PROCEEDINGS OF THE OECD/INFE/GFLEC GLOBAL POLICY RESEARCH SYMPOSIUM TO ADVANCE FINANCIAL LITERACY

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This document collects the contributions of the four main speakers of the OECD/INFE/GFLEC Global Policy Research Symposium to Advance Financial Literacy, held in Paris on 31 October 2013. The conference was co-organised with the Global Financial Literacy Excellence Center (GFLEC) at the George Washington School of Business, Washington, DC. These proceedings benefited from the support of VISA Europe.

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TABLE OF CONTENTS

INTRODUCTION

The OECD/INFE/GFLEC Global Policy Research Symposium to Advance Financial Literacy, held in Paris on 31 October 2013, aimed at highlighting the role of research in the development of more efficient financial education policies and practices. The conference was co-organised with the Global Financial Literacy Excellence Center (GFLEC) at the George Washington School of Business, Washington, DC.

The Symposium was organised in four sessions, each of them featuring a main academic speaker followed by panellists from the policy and private sectors (see the programme in the Annex).

The first session *Financial Literacy around the World: Evidence and Implications* offered an overview of the levels of financial literacy and the national strategies for financial education in different countries. It also addressed the G20 recognition in 2013 of the OECD/INFE work, including especially the joint OECD-Russia's G20 Presidency publication "Advancing National Strategies for Financial Education", the G20 endorsement of the "OECD/INFE Policy guidance on addressing women's and girls' needs for financial awareness and education", and the welcoming of the practical tools to measure financial literacy and evaluate financial education programmes developed by the OECD/INFE and the World Bank. The second session *Influencing behaviour: The impact of the institutional framework* focused on the role of institutions such as schools, workplace, financial infrastructures, and culture in shaping financial behaviour. The third session *Leapfrogging: Innovative ideas across fields* was devoted to improving financial literacy drawing on lessons from other fields and innovative thinking. Finally, the fourth session *Translating research into policy and practice* allowed for a discussion on how to use evidence and research to inform effective policy making.

The Symposium was the first of a series of conferences with a combined research and policy focus to be organised in the future by the OECD and its INFE in cooperation with the GFLEC, also building on the expertise of the nascent INFE Research Committee.

These proceedings draw together the contributions of the four main speakers, with the support of VISA Europe.

The first section summarises the contribution of *Prof. Annamaria Lusardi, Academic Director of the Global Financial Literacy Excellence Centre (GFLEC) at the George Washington University, and Chair of the PISA Financial Literacy Expert Group* (Session 1). Prof. Lusardi gave an overview of financial literacy levels in several countries and of the effects of financial literacy on behaviour.

In the second section, *Prof. Sheldon Garon, Professor of History and East Asian Studies at Princeton University* (Session 2), presents the main findings from his book "Beyond Our Means: Why America Spends While the World Saves" providing an in-depth analysis of the institutional factors affecting saving behaviour across countries and time.

The third section offers a summary of the intervention of *Prof. Punam Keller, Professor of Marketing at Tuck School of Business, Dartmouth College* (Session 3). Prof. Keller drew on social marketing research to highlight how the findings in health behaviour could be applied to financial literacy and financial behaviour.

The fourth section presents the contribution of the last main speaker, *Prof. Elsa Fornero, Professor of Economics at the University of Turin and former Minister of Labour, Social Policies and Gender Equality in Italy* (Session 4). Sharing her experience as a researcher and policy maker, Prof. Fornero highlighted the link between financial literacy and the successful development and implementation of public policy reforms.

FINANCIAL LITERACY AROUND THE WORLD:
EVIDENCE AND POLICY IMPLICATIONS

PROF. ANNAMARIA LUSARDI[♠]

A New Economic Landscape

An understanding of financial concepts is necessary to make informed financial decisions. Never has the need for such knowledge been greater.

We live in a world of increased individual financial responsibility, where teenagers make decisions about investment in their educations, students graduate from college with unprecedented levels of debt, and workers manage their own retirement accounts. Changes in the labour market have elevated the value of particular skills, dramatically widening the wage gap between those who have what employers seek and those who do not. At the same time, the labour market has become more fluid. Workers change jobs far more frequently than in the past, meaning pension and retirement provisions must be portable. And job security is more fragile, requiring workers to have more solid rainy day funds.

The financial markets, too, have changed. Individuals are now able to borrow at greater levels, and financial markets around the world have become increasingly accessible to small investors. But these new opportunities come with greater individual responsibility – and greater exposure to market risk. In effect, workers have been transformed into their own chief financial officers, forced to make life-changing decisions about retirement savings and investment in education at a time when new financial products and services are emerging and existing ones have become increasingly complex.

Around the world, financial security—present and future—hinges on whether people are financially literate.

Although financial literacy is a global challenge, the United States provides a telling example of its growing importance. Prior to the 1980s, many Americans relied on Social Security and defined-benefit plans. Under defined benefit, employers promised to provide specific retirement payments, usually based on salary and tenure formulas. Today, retirement years are more likely to be financed through defined-contribution (DC) plans and Individual Retirement Accounts (IRAs), the values of which fluctuate depending upon contribution rates and investment gains and losses. Indeed, in 1980, about 40 percent of private-sector pension contributions in the United States went to defined-contribution plans. Some 20 years later, almost 90 percent of such contributions went to personal accounts, predominantly 401(k) plans (Poterba, Venti, and Wise, 2008).

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There are advantages to the DC retirement savings model. Since workers change jobs more often than in the past, their pensions need to be portable, which the DC model allows. However, that same flexibility can be exploited to tap the funds for non-retirement purposes. Direct-contribution plans also expose workers more immediately to financial market risks.

Protecting and improving the living standards of aging citizens around the world will hinge on how well workers plan for retirement—and that will depend on their understanding of retirement accounts, market diversification, and even concepts as simple as inflation. Government policies, including those directed at financial education, may play a crucial supporting role in ensuring that financial knowledge is available, accessible, and widespread.

Unfortunately, awareness and research in the fledging arena of financial literacy tends to focus on just one side of the balance sheet: assets. The equally important liability side must also be considered to gain a thorough understanding of personal finances. Studies examining participation in the financial markets look, for example, at specific investments or at retirement savings such as stocks and mutual funds. But merely looking at home or bank account ownership does not make clear how much equity is held in a property or whether account holders are borrowing against or overdrawing on those funds. Household debt levels are growing around the world, and that debt carries interest rates that are higher than those earned by assets.

Measuring Financial Literacy

Financial knowledge is essential for making wise financial decisions. With rapidly changing financial markets and increasing individual responsibility, the ability to make informed decisions takes on paramount importance. But just how well equipped are people to make those decisions, most of which must be forward-looking? Are individuals prepared for the future? Are some groups more vulnerable than others when it comes to financial knowledge? What influences decision-making?

Many national surveys have been lacking information on financial literacy or financial capability. That was due in great part to a dearth of measurement tools. More recently, assessments of knowledge of basic concepts—the ABCs of personal finance—have been made possible via three simple questions that have become standard on national surveys in the United States and in more than 20 other countries. Lusardi and Mitchell (2011a) used language of everyday transactions in designing the questions, which were first added to the 2004 Health and Retirement Study. They were subsequently added in the 2007-2008 National Longitudinal Study of Youth, and the American Life Panel. More recently they were added to the 2009 and 2012 FINRA Financial Capability Survey covering a representative sample of the U.S. population.[1] Adding the same questions to national surveys in other nations opened the door to cross-country analysis of financial literacy as well as breakdowns based on differences and similarities (Lusardi and Mitchell, 2011c, 2014). Roughly speaking, correct answers indicate a basic level of financial literacy.

[1] See the discussion of these data in Lusardi (2011), Lusardi and Mitchell (2009; 2011a,b,c) and Lusardi, Mitchell and Curto (2010).

The first of the three questions tests numeracy and understanding of interest rates (correct answer is in bold).

i. "Suppose you had $100 in a savings account and the interest rate was 2% per year. After five years, how much do you think you would have in the account if you left the money to grow?"

  i) more than $102
  ii) exactly $102
  iii) less than $102
  iv) don't know
  v) refuse to answer

The second question tests the understanding of inflation.

ii. "Imagine that the interest rate on your savings account was 1% per year and inflation was 2 percent per year. After one year with the money in this account, would you be able to buy…"

  i) more than today
  ii) exactly the same as today
  iii) less than today
  iv) don't know
  v) refuse to answer

The third question looks at the understanding of risk diversification and of stocks and mutual funds.

iii. "Do you think the following statement is true or false? Buying a single company stock usually provides a safer rate of return than a stock mutual fund."

  i) true
  ii) false
  iii) don't know
  iv) refuse to answer

If consumers are to enhance their saving and investment decisions, engage in financial planning, and make their retirement more resilient, they must be financially literate. But the answers to this trio of crucial questions reveal that individuals are far from ready to manage their current and future finances. Empirical research shows that many people know little about the concepts underlying saving and investment decisions. This may have important consequences for financial decision-making, especially as it relates to the accumulation of retirement wealth (Lusardi and Mitchell, 2011c, 2014).

Financial Literacy Around the World (FLAT World)

To paraphrase the title of the bestselling book by Thomas Friedman, we live in a FLAT World, but in this case "FLAT" is an acronym for Financial Literacy Around the World. We are *flat* when it comes to consumers' knowledge of basic financial concepts. A special October 2011 issue of the *Journal of Pension Economics and Finances* provided country-by-country findings of financial literacy and included the pioneering financial literacy measurement work of the Organisation of Economic Co-operation and Development (OECD).[2]

The financial literacy questions advanced understanding of financial concepts in eight countries, revealing three striking similarities. First, financial illiteracy is prevalent, regardless of the country or its economic development stage. In the United States, only 30 percent of the population is able to correctly answer all three questions. Similar results are found in Germany, the Netherlands, Sweden, Italy, Japan, and New Zealand—places with well-developed financial markets—as well as in countries where financial markets are changing rapidly, such as Russia. Second, knowledge of inflation correlates with individuals' experiences. For example, Italians were more likely to answer the question on inflation correctly while respondents in Japan, which experienced deflation, were more likely to get it wrong. Third, risk diversification proved to be the most difficult concept. More respondents answered “do not know” to the risk diversification question than to any other, and the results were similar across countries.

Some 34 percent of U.S. respondents responded that they did not know the answer, as did 32 percent of respondents in Germany, and 33 percent in the Netherlands. Consistent with expectations, the percentage of “do not know” answers was very high in Russia and East Germany, where individuals had little exposure to stock markets, and lower in countries like Sweden, which implemented a vast privatization of its social security system, and Japan.

A second set of countries—Australia, France, Romania, and Switzerland—were subsequently added to FLAT and those results were published in the journal *Numeracy* in July 2013. Results in these countries were similar to those found in the eight countries mentioned earlier.[3] The Central Bank of Austria has now collected data on 10 additional Central and Eastern European countries; findings from those countries will be released soon.

Who Knows The Least?

Financial literacy is not only widespread but it is alarmingly low among specific demographic groups, with age, education levels, employment status, and gender as factors. This finding is again consistent across countries. When it comes to age, financial literacy follows an inverted U pattern, being lowest for younger and older consumers but peaking in the middle of the life cycle. A single cross-section is not sufficient for distinguishing between age and generational effects, but the survey results show a pattern consistent with the notion that knowledge rises with experience and decays at older ages.

Women generally have poorer financial understanding than men. In countries as diverse as the United States, Sweden, Italy, and Japan, women responded to the surveys in the same way: They stated that they do not know the answers. The proportion of women's “do not know” responses is particularly high—as great as 50 percent—on the question about risk diversification.

Financial literacy is also strongly correlated with higher levels of education although, even at the highest level of schooling, literacy levels are low. Financial knowledge is also higher among those who are working and, in some countries, the self-employed, than those who are unemployed. This difference may stem in part from financial education programs offered in the workplace (such as in the United States). It could also reflect knowledge learned from colleagues or from skills acquired on the job.

2 Findings from this research are summarized in Lusardi and Mitchell (2011c, 2014).

3 See Lusardi and Wallace (2013) and Lusardi and Mitchell (2014).

Some countries show other interesting patterns. For example, there are distinct geographical differences when it comes to financial literacy. Financial knowledge is higher in the northern and central regions of Italy than in southern Italy.[4] In the United States, financial literacy differs by state, with southern states tending to score low. In Russia, meanwhile, people in urban areas are generally more financially literate than those in rural areas. Racial and ethnic differences are also a factor in some places. Whites and Asians in the United States, for example, tend to be more financially knowledgeable than African Americans and Hispanics (Lusardi and Mitchell, 2011b, 2014).

These findings are significant because they indicate there may be no one-size-fits-all solution to universal financial literacy.

Does Financial Literacy Matter?

While financial literacy is important overall, the critical question is whether it influences behavior. Several studies have uncovered a strong correlation between financial literacy and day-to-day financial management skills. Across all countries surveyed, financial literacy was linked to retirement planning or participation in private pension plans. In the majority of the countries studied, the financially literate were more likely to plan for retirement, even after taking into account numerous economic characteristics and circumstances. This was a remarkably consistent result, regardless of the differences in pension schemes, the privatization of pensions, and the varying generosity of pension systems across countries (Lusardi and Mitchell 2011c, 2014).

The question arises of whether financial literacy affects retirement planning or whether it is the desire to plan for retirement that influences individuals' financial knowledge. It was possible to address the causality nexus in several countries. The results showed that financial literacy affects retirement planning, not the other way around.[5]

Data collection is important to developing broad-based national strategies and policies that address financial literacy education in the schools, particularly before young people begin to make financial decisions about car loans, cell phone contracts, and higher education. Research results also inform financial literacy programs in workplaces, where employers have an opportunity to reach adults at key moments in the life cycle, such as when starting a new job, obtaining a raise, or celebrating the birth of a child. And, finally, research can be used to expand financial literacy opportunities in public spaces such as museums and libraries. The new International Federation of Finance Museums has taken an important step in this direction, collaborating on exhibits and programs designed to elevate financial literacy. The partnership includes the Mu$eum of American Finance, the Chinese Museum of Finance, Italy's Museo del Risparmio, and the Global Financial Literacy Excellence Center housed at the George Washington University School of Business.

Among other things, research is also addressing in greater depth the financial literacy challenges particular to certain demographic groups.

Given the importance of financial literacy, it is perhaps not surprising that, in 2012, the OECD Program for International Student Assessment (PISA) dedicated an entire module to financial literacy, in addition to the to the topics the assessment normally covers. PISA states: "*Are students well prepared for future challenges? Can they analyze reason and communicate effectively? Do they have the capacity to*

[4] See Fornero and Monticone (2011).

[5] For detail, see Lusardi and Mitchell (2014).

continue learning throughout life? The OECD Program for International Student Assessment (PISA) answers these questions through its surveys of 15-year-olds in the principal industrialized countries. Every three years, it assesses how far students near the end of compulsory education have acquired some of the knowledge and skills essential for full participation in society."

Women, too, require special attention. They have claimed a larger place in the workforce—in the United States, their labour force participation rate is growing at a faster pace than that of men—and their involvement in financial matters has expanded. Women are also relevant economic actors outside the workplace, contributing to economic growth through unpaid work in the household. Women's contribution to the economic future of the United States and the world—already sizeable—will become more and more critical in the future. Yet research shows that women's increasing economic contribution is restrained by difficulty in financial decision-making and low financial literacy.

Summary

Just as reading literacy allows people to experience safe, productive, and fulfilling lives, financial literacy—the understanding of financial concepts—provides individuals with the tools they need to make informed decisions about their economic well-being. Never has the need for such knowledge been greater. Shifts in modern society have given individuals far more responsibility and power over decisions about money matters at the same time that consumers' financial options have become increasingly complex.

Research shows that people with poor knowledge of finance tend to save less and owe more. They incur more credit card debt and accrue higher fees. Studies in the United States and other countries have found a link between financial literacy and participation in financial markets. Those who are more financially literate are more likely to invest in stocks.

Advanced financial knowledge, such as an understanding of risk diversification, seems particularly important in predicting participation in the stock market, but numeracy and the capacity to do simple calculations also matters. Financially literate individuals tend to be more judicious about choosing mutual funds, including those with lower fees.

Financial literacy can also be linked to retirement planning. That finding is significant because individuals who plan for retirement find themselves entering that chapter of their life with *three times* the amount of wealth as those who do not plan.

Financial literacy matters not only for investment and saving but also for borrowing. A burgeoning amount of research has found that individuals with poor levels of financial literacy are more likely to have problems with debt. They also tend to have more costly mortgages and are less likely to refinance the mortgages when interest rates go down.

Importantly, research shows that *financial education can work*. In a world of increased individual financial responsibility, where workers are in charge of their financial well-being and where financial markets offer new and complex financial products, we cannot afford to disregard financial literacy. The disconnect between what people know and what they *need* to know carries serious economic and social consequences, not just for individuals but also for households, communities, and even nations. The 2008-2009 global financial crisis and its still-debilitating effects stand as a vivid reminder of that.

There is a cornerstone of economic theory: Where there are well-informed consumers, you will find vigorous competition, efficient markets, and strong democracies. A population that is more financially knowledgeable opens the door to a larger and more productive market for financial products, expanded participation in asset building, and greater financial stability. In other words, financially knowledgeable consumers are good for business, good for the economy, good for the country and, in this age of globalization, good for the world.

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PROMOTING SAVING AND FINANCIAL LITERACY:
HISTORICAL AND GLOBAL PERSPECTIVES ON THE INSTITUTIONAL FRAMEWORK

PROF. SHELDON GARON[♣]

Why America Spends While the World Saves

Saving has not exactly been a sexy topic in the United States. American institutions have long promoted consumption and credit as the driver of economic growth. Despite a booming economy, US household saving rates sank to almost zero in 2005. Three years later, the financial crisis painfully revealed that millions lacked the savings to protect themselves against foreclosures, unemployment, medical emergencies, and impoverished retirements.

My book *Beyond Our Means: Why America Spends While the World Saves* takes a historical perspective in studying the efforts of governments around the world at encouraging people to save money. The book is a history of how Americans came to privilege spending over saving, while citizens in many other nations, East and West, learned how to save, and also how to strike more of a balance between saving and spending. Retracing the factors that have shaped the habits of saving in different countries is relevant for today's policies to improve people's financial literacy.

Japanese, Chinese and other East Asians are known to be much thriftier than Americans. For the last three decades, economists have endeavoured to explain why Asians save so much while Americans save so little. High growth, younger population and the lack of welfare state were often cited, alongside Asians' supposedly unique "culture". Americans are less aware that continental Europeans have also been strong savers to this day. In terms of savings and consumption patterns Europeans and East Asians resemble each other more closely than they do Americans over the past century. By nearly every measure, the United States stand out with its low saving and high consumption rates, suggesting that it may not be Asians who are unique, but Americans.

Economists have had difficulty explaining cross-national savings behaviour, and economic theory has not persuasively explained why some nations save so much and others so little. Standard economic theory predicts that households save according to universally "rational" calculations. People supposedly save the most in their middle years as they plan for retirement, and save the least in welfare states. In reality, continental Europeans save at high rates despite generous welfare programmes and aging populations. Equally surprising, Americans save little, despite weaker social safety nets and a younger population. One factor that brings together the high savers of Europe and Asia is that nearly all of these nations have had long histories of actively promoting saving by means of various institutions for small savers.

Differences in national attitudes to saving are also apparent in how commercial banks promote saving. Banks in the US typically welcome customers with promotions for credit cards, home equity loans,

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and other forms of credit, while banks in European countries, like Germany or Austria, feature cheerful ads and attractive people engaged in the act of saving. In Europe today saving *can* be sexy, as witnessed in a commercial by Norway's biggest bank, which concludes with the slogan "Some people are lucky in life. For the rest of us, saving up can be smart!" If American banks ran such commercials, perhaps even Americans might start saving again.

The book spotlights the role of institutions in promoting saving, and why such pro-saving messages are widespread in many countries but not in the US. Based on the historical evidence, the talk then draws some lessons for today's financial education programmes.

Institutions in Europe and Asia to promote small saving and financial literacy

To encourage people to save, governments in Europe and Asia established specific institutions, including philanthropic savings banks, postal savings systems and school savings banks.

Savings banks originated in Europe around 1800 and spread widely, as European reformers and governments became preoccupied with creating prudent, self-reliant citizens. French and British thinkers took the lead in drafting the blueprints, but German cities were the first to establish savings bank in the late 1700s. Even though the British were not the first to organize thrift institutions, the United Kingdom soon created the largest network of savings banks. The impetus came from philanthropic organizations that arose to address poverty as a social problem.

Savings banks were born as philanthropic, not-for-profit social institutions. They accepted small deposits with interest and were very successful in encouraging working and middle classes to save. The founders of savings banks did not use the current term "financial inclusion" but similarly believed that if working people regularly saved in banks, they would become self-reliant citizens who could plan their lives and avoid depending on welfare or turning to crime. Upper and middle classes in the UK regarded savings banks also as a way to contain the working class' social unrest, by encouraging workers to have a "stake in the country".

The practice of saving money fast became part of national and local life in much of the western world, and not simply a prerogative of the rich and commercial classes. No longer simply a moral value, thrift was represented as the key to escaping poverty and improving oneself.

If the early nineteenth century was marked by local philanthropic efforts to persuade the poor to save, thrift in the latter half of the century became a matter of national progress and its encouragement a national mission. In Europe and beyond, the proponents of thrift cooperated with states to create orderly citizens whose small savings would strengthen the nation. Governments introduced innovative institutions to promote savings, such as post office savings banks and school savings programs.

Postal savings banks marked a new intervention of central states. Throughout Europe, reformers proceeded to create government savings banks that employed local post offices as branches. The advent of postal savings signalled a new stage in the modern efforts to persuade ordinary people to save. Organized thrift was no longer the preserve of philanthropists, but became a matter of state.

After Britain inaugurated the first one in 1861, post office savings banks spread throughout most of Europe, to Japan (1875), and eventually throughout much of Asia and Africa. Postal savings banks further expanded small saving because they offered the working poor a secure and convenient place to deposit small denominations, with state guarantees and nationwide access.

The post office was not the only public institution marshalled to encourage thrift among the young. Schools played a central role in instilling habits of thrifts in the young. At the time of the rise of mass education in Europe, reformers seized the opportunity to inculcate the habit of saving among large numbers of children, the adults of the future.

School savings banks sprang up in some French and German cities as early as the 1830s, but the first nationwide School Savings Banks began in Belgium in the 1860s and in France in the 1870s. Each week, children brought small coins and deposited them in their own savings accounts. In France, directives of the Ministry of Education also resulted in the inclusion of thrift education within the standardised curriculum. In the UK, post office savings banks and savings banks similarly helped institutionalise the habit of saving among children.

The practice of school saving spread rapidly in Europe as well as in Australia, Japan, and later in many other Asian countries. The common factors in successful school savings banks included universal coverage—sponsored by national or regional educational systems—and cooperation with local savings banks or postal savings systems that were willing to handle small sums, despite the transaction costs.

We cannot prove that school savings banks increased savings behaviour, but it is probably no coincidence that modern nations with highest saving rates also had most active school savings banks.

World Wars I and II gave new meanings to saving and consumption. People continued to save in post offices and banks, but many also learned the habit of investing in government bonds or national saving certificates. Citizens were admonished to save not only out of self-interest, but as their patriotic duty to the nation. Saving campaigns occupied the centre stage in the use of propaganda during the two world wars. Everywhere, citizens encountered radio spots, movie trailers and evocative colour posters encouraging saving.

Although the Second World War ended in 1945, savings campaigns did not. From London to Tokyo, campaigns exhorted people to “Keep on Saving”. Saving and investment, not spending, would be key to post-war recovery. In Japan, the post-war campaigns persisted until the 1990s. Japanese women became central to encouraging saving, as local women’s associations ran the national savings associations. The methodical housewife-saver became a cultural icon in post-war Japan, and housewives magazines and housewives associations were at the forefront of communicating financial literacy.

Thereafter, enduring cultures of thrift continued to restrain the expansion of consumption and consumer credit. States in East and Southeast Asia emulated Japan’s successful developmental model, continuing to promote savings campaigns and other institutions, and mobilising domestic savings to finance rapid economic growth. European countries continued to promote institutions for small savers, such as the “Livret A” in France. German savings banks continued to run schools savings programmes at the national and local level.

In the last 20 years, new programs have appeared under the label “financial education”. These programmes aim not only at saving, but at educating young people and adults about loans, credit cards, home mortgages, stocks, budget-keeping, and new financial products. Governments in Australia, Japan, the UK and several others have also recently inserted financial education in the national curriculum in a variety of subjects and in all schools.

America the exceptional

Modern America differed sharply from the other industrializing societies in its approach to saving and consumption. Americans did not lack a history of personal saving, yet somehow the United States diverged from the concerted promotion of thrift by states and local governments that developed in Europe and Japan. In this respect, American exceptionalism was already apparent by World War I and became clearer in the decades following World War II. What distinguished America from European and Asian countries was the weak commitment of government and society to establishing institutions that promoted small savings, such as accessible savings banks, a national postal savings system, and school savings banks.

At the beginning of the nineteenth century, discourses on thrift were present also in the United States. Philanthropists in New England and Mid-Atlantic States founded saving banks at the same time and for much the same reasons as their British counterparts, that is to ameliorate urban poverty and reduce the rising costs of poor relief.

During the twentieth century, English-style savings banks sprang up in the United States, followed by German-style building and loan associations. Yet these institutions remained confined to a few states in the Northeast and Midwest and on the Pacific Coast. The vast majority of Americans in the southern and western states lacked access to any institution for savers of small sums. As late as 1910, less than 16% of the US population held a savings account in any type of commercial or savings bank, compared to 30-39% of the population in Japan, Germany, France, Britain and other European countries with savings-bank or postal savings accounts.

The US created a postal savings bank in 1911, but it rarely attracted a broad customer base and was eventually abolished in 1966. Most nations in Europe adopted postal savings when commercial banking was weak, and postal savings legislation in France and Britain encountered little opposition from saving banks. On the contrary, in the United States, commercial and savings banks allied to oppose postal saving legislation from 1873 to 1909. The postal savings system that was eventually enacted in 1910 had been badly weakened by compromises. It offered below-market interest rates and limited ease of access, and it bore little resemblance to the effective postal savings banks in many other countries.

Likewise, European-inspired school savings banks thrived in some school districts, but failed to reach many American schoolchildren. America's school savings banks suffered from unevenness due to the decentralized school system and to the lack of cooperating banks. US post offices were prohibited from promoting children's saving.

The majority of Americans became regular savers only after the federal government intervened decisively to promote saving in the 1930s and 1940s. Established in 1934, the Federal Deposit Insurance Corporation insured smaller deposits in banks. This was followed by government campaigns to market small-denomination US savings bonds during the Second World War. Federal guarantees made it safer and more convenient to save, and American depositors finally came to inhabit an environment attained by Europeans and Japanese decades earlier.

After 1945, America diverged remarkably from patterns of savings-promotion in Europe and East Asia. The United States emerged from the war extraordinarily rich when other belligerents were forced to rebuild war-ravaged economies. Politicians, businessmen and labour leaders all encouraged Americans to spend to foster economic growth. An array of policies also stimulated the growth of home ownership and suburbanisation, which further increased consumer spending. Beginning in the 1980s, several developments combined to stop millions of Americans from saving altogether. Deregulation permitted the financial industry to offer massive amounts of credit on strikingly favourable terms – even to very low-income households and students. The new instruments included credit cards, home equity loans and subprime mortgages. From affluent homeowners to the poor, many Americans wondered why they should save when they could buy things with easy money? Or as Shakespeare wrote in "The Merry Wives of Windsor", "There IS money. Spend it, spend it; spend more." This trend created huge challenges in promoting financial literacy in a system where most other institutions encouraged excessive spending and borrowing.

The lessons of history

This global and historical overview of the institutions that influenced saving habits provides lessons for today's financial education policies.

Effective financial literacy programmes require a renewed emphasis on school-based financial education nationwide. Adult financial education is also essential, but reaching adults is more difficult, and adult programmes are not a substitute for teaching financial literacy to young people within a universal institutional framework. The countries that have introduced financial education into the national curricula are in the best position to advance financial literacy nationwide.

Financial literacy requires not only "information" but training in actual money management. Policy makers could consider a back-to-basics approach, based on the experience of the old school savings banks, where youth accounts could be made available as a part of financial education.

Finally, financial inclusion and access remain basic preconditions for improving financial literacy. The best programs result when governments ensure financial access, consumer financial protection, and financial education aimed at both young people and adults. Given their history and recent policies, many nations in Europe and East Asia have long employed this comprehensive approach. On the contrary, in the US and in many developing nations, the central players often seem consumed by behaviouralist debates over whether to provide more information or offer savings accounts, or whether to target children or adults. I argue that History shows that the best, and maybe the only answer, is ALL OF THE ABOVE.

HOW TO PROMOTE HEALTH BEHAVIOUR AND ITS LINKS TO FINANCIAL LITERACY

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Health and financial decision making: commonalities and differences

Achieving successful health and financial behaviour involves taking similar steps, overcoming common challenges and facing common psychological biases. This talk draws on much of the research that I have conducted on health communication and shows how this can be useful to enhance people's financial literacy and improve their financial behaviour.

First, health and financial literacy have a number of common challenges, such as:

- Negative demand
- Highly sensitive issues
- Invisible benefits
- Benefits to third parties
- Intangibles that are difficult to portray
- Changes that take a long time
- Culture conflict
- Public scrutiny
- Multiple publics
- Limited resources and difficult to change product

Moreover, health and financial behaviour also can be affected by common psychological biases, such as loss aversion, planning fallacy, status quo bias, and present bias. Also, the five core behaviours in the health domains, Dieting, Weighing, Screening, (Stop) Smoking and Exercising, have much in common core financial behaviours such as Saving & Investing, Spending, Protection, Borrowing and Earning.

In spite of these similarities, there are a number of important differences between health and financial behaviour. First, many people are more comfortable with health providers than with financial advisors, and tend to trust health providers more than they trust financial advisors. This is also because health providers are required to be certified (medical school, oaths, etc.) while financial advisors are not always bound to have certifications to exercise their profession. Second, however dire negative financial outcomes might be, health consequences can be even more serious. Third, most people are more willing to communicate personal health than personal financial information. Communication is especially important because outcomes in both financial and health domain are a matter of co-production: patients have to communicate with their doctor and investors have to communicate with their financial advisors in order to achieve a successful outcome.

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Many lessons developed to improve communication about health - and ultimately to achieve better health outcomes - can be useful to improve financial outcomes. In this talk, I will focus on lessons from social marketing, that is the application of commercial marketing to enhance individual and collective well-being.

Social marketing differs from traditional persuasion in many ways. Traditional persuasion starts from the identification of a “positive” behaviour and then tries to convince the audience about the virtues of engaging in this behaviour in order to urge people to act. On the contrary, social marketing starts from identifying a course of action which may not be viewed as “a good idea” by the target audience. It opens the designers’ mind and makes them ask the audience what they think about the issue. It creates an environment where the target audience is encouraged to share how they might overcome the problem, for instance by thinking about whether they had a similar problem in the past and whether they can use lessons from that situation in a similar context. Social marketing tries to spur voluntary behaviour change. Most traditional persuasion compares the benefits of advocated behaviour with the cost of the status quo (such as, for instance, not saving enough for retirement). Social marketing encourages individuals to compare the benefit of current behaviour with the costs of advocated behaviour, and then tries to overturn barriers to adopt the advocated behaviour and to replace the perceived benefits from the old behaviour via less harmful means.

Much of this talk is based on insights that were initially developed in the health domain and that draw on a health intervention tool called ENABLE (standing for Efficient-Novel-Active-Behavioral-Levers). ENABLE interventions combine health communication, marketing, and choice architecture to increase active participation in initiating healthy behaviours (Keller, 2014).

How social marketing can improve health and financial decision making

Reduce fear arousal and increase self-efficacy

A first barrier to action is related to fear and negative emotions. According to conventional practice, individuals are motivated to take action to the benefit of their own health (such as enrolling in corporate health-related programmes) if they are afraid of the consequences of being unhealthy. On the contrary, existing research highlights the risks of using fear arousing health materials without empowering people to change health behaviours. In particular, research has shown that self-efficacy or confidence in undertaking health actions, has a high positive correlation with intentions to engage in the advocated health behaviours. Following this research, ENABLE encourages employees to enrol in corporate health-related programmes by increasing their self-efficacy and by lowering fear arousal.

An example of an intervention to reduce fear arousal and increase self-efficacy can be found in the context of biometric screening enrolment. An educational institution wanted to increase employee participation in biometric screening. Despite various attempts and emails, only 30% of employees took advantage of the free biometric screening. The ENABLE message focused on increasing employee ability to get the biometric screening and did not mention health issues to keep the level of fear arousal low. The ENABLE intervention identified three barriers to participation, including insufficient time, privacy concerns, and lack of clarity/ease of making an appointment. The ENABLE intervention addressed these barriers by modifying the invitation email sent to employees. A study was designed to compare enrolment rates among employees who received a previous communication message with rates after the same employees received the ENABLE message. The ENABLE intervention resulted in a 37% increase in the number of employees who completed a screening.

The development of a logo for the US government "MyMoney" website provides a similar example in the context of financial literacy. Among the various logos proposed, US authorities chose the one that was least likely to arise fear (a logo evocative of a plant and including the positive message "Know and grow").

Increase personal relevance and commitment

A second type of barrier to engaging in healthy (or financially savvy) behaviours is related to two main communication shortcomings that are responsible for reducing motivation to follow health recommendations: individuals do not believe the message is for them and, the message does not enhance commitment to change behaviour. To overcome these shortcomings, ENABLE uses first-person singular ("I") pronouns to increase personal relevance and asks each message recipient to make a commitment to changing his or her behaviour. Research indicates that people do not know how to translate general health education information into personal actions nor do they know how to commit to taking health actions. To effectively change health behaviours, communication cues need to personally engage the message recipients and obtain a commitment from them.

An ENABLE intervention on automatic prescription refill enrolment provides an example of how to increase personal relevance and commitment to engage in healthy behaviour. A Pharmacy Benefit Manager (PBM) wanted higher enrolment in an automatic prescription refill programme. The PBM was inviting members who were receiving their maintenance prescription drugs via mail to join the PBM's free automatic prescription refill programme, ReadyFill@Mail by clicking on each prescription or by clicking in a red box "Enrol in ReadyFill@Mail" for all eligible drugs. Enrolled members would then not need to call their doctors for prescription refills. The main health advantages for enrolees are convenience and a lower likelihood of drug non-compliance due to gaps in supply. The ENABLE intervention required members to question whether they liked managing their own prescriptions. This intervention was designed to prompt self-referencing and make the message more personal. Specifically, members were required to select one of two options: "I prefer to manage my own refills" or "Enrol me in ReadyFill@Mail" before they could complete their mail prescription drug requests on a subsequent web page. To compare the effectiveness of the ENABLE message with respect to the old one, enrolment rates were compared among those who received the traditional invitation with those who were given the ENABLE message and could not navigate further within the website without making a choice. The ENABLE message resulted in significantly higher member enrolment in the automatic prescription refill programme than the conventional message (21.9% vs. 12.3%).

Making the message more personal is important also in financial literacy communication campaigns. The National Endowment for Financial Education (NEFE) funded the development of a personal financial fitness check-up. The check-up uses a series of personal finance motivational messages that use first-person singular as a way to make messages more relevant to the audience: "I want to be a savvy shopper", "I want to buy more with less money", "I want to do what I want earlier", "I want to protect myself and my stuff", "I want to find more money at work".

Use forced choice to highlight status quo costs and reduce procrastination

The convention in traditional health communication is to provide compelling information to persuade individuals to reconsider the status quo behaviour instead of a more favourable option. In most cases, respondents are encouraged to implicitly or explicitly opt-in for the advocated behaviours. Failure to opt-in has prompted policy makers and employers to devise alternative defaults such as opt-out or automatic enrolment default. Recent examples include automatic employee enrolment from brand to generic prescription drugs and requiring hospital employees to get a flu shot. Similar examples exist also in the financial domain, including automatic enrolment into pension funds. However, there are limits to using automatic enrolment: automatic enrolment may not be legally or ethically feasible in some cases, and some research questions the long-term effectiveness of automatic enrolment on individual responsibility and commitment.

Active choice is an alternative to automatic enrolment. Unlike defaults such as opt-out or opt-in, the “required choice” approach does not have a default; indeed, the key element of the policy is to require decision-makers to make an explicit choice. Studies on organ donation (Spital, 1993, 1995) and on retirement planning (Carroll et al., 2009) attempt to achieve the same basic goal as opt-out – of ensuring that people who would benefit from an intervention, receive it – without the disadvantages of opt-out. These studies have identified and tested approaches that require individuals to affirmatively choose between options. For instance, Carroll et al. (2009) measured the impact of active choice on savings plan enrolment in a firm that required all new employees to explicitly choose between enrolling and not enrolling in a 401(k) plan. The language (I want to enrol vs. I don't want to enrol) was deliberately designed to not advantage any one option (Carroll et al., 2009). The result was a 28% increase in enrolment in the “Active Decision” condition compared to when employees opted-in. While not as effective as the 50% increase in 401(k) participation during automatic enrolment (Madrian and Shea, 2001), the Carroll et al. (2009) article demonstrates that forcing respondents to choose one alternative may overcome some of the obstacles of automatic enrolment while performing better than opt-in.

Building on this strand of research, ENABLE approach uses an alternative choice format, called Enhanced Active Choice, which is designed to increase volitional control to enable the individual to actively choose the healthier option. Enhanced Active Choice is an extension of Active Choice: Instead of forcing people to answer yes or no, Enhanced Active Choice highlights status quo costs and benefits of the social desirable option. Enhanced Active Choice is best used in situations in which policymakers have evidence that one option is generally superior.

The same automatic prescription refill programme described above provides an example of how to apply an Enhanced Active Choice intervention. Prior to the ENABLE intervention, the PBM was using an automatic phone service to invite members to join the ReadyFill@Mail programme. Unfortunately, rather than pressing 1 to be transferred to Customer Care and enrol in ReadyFill@Mail, members were hanging up or declining by pressing 2. An ENABLE intervention was used in the new phone message. Members in the ENABLE condition were asked to “Press 1 if you prefer to refill your own prescription by yourself each time” or to “Press 2 if you prefer the PBM to do it for you automatically”. Compared to the web-page study presented before, consumer did not have to make a choice – they could simply terminate the phone call. The emphasis on “each time” was used to motivate members to deliberate on status quo costs.

To compare the effectiveness of the ENABLE message, a study was designed to compare enrolment rates among members who did not receive the ENABLE intervention with members who were given the ENABLE intervention. The ENABLE intervention resulted in significantly higher member enrolment than the conventional phone message (32.0% vs. 15.7%).

Focus on implementation mindsets and plans

Health communication designers are often content to raise awareness of health risks and leave implementation plans in the hands of the message recipient. However, existing research has shown that absence of implementation plans can impede health behaviour change. Moreover, an implemental mindset more effective than a deliberative mindset (i.e., balancing pros and cons) in prompting immediate action initiation and strengthening resolve to attain health goals. To effectively change health behaviours, communication cues need to suppress a deliberative mindset and instead prompt an implemental mindset by providing an implementation plan for the target behaviour. An implemental mindset will be even more effective among people who are motivated, but who lack the ability to change their behaviour. Accordingly, ENABLE's objective is to shift away from deliberation of pros and cons to a more positive self-enhancing implementation motive to undertake the target behaviour.

Another ENABLE intervention provides an example of how to encourage participation by providing implementation plans. An education institute wanted to increase employee participation in a health and wellness assessment for a new insurance carrier. Several employees expressed frustration with the online registration and completion process. A typical response reflected unfilled desires – "I wanted to but could not get past registration". Employees were ignoring requests to call the help line if they had any trouble. The ENABLE interventions consisted in the creation of six web page screen shots with a red circle around the main challenge on each enrolment step. For example, the identification number request was circled on the registration page to help members anticipate where they might get stuck. Solutions were provided for each of the six pages; for example, employees were told they could use their social security number instead of their employee identification number. Participation rates before and after the ENABLE message were used to test the effectiveness of the intervention. The ENABLE message significantly increased the number of employees who participated in the health and wellness assessment (30% vs. 58%).

Lusardi, Keller, and Keller (2008) applied a similar intervention to encourage employees at a not-for-profit institution to open and save into supplementary retirement accounts (SRAs). To inform development of the planning aid, the authors employed different methods to identify employees' needs and understand their barriers to saving. One important barrier identified was related to lack of self-control. Accordingly, the planning aid aimed at conferring greater control to the employees, by providing them with an implementation plan to help them follow their intentions. A sharp increase in supplementary retirement accounts was observed after the implementation of the planning tool programme: the election rate more than tripled in a 30-day period and doubled in a 60-day period.

Concluding remarks

Engaging in financially savvy behaviours is made difficult for some people by similar barriers, psychological biases, and challenges as engaging in healthy behaviour. To some extent, social marketing research can offer policy makers and researchers useful insights to help people improve their financial well-being. Policy makers need first of all to identify the key barriers that prevent:

- Awareness of financial planning
- Attention to financial planning
- Interest/Learning/Beliefs about financial planning
- Desire for financial planning

Policy makers also need identify the key barriers for translating financial literacy into behaviour. These can include:

- Timing
- Planning
- Direction
- Too many choices
- Uncertainty
- Multiple goals
- Source credibility

Based on the identified barriers, policy makers can address them by designing appropriate communication and other tools to improve financial outcomes.

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FINANCIAL AND ECONOMIC EDUCATION FOR BETTER AND MORE SUCCESSFUL REFORMS

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The never-ending plea for (economic) reforms

As a result of harsher global competition and of the financial/economic crisis, most OECD countries have (had) to undergo reforms in such areas as the welfare system, the labour market, public employment, liberalization of (unduly) protected sectors and professions. These economic reforms have in general great impact on people's lives and often imply immediate and easily computed costs to be evaluated against uncertain future benefits. It is consequently of extreme importance, for the effectiveness of reforms, and thus for society's medium term net gains from them to actually materialize, that people understand and are in broad agreement with the foundations and basic features of reforms.

To develop the argument, let me start with a brief remark on the meaning and mechanics of reforms. If you look up in a dictionary (I chose wordreference.com), you will normally find two meanings for this word:

i. *to improve (an existing institution, law, practice, etc.) by alteration or correction of abuses;*

ii. *to give up or cause to give up a reprehensible habit or immoral way of life.*

In the economic-policy arena, I believe we normally refer to the first meaning, although the second relates to policies certainly not immune from important economic consequences (for example, policies prohibiting smoking or encouraging a better diet).

Since the beginning of the financial crisis (but of course also before) reforms of the former kind have been persistently advocated by international institutions, such as the OECD, the International Monetary Fund and the World Bank for many countries, both within and outside Europe, starting from "technical" reasons derived from economic analysis.

In a democracy, it is the task of political parties, particularly of those who form the majority and support the government, to carry out and convey the basic logic, the principles and the mechanics of reforms; in short "to sell" the reform to the public. Political parties, however, typically tend to look at problems from an ideological perspective and to underestimate their more "technical" aspects. It is thus the task of experts to help politicians design reforms by offering qualified/scientific support to policies, while leaving to them the task to frame those reforms into a set of values that the electorate can recognize and support. *An economic reform, therefore, is usually a mix of political and technical elements, the former in the forefront of communication, the latter mostly backstage*.

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It sometimes happens, however, that this scheme weakens or simply breaks up. For example, exceptionally severe reforms are normally required in an emergency (as was the case of Greece in the financial crisis that started in 2008), but political parties may not have the stamina either to introduce them or to face immediate elections. In these situations, experts tend to play a major role. This can be *indirect* (as it happens, for example, when countries receive international aid for recovery programs, with acceptance of policy advice as a condition for financial support) or *direct,* when experts are asked to participate in the government, or even to form it, and become technocrats.

In the latter case, experts turned technocrats have the chance to directly experience the great distance between devising, as scholars, solutions to theoretical problems and having to personally take decisions that directly and profoundly affect people's lives (Fornero 2013). Indeed, a technocratic government is normally appointed precisely to carry out unpopular reforms in an emergency, when "technical" constraints become dominant with respect to political preferences. Such a government finds it very difficult to convey the overall positive message about reforms, precisely because technocrats do not normally rely on ideologies to frame their policies and to facilitate their understanding by the public. It is then much more difficult for them than for politicians to "sell" the future benefits that the reform is expected to bring about.

In these circumstances, as well as with more pragmatic political parties, financial and economic literacy can help. Indeed, if citizens and technocrats do not share the basic conceptual framework supporting the reforms, citizens will not be able to grasp the positive consequences of restructuring and will thus be more prone to obstruct and refuse change. *In the absence of an accepted ideological message, financial-economic literacy may therefore be crucial to the success of emergency-driven economic reforms*.

Financial literacy as a key driver for effective economic reforms

Lack of financial literacy has typically been associated with the risk of incompetent saving decisions during the life cycle, such as insufficient or unnecessary saving, excessive debt, bad or whimsical investment choices, as well as gullibility (Lusardi and Mitchell 2013). This risk is of course increasing both with the expansion of personal responsibilities, consequent to the retrenchment of the welfare state, and with the greater sophistication of today's financial markets. It is thus no wonder that the G20 2013 Summit (g20russia.ru) has recognized the importance of financial literacy as a way to promote greater financial inclusion and recommended the provision and implementation of financial education programs.

As for research, noteworthy empirical findings in the field show:

a) hump-shaped age profile of financial knowledge over the life cycle (Lusardi and Mitchell, 2011);

b) significant gender differences, with women in a comparatively worse position than men and thus more at risk of suffering the consequences of wrong/myopic/imprudent choices, mainly because of their traditional role within the family and lack of familiarity with both the language and the basic concepts of finance (Sunden and Surette, 1998; Lusardi and Mitchell, 2008; Bertocchi, Brunetti and Torricelli, 2012; Bücher-Koenen, Lusardi, Alessie and van Rooij, 2012);

c) strong positive correlation between financial and economic literacy and human capital indicators, despite a substantial heterogeneity in financial and economic literacy across countries (Jappelli, 2010);

d) less financially literate individuals more likely to be found in countries having more generous social security systems (Jappelli and Padula, 2013).

It does stand to reason that financial literacy is also crucial to the *democratic transformation processes of our societies*[6]. This role of financial literacy has however received much less attention than its role in individual decision making, possibly because it relies on a larger definition than the one typically used in the literature and because it's more difficult to define and evaluate empirically.

We may here endorse the definition used by OECD (2013): "Financial literacy is knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, <u>and to enable participation in economic life</u>[7]". If we interpret the last sentence not merely from an individual point of view (buying a good or saving part of one's income are indeed "participation in economic life) but also as contribution to the democratic life and to policy making, it is easy to say that since citizens are called to evaluate and endorse public policy in various economic contexts, at the least, "a citizen will make better decision if he is well informed" (Stigler, 1970).

It also stands to reason that financial literacy *per se* is not a sufficient condition for the success of reforms; illiteracy can, conversely, thwart their effectiveness. This is because reforms are not "*deus-ex-machina*" problem solvers but rather "*social drivers*" meant to change people's plans, behaviour, attitudes and thus requiring acceptance and "care" by the (majority of) people. For these changes to actually occur a basic knowledge of what is involved in a reform is essential. The ordinary citizen must be able to use the basic tools for the evaluation of reform-related costs and benefits for him/herself, his/her family. In other words, the reform must be viewed as an investment project requiring immediate and certain costs (sacrifices) in exchange for (uncertain) future benefits. This is particularly true of reforms intended to alter individuals' life cycle, like those redesigning the pension system and the labour market. Of course, like all social investments, reforms have a *public goods* component: financial literacy will thus not be enough to convince the complete "egoists". Complete egoists, however, are hopefully a (tiny?) minority, and both theoretical and empirical research confirm the presence of a (strong?) commitment to the common good in individuals' attitudes (Eskander 1998; Kangas 1997).

It is my strong belief that more widespread basic economic and financial literacy would help create a basic consensus on reforms, and thus enhance their effectiveness. To illustrate this point, I will refer essentially to my personal experience in office as a Minister of Labour, Welfare and Equal Opportunities in the Italian technocratic government led by Mario Monti (November 2011 – April 2013) and in charge of two difficult and far-reaching reforms: the pension system and the labour market reforms.

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6 In a pioneering paper, George Stigler (1970) wrote: "*Why should people be economically literate, rather that musically literate, or historically literate..? If we are to give economics some special position, and ask that most people learn at least a modicum of economics, it must accordingly fall into one of two classes of knowledge: 1) as a means of communication among people, incorporating a basic vocabulary or logic that is frequently encountered that the knowledge should be possessed by everyone; 2) as a type of knowledge frequently needed and yet not susceptible to economical purchase from experts*". ….(p. 78). And later: "*Economic logic does not tell us what to do, but it teaches us to look for the non-obvious costs and benefits of various policies"* (p.79).

7 The role of financial literacy in sustaining reform processes has been explicitly stressed by OECD Secretary-General Angel Gurría, who writes (Russia's G20 Presidency and OECD 2013, p.5): "*Financial education is also critical to restore trust and confidence in the financial system, promote financial stability and provide the necessary public backing to financial reforms*".

Can financial and economic literacy help in overcoming the "unpleasantness" of a pension reform?

Let's take *pension reform* first, often advocated as a key remedy to public financial distress. Why is a pension reform needed? What is it supposed to achieve? The answers to these questions are clear and more or less uncontroversial to experts; however, judging from public opinion polls as well as from researchers' experiments, this is in sharp contrast to the uncertain, obscure and contradictory citizens' views of pension reforms[8].

In most countries (and practically in the whole of Europe), the income security of the elderly depends largely or exclusively on the public pension system. The system is normally financed on a Pay-as-you-Go basis (PayGo), with revenues (contributions/payroll taxes) immediately used, year-by-year, to finance pension expenditure, without accumulation of funds. In traditional PayGo system, moreover, the connection, at individual level, between contributions paid in and benefits received, typical of defined benefit formulae, is relatively loose. This has often resulted in the transformation of the system into a vehicle for "political manipulation", i.e. for discretionary and often opaque income transfers, by political intervention, from some economic/demographic groups to other groups (for example from private to public employees). In other words, more often than not, badly designed pension systems not only are unsuitable to counteract the effects of population ageing, but also create incentives to the fragmentation of schemes, unwarranted differentiation of rules and social run-ups.

Thus, while economists have long interpreted the PayGO system as an intergenerational insurance contract – endowed, when properly designed, with efficiency properties (Lindbeck A. and Persson M., 2003; Diamond, 2004) – its political economy characteristics are such that politicians inevitably tend to favor older and current generations at the expense of the younger and future ones, and to disregard the implicit *debt dimension* of the system (Holzmann *et al*., 2004).

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8 Boeri, Boersch-Supan and Tabellini (2002) analyzed public opinion on pension reforms in Italy and Germany. The questionnaire asked questions like: "*Are citizens aware of the unsustainability of the pension systems and informed of its costs? Are reforms opposed by a majority or by a powerful minority? Which reform options seem politically more feasible and why? Which groups of citizens are more likely to favor reforms? Do citizens' opinions reflect their economic self-interest, as presumed by the literature on political economics?*" It emerged that the majority of respondents was aware of the unsustainability of the system, but that they only had a vague idea of the real costs of the PayGo system. Those favoring reforms rarely supported more than one reform option (later retirement in Italy as opposed to lower pensions in Germany). Quite contradictorily, many of those aware of the system unsustainability were against further reform. Favoring one policy option over another appeared to be determined by short-term self-interest and by one's normative view about the role of the state. See also Boeri and Tabellini (2012) who find "a huge mis-information about the true costs of public pensions".

Janky and Gàl (2007) analyzed attitudes towards the role of funded pillars, retirement age, labor market participation of older workers, gender equality, immigration and preferences on intra/intergenerational redistribution in the EU 15 countries. They found generalized opposition – although of varying intensity - to pension reforms. Rejection of specific policy options depended on income, age and labor market position, but was uncorrelated to being aware of the unsustainability of the system.

Funded pillars were not very popular, except as a mandatory complement to the public pillar. Only 23% of respondents were ready to accept an increase in retirement age, and opposition was greater in countries with a more generous system. Framing effects resulted to have a significant impact on the attitudes to policy options. On the whole this research confirms that opposition to reforms derives from poor understanding of the characteristics of welfare institutions, such as the functioning of the PayGo system. See also: Butler and Marechal, 2007 and Scheubel *et al*. 2010.

At least two elements of instability (or unsustainability) of a public pension scheme, therefore normally go hand in hand: i) the political tendency to favour the present generations at the expense to the young and future ones; ii) the inability of badly designed systems to effectively respond to the economic and demographic challenges.

When instability becomes manifest, an urgent request for reforms arises, particularly from international institutions. In economic terms, at the root of these reforms there is the need to consolidate public finances and regain long-term financial sustainability in the face of adverse demographic and economic trends, but also to strengthen adequacy of provisions for old age and bring about a fairer redistribution, by enhancing transparency, overcoming privileges and reducing political manipulation. In more abstract terms, one could refer to the need to realize a more efficient allocation of risks and a better incentive structure, mainly through the elimination of implicit taxes on the continuation of work, which favour early retirement.

While easily understandable by specialists and bureaucrats, these technical expressions are hard to grasp by public opinion. Stating that financial emergency requires austerity measures does not help, as both expressions are obscure and clumsy, difficult to convey and even more to figure out. They tend, however, to dominate the public debate and to hide the medium-long term goal, which, in the case of pension reforms, is the *re-balancing of financial and economic relationships between generations*. This aspect, if properly emphasized, could make the same reform less painful for citizens, clearly showing the reward for current sacrifices. It is however often ignored by the media and in public debate.

Reforms have indeed been introduced, in the last couples of decades, inside and outside Europe. Although countries have relied on differently motivated governments, characterized by different degrees of political courage, and followed diverse reform paths, with varying speed and socio-political obstacles, a common pattern emerges: *everywhere pension promises have been downsized and often also redesigned*. Retirement ages have been raised and in certain cases made more flexible. Replacement ratios have been reduced and there has been a shift in the indexation of benefits from wages to prices. The link, at the individual level, between benefits and contributions has been strengthened; actuarial corrections have been introduced (mainly through automatic increases of retirement age and/or pension benefits tied to longevity increases). Access conditions to early retirement and disability schemes have been tightened; gender differences have been reduced; transparency has been improved, also through greater information to workers; pre-funding, through participation in (mainly occupational) pension funds, has been encouraged; pension portability among EU countries has been enhanced.

All these developments – in many cases still (slowly) in progress – can be seen as an advancement on the path both to greater financial sustainability and (through longer working lives) to adequacy, which implies reducing the burden on the young and future generations, who will have to pay less contributions (or taxes) to finance pensions. So, while an increase in benefits means raising pension debt, reducing promises implies a reduction of the same debt, and thus a reshaping of economic relationships between generations (and often also between genders). A generalized awareness of the implicit debt dimension of a PayGo system could thus throw better light on the rather neglected but more appealing aspect of the reform and reduce the bitterness and antagonism towards it.

Indeed, more often than not, people are outraged and do see reforms merely as an unacceptable retrenchment of the welfare system; a reduction of “acquired rights” which they, often erroneously, believe “they paid for”; a way to maintain privileges for certain influential groups/sectors or even a transfer from households to banks! This is echoed and amplified by the media and there is hardly room anywhere – except in technical discussions – for unbiased and unemotional evaluation. If reforms are not understood they are not shared, by at least part of public opinion; people will try to overturn them and will find sympathetic ears in political parties. On the contrary, when people understand that their pension "entitlements" were, at least in part, built on debt to be honoured by future generations they can be less hostile to pensions restructuring.

It is thus my conviction that the notion of a *pension system as a saving/insurance program* with good properties in terms of efficiency, fairness (both within and between cohorts) and transparency should be part of a financial literacy program. Pensions are not the result of the generosity of politicians, but of savings. Indeed, the same concept of "pension wealth" and the way it is built should be part of basic financial literacy. It could also help in linking the high cost on labour with the generosity of the pension system.

People should be aware that they accumulate their pension wealth by paying contributions and that each euro paid into their "retirement account", particularly at younger ages, will be capitalized (according to the compound capitalization formula) and will contribute to determine the sum out of which their pension will be paid in retirement. They should also be aware of the direct correlation, for a given amount of accumulated wealth, between pension level and retirement age. Postponing retirement contributes twice to the increase in benefits: first, by the continuing flow of contributions, which increases the pension wealth, second, by spreading that wealth over a (statistically) shorter expected life. It is important to try and convey these essential concepts in a few simple messages.

People should also be aware that *an efficient pension system is certainly not unsuited to solidarity*. On the contrary, efficiency and transparency support the right redistribution (from the richer to the poorer) while lack of transparency is usually associated to privileges.

Finally, the concept of *risk diversification*, properly understood even if only at its core, could help people in their decision to participate in a pension fund, as a way to combine both an unfunded and a funded pension, as they are characterized by different risk/returns combinations.

Two sides of the same coin: pension and labour market reforms as an instrument to restore the generational balance

Lack of financial education is also responsible for erroneous beliefs, which can condition individuals' behaviour and the effectiveness of reforms. For example, the "lump of labour fallacy" – the idea that jobs are in a fixed number so that early retirement by the elderly makes room for jobs for the young – has long dominated, in some countries, the public debate in the field of pension reforms and brought about policies directed at reducing the retirement age. This belief creates hostility towards the reform and obscures its generational rebalancing by making people believe that if retirement age is postponed there will be fewer opportunities for youths (and/or for women: indeed, the same erroneous reasoning has also long been applied to women and reduced female labour market participation). However, while there is no theoretical ground for the claim, empirical analysis shows just the opposite: i.e. the employment rate of the young is higher where the (average) retirement age is also higher.

As Franco Modigliani's life cycle hypothesis has taught us long ago, work and retirement are two matching segments of our life and it does not make sense to treat them separately in analysis or policy making. What happens in the latter is very much dependent of what takes place in the former. It is no wonder, then, that labor markets reforms have often been advocated by the same international institutions demanding pension reforms. In this case, the reforms are largely meant to reduce the amount of regulation and increase flexibility in hiring and firing. Expectations by public opinion, however, are normally of a very different kind. From a reform people expect more jobs, not just less regulations (more flexibility for employers).

Expectations of an immediate increase in jobs after a labour market reform become more urgent during a recession, when – paradoxically – legislation tends to be least effective and people find it harder to wait for medium and long run benefits.

Again, I learnt this in my experience as a Labour Minister since, immediately after having introduced a severe pension reform, which caused a lot of discontent, I was asked to prepare a labour market reform. In the Italian case, the labour market reform was *structural* in nature and, like the pension reform, had to be introduced at the stringent request of the EU and under the strict observation by financial markets. Ideally, it would have been better scheduled for times of economic expansion rather than recession.

Its aim was to fix the major inefficiencies and distortions (remember the first definition of a reform, see par. 1) of the labour market: segmentation, precariousness at the entrance and rigidities at the exit, low participation of women, highly selective social protection schemes, and concentration of resources on the defence of specific jobs rather than on enhancing workers' employability through efficient labour agencies and services (Fornero, 2013).

The Italian reform tackles these problems by giving priority to both *inclusion* and *dynamism* of the labor market. It tries to enhance the employability of people, which has to be built and maintained through effective lifelong learning policies and tools. Specific measures are therefore provided for groups that are more likely to be excluded from the labour market and often condemned to illegal or inconsistent forms of employment: yet again the young, women, older workers and the disabled. Further, inclusion implies that the improved skills of the workers are to be considered as the key driver of economic growth, through the enhancement of labour productivity. This is why the Italian labour reform also strengthens apprenticeship, as a way to both increase labour productivity and give more stabilization to the entrance in the labour market.

It is an attempt to promote behavioural changes of both employers and workers not only through a mere liberalization of the market, but also through better work relationships, the buildup of human capital to the advantage of productivity and thus of both the worker and the employer[9]. It is obviously very difficult to focus the attention of people on this medium term scenario when the main problem perceived by most has to do with the family's monthly budget.

Taking a medium-long term view, the pension and the labour market reforms can be regarded as the two sides of the same coin, as no pension system can deliver adequate benefits if the labour market – where the resources, on which the public pension system finances runs, are generated – does not perform adequately.

In both cases, efficiency and financial sustainability concerns intertwine, with considerations of fairness, both within and between generations, and thus with social sustainability. Both reforms are to be considered as an infrastructure to help the country to recover (productivity) growth and both aim at enabling the country to take advantage of the recovery that will, hopefully, materialize in the near future. Without recovery there is no long term hope, for any country, to close the rift between generations.

[9] Italian productivity has been a particularly sore point for the last fifteen years and has resulted, among other things, in a drop of salaries relative to the rest of the European Union.

Financial education: an alternative to both paternalism and populism

The mix of technical and political aspects in economic reforms varies from situation to situation. The former aspects tend to dominate when reforms are most needed, i.e. in an emergency, when financial constraints become more stringent. In these situations, the degree of freedom of politics gets smaller and policy measures from either the right or the left of the political spectrum tend to become more similar, but also to be more disliked by political parties, as - one way or the other - they imply present sacrifices in exchange for uncertain, collective future benefits. These are also the situations in which populist temptations increase, with the offer of relatively easy and painless solutions to complex problems, and these certainly find a more fertile ground in less literate citizens.

If reforms only consisted of rigid obligations and prohibitions, technocratic government could then be used as an *ad hoc* solution: technocrats could be temporarily "hired" to make the reforms, which Parliament would approve "out of necessity", so that the former would take all the blame for the current sacrifices, while leaving to politicians returning to government after the crisis the rewards coming from future benefits.

However, more than often reforms involve a complex incentive structure, meant to change individual behaviour in order to make it more inter-temporally consistent. They thus need a solid backing by the public opinion. A question thus arises: how can we expect people to be able to look into the future when they are immersed in present-day losses and worries? More specifically: how can we convince the public opinion that reforms involving sacrifices are generally not a choice but a necessity in order to give back a prospect for the future to the young generations? How can we make people to accept that, with reforms, *"things get worse before they get better"*[10]*?*

This can hardly come from the same political parties which refrained to carry out the reforms. It can instead come from personal conviction, matured from knowledge and awareness. Financial education can accomplish this, since it means an honest acknowledgment of the technical aspects and requirements of economic problems.

The concepts of tradeoffs and their time dynamics, pervasive in our life, should be part of our financial literacy: there is a cost to be paid for any benefit and the two are not necessarily synchronized. Choices today have effects in the future. This is also reflected in public budgets, so some basic knowledge of public finance (concepts of deficit and debt) should also be part of our financial literacy to avoid populist policies and their bad consequences. This means, however, that politicians as well as media-operators, alongside citizens, also need to be financially educated.

One cannot expect, of course, the combination of experts plus financially educated citizens to be the answer to all economic problems. Politics will always be needed. It can, however, be an essential part of the answer. It is the rational response to the populist tendencies of political parties in difficult situations. Not an easy one, nor immediate, but one that creates the basis for high social payoffs.

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[10] Winston Churchill, quoted in: M. Gilbert, Churchill and America, New York, Free Press, 205, p.395

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ANNEX

OECD/INFE/GFLEC Global Policy Research Symposium to Advance Financial Literacy

31 October 2013
OECD Conference Centre, Paris, France

PROGRAMME

8:00 - 9:00	**Registration of participants**
9:00 - 9:30	**Opening remarks**
	➢ **Mr. Rintaro Tamaki**, Deputy Secretary-General, OECD ➢ **Mr. Christian Noyer**, Governor of the Banque de France
9:30 – 11:00	**Session 1 - Financial Literacy around the World: Evidence and Implications**
Moderator	**Dr. Anna Zelentsova**, Co-ordinator, Russian Financial Literacy Project, Russian Ministry of Finance, Co-chair of the Global Partnership for Financial Inclusion
Speakers	➢ **Ms. Flore-Anne Messy**, Senior Expert, Executive Secretary OECD/INFE *Overview of OECD/G20 publication on national strategies for financial education, OECD/INFE tools on financial literacy measurement, as well as on financial education for young people* ➢ **Prof. Annamaria Lusardi**, Academic Director, GFLEC, Chair of PISA Financial Literacy Experts Group *Financial literacy around the world: Overview of financial literacy levels in many countries and the effects of financial literacy on behaviour*
Panellists	➢ **Dr. Chiara Monticone**, Policy Analyst, OECD *Women and financial education: G20 publication and policy guidance* ➢ **Mr. Lyndwill Clarke**, Head of Consumer Education at the Financial Services Board of **South Africa** ➢ **Dr. Kusumaningtuti Soetiono**, Commissioner for Consumer Protection and Education, Financial Services Authority, Indonesia
Issues	Measuring financial literacy in the population and identifying particularly vulnerable groups is one of the first critical steps in the development of a national strategy for financial literacy and the formulation of policies. This session will present an overview of the levels of financial literacy around the world and the national strategies for financial education to address those levels. Special attention will be devoted to sub-groups in the population, including young people and women. Countries examples will provide an in-depth look into existing challenges. Findings of financial literacy surveys at the national level will also be discussed.
References	- OECD (2013), Advancing National Strategies for Financial Education: A joint Publication by Russia's G20 Presidency and the OECD, *OECD, Paris*. - OECD (2013), Women and Financial Education: Evidence, Policy Responses and Guidance, *OECD, Paris*. - OECD (2013), Financial Education for Youth and in Schools: OECD/INFE Policy Guidance, Challenges and Case Studies, *OECD, Paris*. - OECD (2013), Financial Literacy and Inclusion: Results of the OECD/INFE Survey Across Countries and by Gender, *OECD, Paris*. - Lusardi A. and O. Mitchell (2013), The Economic Importance of Financial Literacy: Theory and Evidence, NBER Working Paper n. 18952.

11:00 – 11:30	**Coffee break**
11:30 – 13:15	**Session 2 - Influencing behaviour: The impact of the institutional framework**
Moderator	**Mr. Olaf Simonse**, Head of Financial Education Department, Ministry of Finance, The Netherlands
Speaker	**Prof. Sheldon Garon**, Professor of History and East Asian Studies, Princeton University
Panellists	➢ **Prof. Martin Brown**, Full Professor of Banking, University of St. Gallen, Switzerland ➢ **Ms. Ana Leoni,** Superintendent of Education, ANBIMA (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais*), Brazil ➢ **Mr. Yue Wu**, Deputy Director in charge of financial education, Financial Consumer Protection Bureau, The People's Bank of China
Issues	Consumers' behaviour in the financial marketplace is affected by a combination of factors including knowledge, attitudes, motivations, as well as the context in which consumers live. In this session, Professor Sheldon Garon will present the main findings from his book providing an in-depth analysis of the factors affecting saving behaviour across countries and time. A panel of academics and policy makers will discuss these findings as well as how institutions such as schools, workplace, financial infrastructures, and culture are important in shaping financial behaviour.
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13:15 - 14:15	**Lunch**
14:15 – 15:45	**Session 3 – Leapfrogging: Innovative ideas across fields**
Moderator	**Ms. Caroline Rookes**, CEO, Money Advice Service, United Kingdom
Speaker	**Prof. Punam Keller**, Professor of Marketing, Tuck School of Business, Dartmouth College, USA
Panellists	➢ **Ms. Diane Maxwell**, Retirement Commissioner, Commission for Financial Literacy and Retirement Income, New Zealand ➢ **Mr. Marc-Olivier Strauss-Kahn**, Director General - Economics and International, Banque de France ➢ **Ms. Berna Ulman**, Regional General Manager, Visa Europe
Issues	Given government's scarce resources to address many competing priorities, finding ways to improve the population financial well-being requires innovative thinking. Evidence suggests that programmes that utilise mass media and social marketing are effective in changing behaviour. In this session, Professor Punam Keller will show how the findings in health behaviour could be applied to financial literacy and financial behaviour. A panel of policy makers and regulators will discuss how financial literacy can be further improved drawing on lessons from other fields as well as new ideas.
References	- Keller, P. (2014). ENABLE: Efficient-Novel-Active-Behavior-Level. Forthcoming in David W. Stewart (ed.), *Handbook of Persuasion and Social Marketing*, New York: Routledge. - Keller, P., B. Harlam, G. Loewenstein, and K. Volpp (2011), "Enhanced Active Choice: A New Method to Motivate Behavior Change," *Journal of Consumer Psychology*, 21 (4), 376-383. - Scammon, D. et al. (2011), "Transforming Consumer Health," *Journal of Public Policy and Marketing*, 30 (1), 14-22. - Lusardi, A., P. Keller, and A. Keller (2008), "New Ways to Make People Save: A Social Marketing Approach," in A. Lusardi (ed) *Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs*, University of Chicago Press.
15:45 - 16:15	**Coffee break**

16:00 – 17:15	**Session 4 - Translating research into policy and practice**
Moderator	**Mr. André Laboul**, Head of Financial Affairs Division, OECD, Chair of the International Network on Financial Education (INFE)
Speaker	**Prof. Elsa Fornero**, Professor of Economics, University of Turin, and former Minister of Labour, Social Policies and Gender Equality in Italy
Panellists	➢ **Dr. Camille Busette**, Assistant Director, Consumer Financial Protection Bureau, USA ➢ **Dr. Ibrahim Peker**, Executive Vice Chairman, Capital Market Board of Turkey ➢ **Mr. Miles Larbey**, General Manager, Investor Education Centre, Hong Kong
Issues	Public policies in many countries are coming under increasing pressure to show accountability and effectiveness, including policies aiming at improving consumer's financial well-being. Relying on the best evidence available and on rigorous research is crucial to inform policy and to identify programmes and practices capable of improving policy-relevant outcomes. Professor Elsa Fornero will first share her experience as a researcher and policymaker in this area. Her presentation will be followed by a panel discussion on issues and challenges facing policy makers, researchers, and stakeholders in translating research into policy and practice in the financial education area, including the availability of data, the costs and timing of research, as well as the need to balance competing policy priorities.
17:15 – 17:30	**Closing remarks**
	➢ **Mr. André Laboul (OECD)** and **Dr. Annamaria Lusardi (GFLEC)**
17:30 – 19:00	**Cocktail reception hosted by the OECD**

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