Financial Innovation and Stability: The Czech Pension Reform Case Study

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Abstract: Financial innovations should be regarded as a relatively substantial element in the functioning of most modern economies. However, their general impact could be assessed from several different perspectives, depending on their particular behaviour and role they play in an economy. This contribution most importantly follows both the Post Keynesian and the Regulation School logic, trying to clarify the business cycle volatility with respect to the intensity of innovative activities in the financial sector. It also presents several concepts from behavioural economics concerning participation in pension savings schemes. The pension reform in the Czech Republic serves as yet one more channel through which we may expect an extended offer and variety of financial products flowing into the economy. Moreover, a non-negligible part of them will certainly have innovative features. In this regard, we have to focus on how the institutional framework is put into effect, so that the entire system proves to have recognizable elements of stability as well as that it fulfills the aim for which it has primarily been created.

Keywords: financial innovations; business cycle amplitude; Post Keynesian economics; Regulation School; pension reform; behavioural economics; irrational ignorance

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