that there are "a growing number of families that are *steered* into overpriced and misleading credit products . . . families that get tangled up with truly dangerous financial products" [emphasis mine], arguing that "sellers of credit products have learned to exploit the lack of information and cognitive limitations of consumers in ways that put consumers' economic security at risk" (see also Hanson and Kysar, 1999). Barr et al. (2008, p. 4) assert that credit card markets are "dominated by 'low-road' firms offering opaque products that 'prey' on human weakness" and that "credit card companies provide complex disclosures regarding teaser rates, introductory terms, variable rate cards, penalties, and a host of other matters. Both the terms themselves and the disclosures are confusing to consumers" (p. 12). Regarding mortgage markets, Barr et al. (2008, p. 8) write that "families commonly make mistakes in taking out home mortgages because they are misled by broker sales tactics, misunderstand the complicated terms and financial tradeoffs in mortgages, wrongly forecast their own behavior and misperceive their risks of borrowing."

Generally, Bar-Gill and Warren's claim is that "consumers make systematic mistakes in their choice of credit products and in their use of these products. These observed mistakes indicate the existence of deficits in either information or rationality—or both" (2008, pp. 26–27). To support their claim of misinformation or irrationality, Bar-Gill and Warren (2008, p. 33) cite Shui and Ausubel (2005) who "identified mistakes in consumers" credit card choices, finding that a majority of consumers who accepted a credit card offer featuring a low introductory rate did not switch out to a new card with a new introductory rate after the expiration of the introductory period, even though their debt did not decline after the initial introductory period ended." They also describe the results of Gross and Souleles (2002), who show that

> many consumers pay high interest rates on large credit card balances while holding liquid assets that yield low returns. . . . With a median balance of more than $2,000 for consumers who have a balance, and a spread of over ten percentage points between credit card interest rates and the interest rates obtained on assets in checking and savings accounts, a typical consumer is losing more than $200 per year in interest payments that could have been easily avoided. (Bar-Gill & Warren, 2008, p. 35)

Barr et al. (2008, p. 12) share these concerns: "Credit card companies have fine-tuned product offerings and disclosures in a manner that appears to be systematically designed to prey on common psychological biases—biases that limit consumer ability to make rational choices regarding credit card borrowing."

The problem with Bar-Gill and Warren's (2008) claims of "observed mistakes" is that they cannot observe mistakes. They can only observe behavior and infer mistakes based on their judgment regarding what "correct" behavior would look like—judgment which is based on their assumptions about people's interests. Explanations for all of these observed mistakes can easily be suggested by broadening conceptions of people's interests and considering that consumers know their own cognitive shortcomings (as, ironically, Barr et al., 2008 acknowledge when they say that consumers "themselves agree" that they make bad choices). For example, consumers make choices regarding credit card teaser rates for many different reasons, including access to short-term inexpensive financing, and do not switch out because they know they'll only waste the cheap credit on things they do not need or that they learned from what they admit was a mistake in the first place. Another irony is that such scholars criticize consumers for "falling for" teaser rates and also for not taking advantage of them more when one expires. A consumer may take advantage of an opportune teaser rate when she is in financial trouble and does not feel the need to switch into another when it expires because she is by then in better shape. Perhaps she feels ashamed that she was forced to apply for a new credit card with a teaser rate, and after she no longer needs the cheap credit, she keeps the high interest rate card as a reminder not to get into such a situation again. By the same token, consumers hold low-interest balances in checking or savings accounts while owing high-interest credit card debt for many reasons, including retaining access to liquid funds in case of emergencies. It is not difficult to explain why consumers make decisions counter to what mainstream *and* behavioral economists would predict, explanations that are based on a broader and more inclusive conception of choice than either style of economics uses.

More generally, this reinforces an important point about behavioral economists and libertarian paternalists: At bottom, they are judging behavior, which they can observe, and not the thought processes which led to it, which they cannot. They can offer hypotheses regarding which cognitive bias or dysfunction led to behavior they find questionable, but they were moved to devise such an explanation only because they found the behavior questionable based on their own biases and preconceptions about prudent behavior. This is borne out by the results of behavioral interventions in which success is based on the rate of behavioral modifications—such as the degree to which defaults generated 401k enrollments—which are then taken as evidence that the cognitive distortion was "corrected" and well-being was improved (Sunstein & Thaler 2003, pp. 1172–1173). But neither is a valid conclusion: All that can be said is that the nudge changed behavior. The rest—the underlying cause of the original behavior and its effect on individuals' interests—is assumed based on preconceptions and value judgments, not evidence. The opposite is also seen, in which an intervention does not change behavior as planned, which usually generates calls for more intervention rather than a consideration that the behavior might have been prudent to begin with. Consider, for example, continued calls for improved nutritional labeling on packaged foods because existing labelling did not generate the behavioral changes hoped for by public health advocates (Emanuel, 2012).

To reiterate a point made earlier, researchers can dismiss certain choices as "mistakes" only because they assume thought processes and interests on the part of consumers and then find their choices inadequate based on them. This is not to deny that people make bad choices—all of us do, from time to time, and many of them in the area of personal finance, often based on the cognitive biases and dysfunctions behavioral economists emphasize. But it is impossible for an outside observer to know if a particular choice was a mistake for the person making it without knowing *why* she made it. Without asking consumers why they made certain decisions, researchers and policymakers are left only with their presuppositions regarding interests; they assume a sole interest in wealth maximization and are surprised when ordinary people turn out to be imperfect wealth maximizers. If these parties would acknowledge that individuals have interests far beyond straightforward wealth maximization—incidentally, a forgotten "insight" of behavioral economics—then they might admit that the mistakes they identify in consumers' financial choices are in the eye of the beholder, not necessarily of those making the choices.

The policies enacted by the CFPB range from the mildest nudges to light coercion (Evans & Wright, 2010; Smith & Zywicki, 2015). One largely positive change made in consumer financing was requiring credit card issuers to make interest rates and late fees clear and prominent in offers so consumer know better what they are signing up for. This is a very mild nudge because it is transparent: It does not leverage subconscious cognitive processes (what Kahneman, 2011, calls System 1) but instead engages deliberative, conscious decision making (System 2). It provides important information that can be incorporated in decision making, increasing the chances that the resulting choices will be based on accurate and more complete knowledge. However, there can be a danger with even informational nudges; for instance, the information chosen for highlighting can be motivated by certain interests, as when fat content is made more prominent than sugar content on a nutritional label, leading the consumer to focus disproportionately on the highlighted information. But the most relevant information in a credit card offer clearly is the interest rate and payment terms, so there is little danger of illicit manipulation or usurpation of consumers' interests.

However, other provisions are not so benign and barely even qualify as nudges, more closely resembling coercive paternalism of the type endorsed by philosopher Sarah Conly (2013) but motivated by similar behavioral considerations. For example, the CFPB uses its regulatory power to discourage banks from offering overdraft protection, which enables consumers to pay a fee to write checks in excess of their checking account balances. The revenues for this overdraft protection were a significant source of income for banks and were regarded by regulators as disproportionate penalties on consumers who overdraw their checking account (apparently without fault). But there are arguments in favor of this service, such as that they allow consumers access to immediate short-term credit when they need it, especially if they lack access to other methods of credit. It stands to reason (and is supported by Flores & Zywicki, 2013) that those who sign up for overdraft protection are more likely to use it—similar to other kinds of insurance—and this suggests that it serves some need among a certain group of consumers.

Similar to the case of check cashing services, regulators may call attention to the high costs of overdraft protection in terms of annual percentage rates, but this assumes that consumers who use overdraft protection have access to cheaper credit at the times they need it, and that using such alternative credit opportunities is in their interest. Perhaps some of the consumers that use such expensive sources of short-term credit could own cheaper credit cards but know themselves to be weak-willed and prefer not to have access to easier and cheaper credit. Again, when consumers know their own cognitive flaws better than regulators do, they make choices that account for them, choices which seem like mistakes only in ignorance of why they were actually made.

Interests

Limitations on the availability of certain financial services, such as overdraft protection as well as variable rate mortgages (especially those with large balloon payments), are not nudges properly considered because they do foreclose certain options rather than discouraging them through rearrangement of the choice architecture. They are motivated by the same reasoning, however: people systemically make bad decisions because of cognitive shortcomings, and policymakers and regulators should help them avoid such mistakes by removing tempting but harmful opportunities. Once again, these opportunities can only be judged to be harmful if certain interests are presumed on the part of consumers (along with very narrow thought processes and limited self-awareness), making interests and how they are regarded by policymakers, regulators, and academics of key concern (White, 2016b).

Advocates of libertarian and coercive paternalism motivated by behavioral research, such as Sunstein (2014) and Conly (2013), maintain they do respect the interests of individuals and do not impose an external, objective, or "perfectionist" theory of good on them. They argue that they are advocating for *means paternalism*, steering people toward better means to serve their own ends, rather than *ends paternalism*, which would steer them into different ends altogether. But this distinction assumes that ends (or interests) can be identified by the policymaker, which as we have seen is not possible. Any intervention designed to affect a choice of means based on presumed ends or interests runs the danger of steering people toward those ends as well. Sunstein recognizes this in his discussion of fuel economy labels, which not only influence choices along that narrow measure but may also nudge consumers away from other aspects of an automobile purchase, "insofar as it isolates fuel economy, rather than other imaginable features of cars, for compulsory display" (Sunstein, 2014, pp. 66–67). At the same time, he minimizes the significance of this: "There may be a form of ends paternalism, but it is likely to be of a very modest kind, perhaps so modest that we do not have to worry much" (Sunstein, 2014, p. 69). That itself, however, is a value judgment regarding the importance of different aspects of an automobile to consumers, as when he writes, after acknowledging that many people simply do not want to buy fuel-efficient cars, that consumers simply "may not give sufficient attention to the long-term or aggregate costs" (Sunstein, 2014, p. 43). Here we see once again the judgment of choices rather than the process by which they are made and the conclusion that the thought process must be flawed because the resulting decision is a "mistake."

Along the same lines, modern paternalists deny that they impose perfectionist standards or objective theories of the good on people whose choices they influence. According to objective theories of the good, writes Parfit (1984, p. 499), "Certain things are good or bad for people, whether or not these people would want to have the good things, or to avoid the bad things." In the absence of information regarding interests, a perfectionist or objective theory of the good is implied by the imposition of external interests; as Blumenthal-Barby (2013, p. 180) notes, "there is a sense of an underlying perfectionist standard of the good, namely health and wealth, to which the various nudges direct the masses." In their recent work, however, both Sunstein and Conly distance themselves from such conceptions of the good that supersede individuals' interests. Sunstein (2014, p. 75) writes that "though paternalists might have any number of views about what would make people's lives go well," he is "interested in defending paternalists who respect choosers' own views about their ends, and who seek to increase the likelihood that their decisions will promote those ends." Similarly, Conly (2013, p. 43) writes that the benevolent paternalism for which she argues "is not a paternalism about ultimate ends; that is, I do not argue that there are objectively good ends, or objectively rational ends, or ends objectively valuable in any way, which everyone should be made to pursue" but instead "promotes the satisfaction of people's long-term desires" (p. 50).

Throughout the work of both Sunstein and Conly, and keeping in line with normative behavioral economics in general, common and general interests are presumed on the part of individuals, usually in terms of health or wealth (as Blumenthal-Barby, 2013, identified). For instance, Sunstein (2014, p. 23) argues that policymakers can improve people's lives by implementing nudges "that give health, wealth, and well-being the benefit of the doubt," whereas Conly (2013, p. 124) "would argue that we (most of us) have a stable desire to be healthy and prosperous, and furthermore have a relatively clear idea of what constitutes a satisfactory degree of health and prosperity." Although wealth and health are certainly very common interests and may even be presumed to be a component of most everyone's interests in some form, they are so vague as to be trivial. It is not enough to say that individuals value their wealth and health; policymakers must know how each person interprets and values wealth and health, in which specific aspects and for what reasons, and how she weighs and balances those specific interests with the myriad others she holds. Only then can policymakers begin to presume that they are nudging a person's decisions in her own interests, but that degree and level of insight into personal interests is impossible absent personal revelation.

Defenders of benevolent paternalism might concede this point but argue nonetheless that wealth and health are such common interests, and of such instrumental value to other more personal interests, that they are worth promoting even if the interventions are not precisely on target and occasionally stymie the pursuit of other interests. For example, Conly (2013, p. 64) acknowledges the diversity and individual interests and admits that paternalistic interventions "may be downright harmful to some individuals—it may prevent them from achieving well-thought-out ends. Obviously, different people have some different goals and needs." Both Conly (2013, pp. 63–66) and Sunstein (2014, pp. 18–19) urge a pragmatic, cost-benefit approach to assessing paternalistic policies, but neither costs nor benefits can be measured with accuracy because both are based on individual interests, which are opaque to the policymaker. Instead, rough external measures of well-being would be used, ignoring effects on individuals' specific interests. This would refute claims by benevolent paternalists to be respecting and furthering those interests, and such an approach would more closely resemble *libertarian welfarism* (Korobkin, 2009), which is based on aggregate measures of cost and benefit and explicitly condones trade-offs between individuals' well-being.

This focus on perfectionist or objective theories of the good can be seen in the work cited earlier supporting increased financial protection for consumers. As we have seen, all financial decisions made by consumers are assumed to be made toward one goal, simple wealth maximization, in isolation from the countless other interests that interact, depend on, and lead to choices regarding borrowing. The only factor considered is cost, whereas there are many other possible considerations, including convenience, a debt instrument's fit within an overall portfolio, and the borrower's accounting for self-control problems. We see this myopia when Bar-Gill and Warren (2008, p. 56) write that "the evidence summarized above suggests that many credit products are extremely costly to consumers. The data on credit card choice and use show that consumer mistakes cost hundreds of dollars a year per consumer." A contemplation of the broader range of interests involved in financial decision making would suggest that some consumers are willingly paying these "hundreds of dollars a year" not for mistakes they regret but for other things of value, things that fall outside the narrow context of wealth maximization. The presumption of this one goal represents the same perfectionist or objective theory of the good described earlier in general; by influencing people to make choices designed to further one's imposed interest, policymakers and regulators are imposing their version of the good on consumers. All the same, even though they violate the principle of liberal neutrality, embracing the perfectionist or objective theories of the good that are at the heart of their program may allow benevolent paternalists to avoid the problem of having to explain away the impossibility of knowing and promoting individuals' true interests.

Conclusion and Suggestions

Even though, due to ignorance of interests, researchers and policymakers cannot know if any particular decision is a mistake for the individual making it, there is reason to be concerned that many people are making financial decisions that are suboptimal in their own judgment. Are there ways to help these people borrow wisely to further their interests, without unduly influencing people who are making good decisions, even if they are not decisions regulators or policymakers would see as good ones?

Providing information is a prudent tool, but care must be taken to make sure that it is presented in a neutral fashion that does not nudge decisions in one direction or another (as mentioned earlier). Consumers may be confused regarding financial terminology and the implications of different combinations of interest rates, payment plans, and fees—all of it information which can be provided by state agencies, educational institutions, or professional financial planners. But consumers know their own interests better than outside advisers do and can make the best use of financial information to make borrowing decisions that promote not only their financial interests but also their nonfinancial interests that interact with them. This situation is similar to medical information and advice: doctors, nurses, and other medical professionals have more detailed information regarding treatment than patients do, but they do not have full knowledge of patients' interests and therefore must be careful not to nudge them into treatment plans that may promote one general interest over others (White, 2016a).

Effective and respectful transmission of financial information would also make it unnecessary to discourage or ban what regulators see as harmful or dangerous financial products (such as overdraft protection) or services (such as check cashing centers). As described earlier, consumers use a wide array of financial products and services for many reasons and to promote different interests, few of which regulators and policymakers can take into consideration. If they are concerned people are using them for the wrong reasons or in ways that set back their interests, they can provide information to guide people toward better financial decisions, not foreclose opportunities to promote others, especially those that people use to account for their cognitive shortcomings, of which they have much better knowledge than do regulators.

To respect and promote people's actual interests, regulators and policymakers should focus on providing as many opportunities for financial commerce (including borrowing) as possible, whether that means allowing financial institutions room to innovate and test new products and services or providing financial information themselves to help people make use of them. Respect for individuals' interests implies that, other than addressing outright fraud and coercion, regulators and policymakers should not be making decisions about financial products and services for consumers based on simplistic, singular interests that they presume on their behalf. Furthermore, they should abstain from judging the choices individuals make, judgments that are based on externally imposed interests. Borrowers will make bad decisions or mistakes, to be sure, but regulators and policymakers have no way to know if a particular choice is a mistake for the person making it and are liable to make mistakes of their own if they are overconfident in their analysis. As Alexander Pope said, "To err is human," which applies just as well to behavioral economists and policymakers as to those they would presume to nudge.

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