OBSERVATOIRE DE L'EPARGNE EUROPÉENNE

Call for Tenders 2014 :
Contracts for conducting research in the field of savings in Europe

The Observatoire de l'Epargne Européenne is currently seeking out contracts for the realisation of European research projects on the following themes, selected by its Advisory Committee:

Theme 1: The political economy of reforms, behavioural economics and financial literacy
Theme 2: Impact of inheritance / bequest taxes on the propensity to save
Theme 3: Savings to generate a stable flow of income

Funding offered by the OEE is generally between 10k and 50k €. Research is expected to be completed within one or two years.

Please find tendering specifications below.

Submissions of proposals by a team combining academic researchers and professional specialists are particularly welcome.

Tenders and requests for additional information may be submitted by e-mail to the following addresses:

E-mail:	Christian Gollier President, OEE Scientific Committee **christian.gollier@tse-fr.eu**	Didier Davydoff Director **d.davydoff@oee.fr**

Please note that the submission deadline is **June 15, 2014**.

Project 1: The political economy of reforms, behavioural economics and financial literacy

Economic reforms aim at inducing changes in agents' behaviour (individuals, firms, and institutions). A sound economic reform must include behavioural incentives towards social optima, aiming at aligning the shadow price of individual actions to their social cost.

A problem with such sound reforms is that they often lack popular support. Citizens often do not trust the price system. Not only do they regard it as unfair, but they are also sceptical about its effectiveness in promoting growth.

Financial and economic literacy provide individuals with a better understanding of the long-term potential benefits of economic reforms, and give them the tools to better assess the effects, hence, the desirability of a reform. Politicians' choices have, of course, an impact on financial and economic literacy; however, an equally significant (if not more significant) effect is due to education, with universities and schools playing a major role, along with families.

It is possible to argue that financial and economic education (fully exogenous with respect to politicians' current choices, and only partially related to politicians' previous choices) determines an important source of support for a political party. As a result, it also determines the mapping between the efficiency of a reform and its popular support and, therefore, the prospects that an efficient reform has of being successfully approved and implemented.

The research should aim at:

i) establishing the link between financial / economic literacy and the implementation of successful reforms.

ii) establishing political incentives to improve financial / economic literacy. Improvements of financial / economic literacy have mostly long-term effects. It seems quite clear that technocratic governments have an incentive to improve financial / economic literacy. The incentive for an elected government to improve financial / economic literacy is however less clear-cut. On the one hand, a more widespread literacy facilitates needed reforms; on the other hand, it may negatively affect, in the long-run, "political rents".

iii) establishing the impact of particularly severe economic conditions on the incentives of elected governments to improve financial / economic literacy.

iv) establishing the channels through which politicians can (and do) effectively improve financial literacy, i.e., by supporting institutions devoted to this goal (such as universities), or through direct communication with citizens.

Project 2: Impact of inheritance / bequest taxes on the propensity to save

The life-cycle theory predicts that the level of savings depends on the age of individuals who seek to maximize the utility of their whole life consumption. However, one observes significant inter-generational transmission of wealth due to other motives than the original model. Intergenerational altruism appears to be an important motive of savings. Hence, the level of taxation of inheritance should have an influence on the level of savings.

The OEE is interested in funding research on the impact of inheritance and bequest taxes on the propensity to save over the lifecycle. One could also examine their impact on household portfolio allocation and the type of savings products purchased.

The project could include three components:

- A review of the literature on altruist factors for savings and the "dynasty" behaviour;
- A description of tax rules applying to inheritance and bequest and statistics on inheritance and bequest in various European countries;
- An economic analysis (theoretical and/or empirical) of the introduction of a new taxation rule for inheritance and/or bequest and its impact on savings behaviour.

Project 3: Savings to generate a stable flow of income

The ageing of European savers is expected to transform their demand for long-term assets, especially as the replacement rates provided by pay-as-you-go pension benefits tend to decrease. In the "decumulation" phase of their lifecycle savings strategy, households will probably focus more on assets that produce a more regular and less risky source of income. Annuity and bond fund markets are well shaped to respond to this demand. Households could also organize a plan of scheduled periodic withdrawals from the accumulated capital, for example, of a life insurance contract.

The OEE would be interested in a study on the evolving needs of this ageing population in terms of savings products. What should be the desirable degree of pre-commitment from savers about the speed of their decumulation? How should it be made sensitive to persistent shocks to interest rates, or to an unanticipated evolution of their health? How risky should their portfolio be, and what would the optimal structure of existing savings products in various European countries be?

The study would include a presentation of advantages and drawbacks of each solution, taking into account the background of currently low interest rates. For example, bond funds can deliver better risk-return performances but what protection, if any, can be provided to bond fund holders against the risk of rising interest rates?