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Old, Rich and Afraid:

Five Ways to Drive Cultural Change
and Deliver a Real European
Investment Union

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Summary

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The Savings and Investment Union (SIU) is the right idea at the right time, but it's already mired in national political opposition. At a policymaking level, SIU remains focussed on technical and supervisory integration. Unfortunately, this approach ignores the most fundamental characteristic of Continental European societies – a deep aversion to risk which is embedded in household behaviour. Yet, tackling this issue is essential to completing a meaningful investment union. But it requires more than a technical or legislative solution. It requires cultural change.

Europe possesses capital in extraordinary abundance – over €10 trillion sits in low-yield bank deposits alone with an annual savings rate approximately three times greater than the US. Italian households and businesses alone save 400 billion euros annually. Culture, not capital, is the problem.

European households, shaped by historical trauma, large welfare states and inert political systems, have developed a deep aversion to productive investment. Until this is confronted directly SIU will always remain less than the sum of its potential parts.

Drawing on relevant research from economics, behavioural finance, sociology and psychology this brief makes five proposals designed to shift the default settings of European households' financial behaviour. None requires European households to become "American". But they do require a political and institutional shift that challenge accepted European norms.

Keywords: Capital Markets Union – Savings and Investment Union – Risk aversion – Household wealth – ESMA – European competitiveness



Rich and Poor at the Same Time

Europe is extraordinarily rich. In 2023, Italian household net wealth stood at over €11 trillion — its highest level on record.¹ Italy, a country Brussels lectures endlessly about fiscal irresponsibility, is home to some of the wealthiest households in the developed world. This pattern is replicated in differing ways across EU member states. French households are among the highest savers in the OECD.² Nearly 95% of Romanian households own their homes.³ Across the eurozone, an estimated €10 trillion of household savings sits in bank deposits — secure, guaranteed, and earning returns that, in real terms, have frequently been negative.⁴

This is the paradox of the European economy. The continent that claims it cannot fund its own defence is also the continent that collectively holds more household financial assets than almost anywhere else in the world. The Draghi report estimates that the EU must mobilise at least €750–800 billion in additional annual investment to meet its strategic objectives.⁵ That's barely two years of Italian household and business savings.⁶

So, where does Europe's money go?

The answer, overwhelmingly, is property, bank deposits, and government bonds.⁷ These are the three dominant pillars of the European household portfolio. Each is perceived as safe, but each offers limited productive returns.

The European Commission's own SIU strategy acknowledges this directly, noting that retail investors 'tend to store their savings in easily understandable saving instruments like bank deposits, which are relatively accessible, transparent and guaranteed by national deposit insurance schemes'. What the Commission

¹ Istat and Banca d'Italia, 'The Wealth of Italy's Institutional Sectors: 2005–2023', January 2025.

² OECD, 'Household Saving Rates – Forecast', OECD Economic Outlook, No. 116, December 2024 (Paris: OECD Publishing, 2024).

³ Eurostat, '68% of People Living in EU Households Own Their Home', Statistics Explained, February 2026.

⁴ European Commission, 'Savings and Investments Union: A Strategy to Foster Citizens' Wealth and Economic Competitiveness in the EU', March 2025, p. 3. The €10 trillion figure is drawn from European Banking Federation, 'Banking in Europe: Facts and Figures 2024', December 2024, based on ECB Quarterly Sector Accounts data.

⁵ M. Draghi, 'The Future of European Competitiveness', Report to the European Commission, September 2024, Part A, p. 4.

⁶ Speech by F. Panetta (Governor of the Bank of Italy) on World Savings Day 2024, organised by the Association of Italian Savings Banks (ACRI), Rome, 31 October 2024.

⁷ R. Sanchez Soliva, 'Whoever Has a Home Has a Treasure', CaixaBank Research, February 2024.



is more reluctant to say is that this is also a reflection of something deeper: a culture of risk aversion that has been built, reinforced, and in many cases actively subsidised by European governments for decades.

And yet Europeans wonder why the EU can't match the economic dynamism of the US?

This paper is structured as follows. Part 2 considers the roots of Europeans' risk aversion by taking a multi-disciplinary approach that includes cultural (psychological, behavioural finance), political and historic factors. Part 3 addresses the economic cost associated with Europe's low risk tolerance. Part 4 sets out five specific policy proposals designed to utilise our existing wealth as the basis for our future competitiveness and affluence.

Saving for a Rainy Day

1. Europe's Culture is Driving its Financial Behaviour

Culture matters. Nowhere is this more relevant than in the financial behaviour of European households. Although national (and even continental) stereotypes are often based on subjective perceptions, it is possible to utilise cross-cultural sociological research to consider European societies in a wider global context.

The Uncertainty Avoidance Index (UAI), was developed from survey data gathered across more than fifty countries and replicated with European Social Survey data as recently as 2014.⁸ The UAI measures a society's tolerance of unpredictability (not specifically risk aversion).

High-scoring cultures prefer clear rules, structured environments, and stability; low-scoring ones are more comfortable with ambiguity and change. The results are striking. European states such as Greece, Portugal, Belgium and Poland have more than twice the score of the US. The EU's largest economies – Germany, France and Italy also score considerably more than the US. The consistent replication in the 2014 study highlights that the preference for stability has remained intact despite widespread adoption of the internet and mobile technologies.

⁸ G. Hofstede, *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations Across Nations* (London: Sage, 2001). For the 2014 European replication: M. Minkov and G. Hofstede, 'A Replication of Hofstede's Uncertainty Avoidance Dimension Across Nationally Representative Samples from Europe', *International Journal of Cross Cultural Management*, 14(2), 2014, pp. 173–192.



The practical implication is that continental European economies have a higher structural aversion to financial uncertainty than the United States, and that this manifests in investment choices. Namely, a preference for guaranteed deposits, avoidance of equity markets, and a bias toward assets that are tangible and state protected.

Behavioural finance also offers a relevant context for examining European risk aversion. Prospect Theory established that the pain of a financial loss is approximately twice as powerful psychologically as the pleasure of an equivalent gain.⁹ This loss aversion is universal — it applies across all cultures — but its translation into investment behaviour is shaped by context. And in Europe the so-called “framing effect” — how decisions are influenced by how choices are presented — is crucial.

Across the EU, public policy amplifies the distaste for risk. Tax systems that reward holding property over investing in equities, state pensions that make private investment feel unnecessary. These policies have become part of the wider cultural bias that has come to view all risk as bad risk.

However, it is incorrect to argue that Europeans have no appetite for risk. A 2024 study of retail investors across six European countries — Belgium, France, Germany, Italy, Spain, and the UK found that underlying risk tolerance is remarkably similar across European nations.¹⁰ The research finds that differences largely explained by individual characteristics — particularly financial knowledge, gender, and income — rather than by national culture or country-specific factors.

This is, counterintuitively, an optimistic finding for policymakers. In a European context, it shows how fragmented markets, poor historical returns, unfamiliar products, and a political culture that treats investment as speculation have all raised the perception of how risk is perceived, not the actual risk level itself.

Finally, the behavioural economics literature on choice architecture — associated above all with Richard Thaler and Cass Sunstein’s concept of nudging — is also highly relevant.¹¹ Thaler and Sunstein demonstrated that the default option in any system — the choice that happens when people do nothing — has a disproportionate influence on outcomes, because human beings are characterised by inertia.

⁹ A. Tversky and D. Kahneman, ‘Prospect Theory: An Analysis of Decision under Risk’, *Econometrica*, 47(2), 1979, pp. 263–291.

¹⁰ C. Brooks and L. Williams, ‘People Are People: A Comparative Analysis of Risk Attitudes Across Europe’, *International Journal of Finance and Economics*, 29(3), 2024, pp. 3545–3566.

¹¹ R.H. Thaler and C.R. Sunstein, *Nudge: Improving Decisions about Health, Wealth, and Happiness* (New Haven: Yale University Press, 2008).



People accept defaults because opting out requires effort. The most powerful application of this insight in financial policy is automatic pension enrolment. Madrian and Shea's landmark 2001 study showed that simply switching the default from opt-in to opt-out in 401(k) plans caused participation rates to rise from around 37% to over 80%.¹² The key lesson is that changing the default is often more powerful than changing the incentive. Requiring Europeans to actively opt out of investment, rather than actively opt in, could transform participation rates. This model forms the basis of the Irish and Australian occupational pension (pillar 2) schemes.¹³

2. A Century of Middle Class Uncertainty

European savings culture did not emerge from nowhere. It is, in large part, a rational response to historical experience. The twentieth century subjected European households to hyperinflation, war, political upheaval and economic collapse on a scale that no living American has experienced. For much of continental Europe this was accompanied by unimaginable physical destruction and enforced movements of tens of millions of its citizens.

The destruction of savings by Weimar-era inflation in Germany, the collapse of financial institutions across the continent during the Great Depression, and the imposition of Communist rule post-1945 in central and eastern Europe created societies uniquely hostile to economic uncertainty.¹⁴ Today, Western European economies are struggling to recreate *Les trente glorieuses* – the thirty glorious years of high growth which ran from end of the Second World War to the mid-1970s.

Ultimately, these combined experiences created a deep institutional and personal memory: wealth is fragile, politics unpredictable (and unreliable), financial systems can fail, and the only truly safe store of value is something tangible — preferably property, cash, low risk bonds (and lots of insurance).

As a result, bank-based financing models reflected and reinforced a preference for predictability. In many European states, homeownership became the central wealth-building strategy for the middle class — not because it was necessarily the optimal financial decision, but because it was safe, tangible, and socially valued.

¹² B.C. Madrian and D.F. Shea, 'The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior', *Quarterly Journal of Economics*, 116(4), 2001, pp. 1149–1187.

¹³ Australia's compulsory employer-contribution pension system (Superannuation) was introduced in 1992; see Australian Prudential Regulation Authority, *Annual Superannuation Bulletin* (Sydney: APRA, 2024). Ireland's auto-enrolment scheme (MyFutureFund) launched on 1 January 2026; see Department of Social Protection, 'Auto-Enrolment Retirement Savings System', Government of Ireland, 2026.

¹⁴ ECB Blog, 'The Long Shadow of Hyperinflation', European Central Bank, 20 June 2025.



The result is a continent where risk is viewed warily – unlike much of the English-speaking *Anglosphere*. In American culture, failure is a precondition of eventual success. In much of Europe, failure is still a stigma. This is not a caricature. It is reflected in insolvency regimes that make it difficult for failed entrepreneurs to start again, in social attitudes that treat bankruptcy as a moral failing rather than a learning experience, and in the near-total absence of a culture of retail equity investment in most EU member states.

3. The Two Pillars of Low Risk Politics

European governments, across the political spectrum, have built tax and regulatory systems that penalise risk. Residential property is the obvious example. It remains the most tax-advantaged asset class in most EU member states. Capital gains on primary residences are exempt or lightly taxed in most European countries, while dividends and capital gains on equity investments are subject to rates that frequently exceed income tax. Despite property being the single largest component of overall household wealth – it is deliberately taxed at very low levels by European governments.¹⁵

This represents an explicit subsidy to homeownership and has for decades diverted household wealth away from productive investment and into the residential property market. The consequences of this misallocation are visible in Europe's poorly developed European capital markets. Such a focus on property – as seen today in Italy – is widening intergenerational inequalities and weakening the traditional social contract for the younger generations.

How could it be otherwise when older Italian homeowners are sitting on enormous untaxed wealth while younger generations without family inheritances are locked out of both the housing market and the investment culture that might compensate for it. Remarkably, less than 20% of Italian property owners have an outstanding mortgage compared to over 60% in the Netherlands.¹⁶

State pension dominance is the second structural pillar of European risk aversion. In most EU member states, the public pension system remains the primary vehicle for retirement saving. Where the state promises a defined retirement income, individuals have limited incentive to develop private investment skills, take risks with long-term savings, or engage with capital markets at all. Across the EU as a whole, public

¹⁵ In 2023, only 5.1% of total tax revenue in OECD members derived from property taxes compared to 49.2% coming from income tax and social security contributions. See OECD, Revenue Statistics, December 2025.

¹⁶ G. Ditta, 'Generation Z May Not Need Mortgages, Here's Why', The Conversation, February 2024.



pensions provide an average income replacement of 60% while in Anglophone states such as Ireland, the United Kingdom and the US the level is less than 40%.¹⁷

The contrast with the United States is obvious: the 401(k) retirement savings system has created a nation of engaged investors.¹⁸ American workers develop at least a basic familiarity with equity markets through their retirement savings from their first job. The typical European worker has no equivalent experience.

American households invest, at least in part, because they have to. As noted, state pensions are considerably lower, as are unemployment and other social security benefits compared to European norms.¹⁹ Healthcare costs, college tuition, and retirement income are all, to a far greater degree than in Europe, matters of personal financial responsibility. The incentive to grow savings through investment is partly driven by the fear of what happens if you do not. European households face no equivalent existential pressure. The safety net — universal healthcare, subsidised education, state pensions — means that the downside of not investing is limited. The incentive to take risk is correspondingly weaker.

Low Risk, Low Return Economies

Europe's risk aversion has real negative impacts for its economies. By forcing national governments (and increasingly the EU) to take on the risks of borrowing for pensions, preferential tax treatment for property and generous social security, European households are (unintentionally) further reducing their future potential growth.

What's even worse is that the vast majority of EU states operate their public pension schemes as unfunded (pay as you go) schemes. This model is already chafing under the pressures of declining birth rates, longer life expectancy and public opposition to meaningful reform.

¹⁷ OECD, 'Gross Pension Replacement Rates', Pensions at a Glance 2023 (Paris: OECD Publishing, 2023); European Court of Auditors, Pension Systems in the EU, Special Report 14/2025, 2025.

¹⁸ Investment Company Institute (ICI), 2025 Investment Company Fact Book, 65th edition (Washington DC: ICI, 2025), Chapter 8. At year-end 2024, US households had \$44.1 trillion earmarked for retirement, with 401(k) and IRA plans representing 67% of all retirement market assets.

¹⁹ US public spending as a percentage of GDP was 37.9% in 2024. This compared to 57% in France, 49% in Germany and 51% in Italy. See, International Monetary Fund (IMF), Government expenditure, percent of GDP, 2024.



As a result, the latest data shows that North America held approximately \$48.2 trillion in pension provider assets at end-2024. Europe, by contrast, held \$9.7 trillion.²⁰ At the level of occupational pensions specifically — the employer-sponsored second pillar - the gap is even starker. European occupational pension funds managed €2.72 trillion in assets at end-2023 compared to over \$26 trillion in US pillar two schemes.²¹

As one think tank surmised:

“The size of private pension assets in % of GDP, which comprise pillar II and III private pension assets and the reserve funds of public pillar I systems, is relatively limited in the EU on average, amounting to 29% of GDP in 2022, compared to 138% in the US, 153% in Canada, 131% in Australia and 85% in the UK”.²²

Conversely, as noted by European Central Bank President Christine Lagarde, European households hold around one third of their total assets in cash accounts compared to just 10% in the US.²³ The opportunity cost of this passive investment strategy is gigantic.

For example, if EU households were to align their deposit-to-financial assets ratio with that of US households, a stock of up to €8 trillion could be redirected into long-term, market-based investments — equivalent to a flow of more than €350 billion annually.²⁴ To put that in context, the Draghi report’s headline investment gap for the EU is €750–800 billion per year. Closing the household deposit gap alone would go almost halfway to meeting it without having to raise taxes or reduce public spending in any way.

Deposits sitting in low interest bank accounts are deposits that do not invest in start-ups, innovation-led funds or more established companies seeking capital investment. In 2023, European startups raised less than half the funding of those in the US (\$52bn vs \$138bn). This gap is particularly pronounced when it comes to Generative AI startups with the US accounting for over 90% venture capital funding in this area.²⁵ In 2024, just 0.01% of European pension fund assets under

²⁰ OECD, *Pension Markets in Focus 2025* (Paris: OECD Publishing, 2025).

²¹ European Insurance and Occupational Pensions Authority (EIOPA), *Institutions for Occupational Retirement Provision (IORPs) in Focus Report 2024*, EIOPA-BoS-25/016, 11 February 2025.

²² Eurofi (EU financial regulation think tank), ‘Pensions in the EU: Challenges, EU Competencies and Ongoing Reforms’, Ghent, February 2024.

²³ C. Lagarde, ‘Turning Size into Scale: Europe’s New Growth Model’, speech, European Central Bank, 23 February 2026.

²⁴ Ibid.

²⁵ K. Rist, ‘Will Europe Ever Match the US for Startup Investment and Growth?’, *Forbes*, 4 June 2024.



management was invested in European venture capital (VC) funds.²⁶ As noted by the Banque de France, between 2014 and 2023, VC investment amounted to €89 billion in the EU, compared to over €1,000 billion in the United States.²⁷

The result is well-documented: European talent and European innovation migrate to wherever the capital is, which increasingly means the United States. As IMF data illustrate, young US companies not only attract more capital — they grow to a scale that European equivalents do not reach.²⁸

It's the Culture, Stupid!

The five proposals below are designed to shift the default settings of European households when it comes to their finances. None of them requires European households to become American. But, they require a political and institutional shift that will ultimately result in behavioural change at household level.

Proposal 1: Opt Out, not Opt In

The single most powerful lever available to European policymakers is also the simplest: change the default option. As demonstrated, switching occupational (pillar 2) pension enrolment from opt-in to opt-out raised participation rates dramatically. Ireland and Australia are example of how this has been applied at national level. Europe needs the same logic applied at scale.

The EU should make 'opt-out' enrolment in employer-sponsored occupational pension schemes a minimum standard across all member states. The goal is not primarily fiscal. It is cultural: to create a generation of Europeans who are, from their first job, participants in capital markets — building a familiarity with productive investment that state pension dominance has systematically prevented.

- Introduce an EU minimum standard requiring 'opt-out' enrolment in occupational pension schemes across all member states, with a mandatory minimum employer-employee contribution split;

²⁶ Atomico, State of European Tech 2024 (London: Atomico, 2024).

²⁷ L. Collet et al., 'How Can Europe Scale Up Its Venture Capital Market?', Banque de France, 18 February 2026.

²⁸ IMF, 'Europe Can Regain Its Productivity Edge by Scaling Up', IMF Blog, 12 March 2026.



- Require that default investment funds channel a meaningful proportion into equities and diversified growth assets, not just cash or government bonds;
- Use the SIU framework to set a target for pillar two pension coverage across the EU — modelled on the Irish and Australian experience — with progress tracked in the European Semester;
- Commit to a phased convergence target: EU occupational pension assets to reach 50% of GDP within fifteen years, against the current average of 29%.

Proposal 2: Tax Bricks, Reward Risk

Across the EU, tax systems have spent decades channelling household wealth into property. The human cost of this misallocation is most visible in intergenerational terms. Older homeowners across southern and central Europe sit on enormous untaxed wealth while younger generations without family inheritances are locked out of both the housing market and the investment culture that might compensate for it.

- Phase out capital gains exemptions on non-primary residential property investment over a defined five-year transition period, with the fiscal space redirected toward retail investment incentives;
- Reform dividend and equity capital gains tax rates in member states where they exceed the rate applied to property income, with the Commission empowered to flag egregious cases through the European Semester; and
- Require member states to publish annual data on the effective tax rate differential between property and equity returns as part of their National Reform Programme submissions, creating a comparable EU-wide dataset for the first time.

Proposal 3: Build a Pan-European Retail Investment Identity

European retail investors face a bewildering array of nationally specific products, tax treatments, disclosure regimes, and distribution channels. The SIU will remain an elite project unless it is accompanied by a simple, visible, pan-European retail investment offer that ordinary savers can understand and access.

- Establish a European Savings and Investment Account (ESIA) with standardised tax treatment recognised across all member states, a common digital interface, and full portability for workers moving between EU countries;



- Mandate a behavioural default: all ESIA accounts to default to a diversified, equity-weighted fund unless the saver makes an active alternative choice;
- Set an EU-wide participation target of 20% of working-age adults within ten years, with annual reporting through the European Semester;
- Commission a pan-European public information campaign — on the model of national campaigns that accompanied Individual Savings Account (ISA) launches in the UK— explicitly positioning the ESIA as a savings tool for ordinary workers, not just financial professionals.

Proposal 4: Leverage the Anglosphere

One of the most underutilised assets in the European savings and investment debate is sitting just outside the EU's borders. The City of London remains one of the world's leading financial centres — a deep, liquid, internationally connected market with unrivalled expertise in asset management, venture capital, private equity, insurance, and capital markets infrastructure.

More broadly, the Anglosphere — the United States, the United Kingdom, Ireland, Canada, and Australia — has decades of experience in building retail investment cultures that continental Europe lacks. The 401(k), the UK ISA, the Australian superannuation system, and the Irish auto-enrolment model are all policy innovations that Europe is slowly and partially attempting to replicate. Rather than reinventing these wheels, the EU should actively learn from and partner with Anglosphere institutions, regulators, and market infrastructure providers.

- Negotiate a structured EU-UK financial services agreement that allows European retail and institutional investors full access to London-listed funds, exchange-traded funds (ETFs), and capital markets products, removing the current fragmentation that raises costs for European savers;
- Establish a formal EU-UK-US regulatory dialogue on retail investment product standards, with the explicit aim of developing mutually recognised simple investment products accessible to retail savers across all three jurisdictions;
- Create an EU programme to attract Anglosphere asset management and fintech firms to establish European operations, explicitly using the SIU as a marketing tool to position the EU as a reformed, investor-friendly market; and



- Commission the European Securities and Markets Authority (ESMA) to develop a comparative benchmarking framework assessing EU retail investment participation rates against Anglosphere comparators — UK, US, Australia — published annually and used to drive member state reform through the European Semester.

Proposal 5: Make Financial Literacy more than a Bullet Point

The gap between European and American investment behaviour is not primarily a gap in appetite. It is a gap in knowledge and familiarity. Europeans do not invest in equity markets primarily because most of them have never been taught how, and have never had a reason to. There is a near-total absence of school-based financial education in most EU countries.

- Introduce a mandatory European financial literacy curriculum — covering compounding returns, equity markets, inflation, pension systems, and risk diversification — as a binding condition of access to relevant EU structural and cohesion funding for member states;
- Require the European Commission to develop and make freely available a standardised digital financial literacy toolkit, adapted for national languages and contexts, suitable for delivery at secondary school level across all member states;
- Establish an EU financial literacy benchmark — assessed every three years through the Programme for International Student Assessment (PISA) framework or an equivalent — with results published by member state and used to trigger targeted support through the European Semester.



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Credits

The Wilfried Martens Centre for European Studies is the political foundation and think tank of the European People's Party (EPP), dedicated to the promotion of Christian Democrat, conservative and like-minded political values.

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