



Some Consequences of Wealth Inequalities In Europe and Cyprus

Description

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Maurizio Franzini and Michele Raitano in a 2013 article, state that “high and increasing economic inequality is a worrying phenomenon for several reasons. It can be a problem in itself, because widely shared perceptions of a fair society are hard to reconcile with it. Inequality can also be a problem because of its consequences, some of which may only materialize in the distant future”[\[1\]](#)

Most studies look at the impact of economic inequality on the economy and society through its nexus with growth and development. For example, research by the OECD shows that “... when income inequality rises, economic growth falls. One reason is that poorer members of society are less able to invest in education.” And the OECD conclude that “... tackling inequality can make our societies fairer and can make our economies stronger.”[\[2\]](#)

However, in virtually all countries including Cyprus, wealth inequality is much more severe than income inequality. Indeed, in many nations a tiny portion of the population own most of the country’s wealth. Data in the World Inequality Report 2022[\[iii\]](#) of the United Nations Development Programme (UNDP), show that in the US for instance, 1% of households held nearly 35% of wealth in the form of real estate and financial assets in 2021. In Germany, the corresponding percentage was 30%, in Spain 25% and in Italy 18%. The report also shows that the wealthiest 10% of households in the US owned 71%

of total net household wealth in 2021. Respectively it was 60% in Germany, 58% in Spain and 48% in Italy. In contrast the top 10% of income earners in the US captured a lower share of total household income of 46%, and respectively 37% in Germany, 35% in Spain and 32% in Italy.

While similar wealth data are not available for Cyprus, its inequality in wealth distribution is much worse than that for income distribution with the Gini coefficient for the former being estimated at 80.7 in 2021 by Credit Suisse^[iv] compared with a Gini coefficient of 29.4 for household income. Moreover, the Gini coefficient for wealth distribution in Cyprus was higher than that of 69.2 for Spain, and 66.5 for Italy in 2021. In addition, the larger difference between the median and mean wealth per adult in Cyprus as compared with differences in Spain and Italy as shown in the Credit Suisse Global Wealth Data Book reveals that wealth in Cyprus is more highly concentrated among a small portion of the population than in the former countries.

Between 2013 and 2021 it is estimated that the net wealth per adult in Cyprus increased by 13% to approximately 150.000 euro. And the Gini coefficient for net household wealth distribution in Cyprus has risen from under 70.0 in 2013 and 2014 according to various estimates^[v] to 80.7 in 2021 as estimated by Credit Suisse. Indeed, these data indicating an increasing concentration of wealth in the hands of the richest adults are consistent with national accounts estimates showing that GDP growth over the last decade has been associated with a distribution of income increasingly toward profits and owners of capital. In fact, data from the Cyprus Statistical Service^[vi] show that the net operating surplus, or profits of businesses as a share of GDP rose from 18.1% in 2012 to 27.7% in 2022. Gross operating surplus, which includes mixed income and depreciation of capital, rose from 38.6% to 43.6%, respectively. The share for the compensation of employees, fell from 48.3% to 42.2% between these years. Furthermore, these developments are in accord with the argument of Thomas Piketty in his ground-breaking book^[vii] that over time returns to capital (on bonds, stocks, and other forms of property) are greater than the rate of growth incomes, resulting in accumulated wealth becoming more concentrated among those whose earnings are based on owning capital rather than labor power.

Consequences of Increasing Economic Inequality

Many studies for advanced countries have analyzed how wealth inequalities studies have been transmitted across generations. Apart from the transfer of wealth through inheritances and gifts there is emphasis on the key role played by family background in the accumulation of human capital in limiting intergenerational mobility, in the sense that

the children of a wealthy family are more likely to receive a better education and well-paid and privileged jobs than children of a poor family. In Cyprus and many small states there is the acute problem of family and political nepotism. This in turn results in the well-connected securing the best jobs.

But what is happening with respect to intergenerational inequalities in most countries since the second world war is very worrying and is having profound consequences. In Western Europe the “baby boomers” or persons of working age in the 1960s, 1970s and early 1980s were well placed to buy property, accumulate assets, and pass on property and capital gains in the form of inheritance. And increases in housing prices have considerably exceeded rises in incomes of labor over the last 40 years, with this divergence being particularly large since the global financial crisis of 2007/08. Indeed, the ECB response to the crisis in reducing interest rates and keeping them at ultra-low levels just fueled a property boom at a time when labor market conditions were weak, especially for the employment and incomes of the younger generation. The gap between incomes of the younger generation and housing prices and rents increasingly widened resulting in many persons without inheritances and little or no financial support from their parents being unable to get on the property ladder.

These intergenerational inequalities reflected in large differences in home ownership and wealth accumulation are having important social, political, and demographic effects. It has been stated that “Europe has become increasingly dominated by housing capital and the value of land on which it sits. Those who own this wealth are increasingly old voters who have benefited from massive property price increases since the 1990s. It pits them against younger voters – who are increasingly locked out the housing market – against older voters and their inheritors. It is this conflict which will shape future political battles in Western Europe”[\[viii\]](#).

In countries of Southern Europe such as Greece and Cyprus, investments in property and existing housing are being more directed toward catering for and attracting foreign tourists and investors reducing the supply of affordable housing for younger persons in the process. Increasingly property owners in Cyprus and Greece are renting out their houses and apartment units to “Airbnb” customers and even depriving students of affordable accommodation in cities such as Thessaloniki in Greece and Limassol in Cyprus.

Owing to low incomes and job security as well as high housing and childcare costs many young couples in Europe other countries can’t afford to raise a family. As a consequence, the rate of population growth in most European countries is falling. In fact, in Cyprus the

population of Cypriots is on the decline and Cypriot children now constitute a minority in primary schools.

And more recently with the surge in prices of goods and services eroding real incomes and housing prices and rents continuing to rise to increasingly unaffordable levels, wealth and intergenerational inequalities have been exacerbated in most European countries. In addition, many less-wealthy persons who during past years have sought to bridge the gap between their meagre incomes and high housing prices by taking on housing loans are now being hit by steep increases in interest rates. And with these borrowers having their net wealth substantially reduced, many have become vulnerable to losing their properties.

Finally, some recent journal papers have argued that wealth inequalities and concentration of capital tend to stifle entrepreneurial and innovative activity with the rich becoming more risk averse as they accumulate wealth.[\[ix\]](#) Rather than investing in risky projects in the real economy they seek limited risk returns in the non-productive financial sector with higher outlays on bonds and financial derivatives, while large corporations increasingly engage in share buy-backs.

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[\[1\]](#) See Maurizio Franzini and Michele Raitano “Economic Inequality and Its Impact on Intergenerational Mobility” *Intereconomics Journal*, 2013.

[\[2\]](#) OECD, *Focus on Inequality and Growth*, December 2014.

[\[iii\]](#) *World Inequality Report 2022*.

[\[iv\]](#) Credit Suisse, *Global Wealth Databook 2022*.

[\[v\]](#) See for example, Ioanna Evangelou, Rozmari Hadjicharalambous, and Nektarios A. Michael, “Income and Wealth Inequality in Cyprus”, *Cyprus Economic Policy Review*, Volume 14 No. 2 pp.50-80 (2020).

[\[vi\]](#) Cyprus Statistical Service, *Cyprus, Annual National Accounts, 1995-2022*, April 2023

[\[vii\]](#) Thomas Piketty, “*Capital in the Twenty-First Century*”, 2014

[\[viii\]](#) G.W. Fuller, Alison Johnston, and Aida Regan, *Housing Prices, and Wealth Inequality*

in Western Europe”, West European Politics, 2020, Vol.43, No.2.

[\[ix\]](#) See Savvakis C. Savvides, “The Disconnect of Funding from Wealth Creation: The Corruption of Capitalism”, World Economics Journal, June 2022.