Research Proposal for the École Normale Supérieure

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December 17, 2024

Risk-Taking and Investment Behaviors in France: A Behavioral Perspective on Risk Aversion and Incentive Mechanisms

Introduction and Current Knowledge

The low propensity of French households to invest in risky assets, particularly equities, represents a persistent economic peculiarity. While the savings rate of French households remains among the highest in Europe, reaching 15.9% of disposable income in 2023 (Banque de France), only 7.8% of households directly own shares, compared to approximately 32% in the United States (OECD, Household Financial Assets, 2021). This longstanding trend cannot be explained solely by structural factors such as the tax system or the characteristics of financial markets. It also reflects specific economic behaviors where cognitive biases, risk perception, and cultural factors play a decisive role.

The *Prospect Theory*, developed by Daniel Kahneman and Amos Tversky (1979), sheds light on this phenomenon by demonstrating that individuals disproportionately weigh losses over equivalent gains. In an environment where financial market volatility is heavily mediated, especially following the 2008 financial crisis, French households tend to overestimate the risks associated with equity investments. This bias is further amplified by the *availability heuristic*, whereby individuals assess the likelihood of an event based on its prominence in recent news. For example, significant stock market losses during successive crises have left a lasting imprint on behaviors, reinforcing a preference for so-called "risk-free" investments, such as regulated savings accounts or life insurance contracts in euro funds, which still represent 70% of the total life insurance assets in France (AMF, 2022).

However, this risk aversion is not solely a cognitive response; it is also embedded in a specific cultural and institutional context. Unlike the United States, where risk-taking is celebrated as a driver of individual success, saving in France retains a patrimonial and intergenerational dimension. As highlighted by Pierre-Cyrille Hautcoeur (2007) in *The Crisis of 1929*, the collective memory of French financial crises, such as the 1882 crash or post-war scandals, has fostered a deep-seated distrust of stock markets. This distrust is compounded by temporal myopia, whereby French households prioritize immediate security over long-term returns—a behavior extensively documented by Benartzi and Thaler (1995) in their research on retirement savings.

Macroeconomic Implications

The macroeconomic implications of this savings structure are significant. By underinvesting in equities, households limit equity financing for businesses, thereby constraining innovation and economic growth. Since the 1990s, the French government has sought to redirect savings through initiatives such as the *Plan d'Épargne en Actions* (PEA), offering substantial tax advantages after five years of holding. Despite these incentives, subscription rates remain low, highlighting the limitations of traditional fiscal policies in addressing deeply rooted behavioral biases.

Behavioral Economics and Policy Innovations

Behavioral economics offers innovative perspectives, notably through the application of "nudge" policies theorized by Richard Thaler and Cass Sunstein (2008). By subtly altering the architecture of individual choices, these mechanisms aim to encourage economically rational decisions without restricting individual freedom. For example, default options promoting equity investments in savings products or simplified incentive messages could help mitigate the excessive risk aversion observed in France. While such approaches have demonstrated success in other contexts, such as retirement savings in the United States, their application to the French case and investment behaviors remains largely unexplored.

Unresolved Questions and Research Relevance

Although the aversion of French households to risky assets is well-documented descriptively, several critical questions remain largely unexplored:

- What are the dominant cognitive biases among French households in the context of evolving economic conditions and heightened financial volatility?
- How can behavioral incentives, such as default mechanisms or simplified financial communication, be adapted to the specific cultural and institutional context of France?
- What roles do public institutions, financial regulation, and product transparency play in reducing perceived uncertainty and restoring confidence?

These questions lie at the intersection of behavioral economics, public policy, and cultural analysis, offering a foundation for applied and rigorous reflection capable of providing concrete solutions to both microeconomic (optimization of savings decisions) and macroeconomic (financing the real economy) challenges.

Methodology

To study the behavioral roots of French households' risk aversion and evaluate incentive mechanisms, this research will adopt a rigorous approach combining quantitative, experimental, and qualitative methods:

- **Empirical Analysis:** Using existing microeconomic data from INSEE, Banque de France, and AMF, econometric models such as logit or probit will be employed to estimate the probability of households investing in risky assets based on factors like age, income, education, and risk perception.

- **Experimental Surveys:** Behavioral experiments, including hypothetical choice scenarios, will measure preferences and risk-related biases in a controlled environment.
- **Randomized Controlled Trials (RCTs):** Conducted in partnership with financial institutions, these trials will test the effectiveness of nudges, such as default options for equity investments or simplified incentive messages.
- **Qualitative Interviews:** Semi-structured interviews with households, institutional actors, and economists will explore cultural and emotional dimensions often overlooked in quantitative models.

Conclusion

By combining theoretical insights from behavioral economics with practical policy considerations, this research seeks to offer a novel approach to a persistent structural issue in the French economy. A nuanced understanding of savings behaviors and incentive mechanisms will identify actionable levers to stimulate productive investment, contributing to sustainable economic growth.

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