



# Future Social Market Economy

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## Inequality and Economic Prosperity: What Accounts for Social Justice and Inclusive Growth?

There is much debate nowadays on the massive problem of rising social and economic inequalities. Many studies criticize the disturbingly unequal distribution of income and wealth – within nations and across countries. Such rising inequality often not only contradicts fundamental principles of social justice, as it undermines the idea of equal opportunity, but can also have negative effects on growth. Both dimensions – social inequality and growth – are interrelated. Only when this relationship is taken seriously is it possible to give meaning to the notion of “inclusive growth” and to attach a clear political agenda to it. Otherwise the concept remains empirically intangible and politically irrelevant.

This paper will therefore first discuss the concept of inclusive growth by outlining the potential positive-sum-relationship between greater social inclusiveness and economic prosperity. It is important to see that reducing inequalities can be conducive to growth. The paper then looks at what governments could do to reduce inequalities in several key areas. Drawing on the empirical findings and the conceptual approach of our Social Justice Index for OECD and EU countries (Schraad-Tischler 2011; Schraad-Tischler and Kroll 2014), we identify the following fields of action:

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- Poverty prevention – tackling child poverty must become a top priority
- Equitable education – investing in early childhood education is key
- Labor market access – creating incentives for high employment and enhancing upward mobility from non-standard to regular forms of employment
- Strengthening social cohesion by fighting discrimination of minorities
- Improving access to high quality health care provision
- Enhancing intergenerational justice by reducing inequalities in social spending patterns (old vs. young) and improving opportunities of families

Finally, with a view to the feasibility of measures designed to reduce inequality, the paper concludes by reflecting on the role of redistribution and investment.

## Inclusive growth – reducing inequalities can be conducive to growth

There is considerable literature concerned with the idea of inclusive growth. A unanimous definition does not exist, but it seems helpful to consider growth inclusive “if it increases the social opportunity function, which depends on two factors: (i) average opportunities available to the population, and (ii) how opportunities are shared among the population” (Ali and Son 2007). Viewed in this way, inclusive growth is directly linked to the idea of equal opportunity and thus “involves the notion of non-discrimination, meaning that no person or group is denied participation in the growth process” and, in addition, that disparities of disadvantaged groups should be reduced (Ranieri and Ramos 2013 referring to Klasen 2010). The OECD accordingly defines inclusive growth as “economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society” (OECD 2014a).

The problem is: Growth is not *automatically* inclusive. As many studies have shown, there is no automatic trickle-down effect leading to a reduction of inequality and greater social opportunity for disadvantaged people (e.g., Cingano 2014, OECD 2014a,b). Instead of trusting in the self-organizational forces of markets or in purely macroeconomic stabilization measures, we need sound policies if we are to ensure that economic growth actually translates into greater inclusiveness and equal opportunities.

The plea for greater inclusiveness and equal opportunities is by no means purely a matter of ethics. Rather, it is also an economically relevant question, since growing inequalities can have negative implications for economic growth. For instance, a recent OECD paper claims that many highly developed economies could have reached much higher growth if the growth of income inequality had been better contained over the last decades (Cingano 2014). Between 1990 and 2010 growth in Germany, for example, could have been six percentage points higher, according to the OECD’s calculations.

However, it is not easy to identify the exact point beyond which income inequality within a society is too unequal, because – at least theoretically – income can also be distributed too equally. A completely equal distribution of income would impede economic competition and innovation (Lazear and Rosen 1981). Today, however, this is just a theoretical discussion, since there is probably no developed country in the world facing the problem of a too-equal distribution of income. In fact, the opposite has been the case as income distribution has tended toward greater inequality.

Moreover, income inequality is particularly dangerous when lower income groups are increasingly decoupled from the rest of the population. This can be observed in many societies, including Germany, where income mobility among low-income earners has clearly decreased in recent years (Sachverständigenrat 2012/13). Such a trend is worrisome because it can foster a social downward spiral for poorer people.

For instance, educational opportunities for this group are more limited because poorer people cannot invest in their own education in the way that people from higher income groups can. The OECD calculations clearly show that income inequality has a particularly negative effect on the educational outcomes of children with weaker parental education background (Cingano 2014). As a consequence, labor market opportunities for poorer people and less educated individuals are more limited, and sometimes even the state of their health is negatively affected. What is more, such trends often harden in subsequent generations.

Upward social mobility and the idea of equal opportunity can thus be heavily undermined by a distribution of income that is too unequal. Simultaneously, a lack of upward social mobility and equality of opportunity – especially at the bottom of the income distribution – also represents one of the most serious obstacles to growth. According to the OECD calculations, “one key channel through which inequality negatively affects economic performance” is through the above described “lowering investment opportunities (particularly in education) of the poorer segments of the population” (Cingano 2014).

It follows that state and society have to adopt clear-cut policies aimed at improving social mobility. In a similar vein, a recently published IMF discussion paper comes to the conclusion that a reduction of inequality is “associated with higher and more durable growth” (Ostry, Berg, Tsangarides 2014). This corroborates the findings of earlier longitudinal cross-country analyses (Berg, Ostry 2011). Hence, greater economic prosperity and greater social justice can and should go hand in hand and reinforce each other.

The basic idea that growth and equity need not be incompatible goals is not new. In the 1970s some development economists already saw the potential positive-sum-relationship between these two objectives (Chenery et al. 1974). After an era of unsuccessful structural adjustment programs in the 1980s and early 1990s, this thinking again gained ground and laid the foundation for today’s debate on what entails inclusive growth. As stated earlier, the conceptual discourse is still quite multi-faceted, but there is nonetheless a widespread understanding that improving a society’s “inclusiveness” involves more than the prevention of poverty. It also entails many other dimensions related to the very idea of equal opportunity, such as access to education and to the labor market, access to health care provision as well as effective anti-discrimination policies (OECD 2014a).

However, in practice, many countries appear to have massive difficulties when it comes to realizing this ideal of an inclusive society. Inequalities within and between countries are growing – not only in terms of an increasing polarization of income and wealth, but also in terms of a widening inequality of opportunity in general, comprising the aforementioned aspects. The results of our recently published Social Justice Index (SJI) for all EU countries are telling in this regard (Schraad-Tischler and Kroll 2014). The report, which looks at the dimensions of poverty prevention, access to education, labor market inclusiveness, social cohesion and non-discrimination, health, and questions of intergenerational justice, points to policy successes and deficits on the pursuit of social justice in 28 countries.

Dimensions and indicators of the index

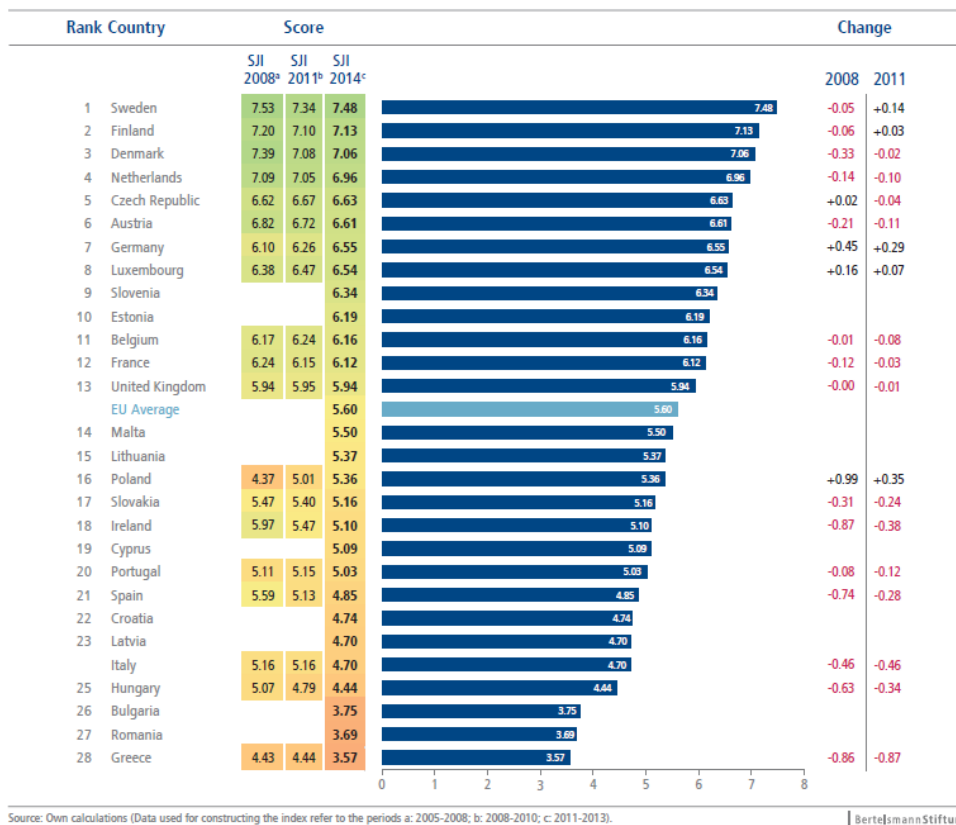


Source: Schraad-Tischler/Kroll, 2014.

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According to the understanding of social justice underlying this study, a society should ideally guarantee all its members genuinely equal opportunities for self-realization through targeted investments in the development of individual capabilities<sup>1</sup>. SJI results show that in most countries the level of social justice has clearly declined in recent years. In addition to this generally negative trend, we also see a growing social divide within the EU. Indeed, the social imbalance between the still wealthy northern European states and the southern and south-eastern European countries has considerably intensified over the course of the crisis.

<sup>1</sup> Our understanding of social justice is informed by Amartya Sen's capability approach (1979, 1993). For a detailed discussion see Schraad-Tischler/Boecker (2012).



Source: Own calculations (Data used for constructing the index refer to the periods a: 2005-2008; b: 2008-2010; c: 2011-2013).

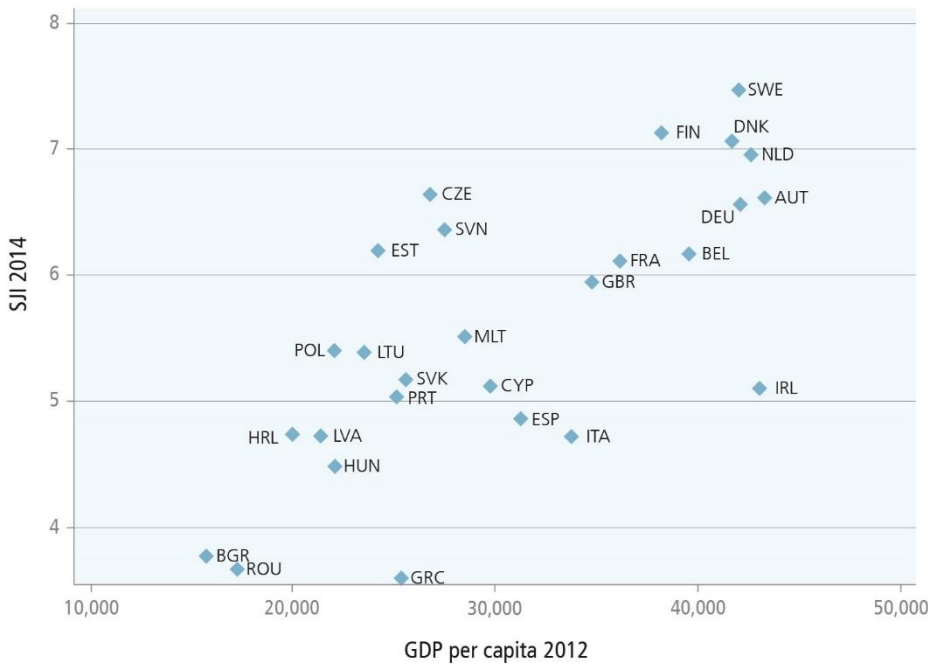
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In this context, the huge variation in the extent to which the principle of social justice is developed across the 28 EU countries is particularly noteworthy. On the one hand, the discrepancies between the Nordic countries and the crisis-mired southern European countries are enormous. On the other hand, and perhaps even more interestingly, there are also stark contrasts between countries featuring similar economic performance levels. This can be seen, for example, in the comparison of the Czech Republic, Slovenia and Estonia on the one hand with Portugal, Spain, Greece, Italy and Ireland on the other.

The Czech Republic (rank 5), Slovenia (9) and Estonia (10) show that despite only having average economic performance levels, a comparably high degree of social justice is still possible. These countries illustrate the fact that social policy plays a critical role in achieving social justice. Estonia's good performance is primarily driven by the areas of education and intergenerational justice, while the Czech Republic excels in poverty prevention. By contrast, Portugal, Greece, Spain and Italy have a comparably high GDP per capita, but perform far worse when it comes to social justice. The same holds true for Ireland. Despite its high GDP per capita, the country only performs below average in the Social Justice Index.

**GDP per Capita and Social Justice (EU)**

Unit: SJI Score / GDP per capita, PPP (constant 2011 international \$)



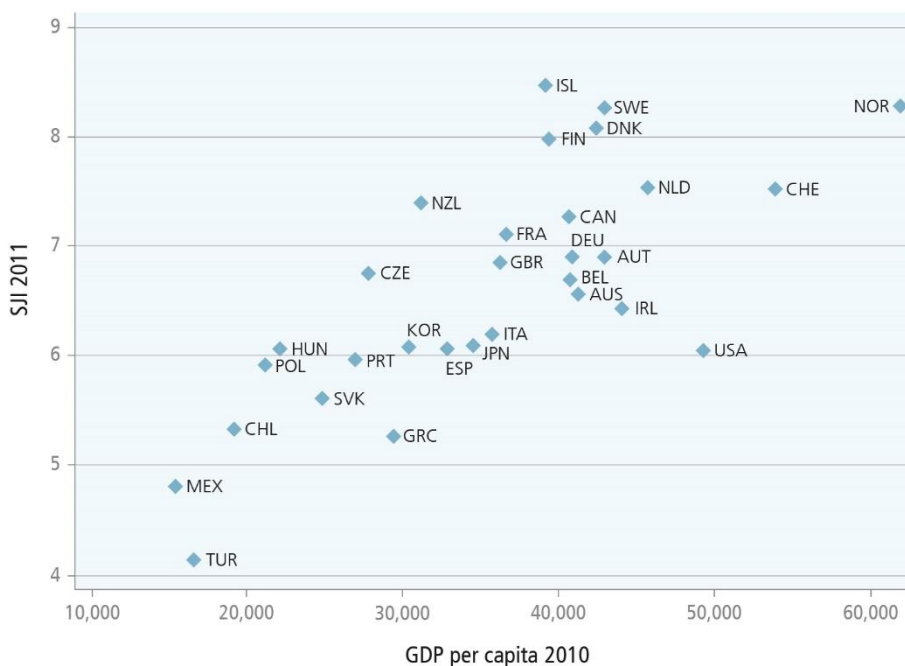
Source: Schraad-Tischler/Kroll, 2014.

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Similar distributional patterns can be observed for the group of OECD countries, as was shown in a previous publication on “Social Justice in the OECD” published in 2011 (Schraad-Tischler 2011). Here, the United States – despite having the world’s largest economy – falls far short in many aspects of social justice and performs only slightly better than its neighbor Mexico and new OECD member Chile. Referring to this depressing finding, the *New York Times* at that time tellingly spoke of an “exploding pipe dream” – pointing to the great disillusionment regarding one of the most famous US founding myths: the narrative of a nation built on the principle of equal opportunity, where everyone could make it from rags to riches (Blow 2011). Again, the Nordic countries were the best performers in terms of achieving social justice and in creating an inclusive society.

**GDP per Capita and Social Justice (OECD)**

Unit: SJI Score / GDP per capita, PPP (constant 2011 international \$)



Source: Schraad-Tischler, 2011.

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These comparisons clearly show that economic performance is certainly an important factor, but does not automatically translate into greater social justice. The findings also corroborate the proposition that social justice and economic performance in no way counteract each other. The latter is demonstrated by the success observed on both fronts in the Nordic countries. Although these countries do not top the ranking of each indicator considered in the Social Justice Index, the “universalist” welfare states of northern Europe are nonetheless the most capable of providing equal opportunities for self-realization within their respective societies. In sum, these countries come closest to fulfilling the complex and multi-dimensional demands of the six dimensions (Schraad-Tischler 2011). The EU's GUSTO project comes to a very similar conclusion. It finds that among the 28 EU member states, the economically most successful countries have sound welfare states, which make it possible to actively invest in the capabilities of people and to guarantee a satisfactory level of social protection (see also Mazotte 2015). This leads us to the question of what policy areas should be targeted by policymakers seeking to make societies more inclusive and thereby improve the prospects of sustainable growth.



## Addressing inequalities – key areas in want for action

Our Social Justice Index can help those looking to identify policy areas essential to advancing social justice and facilitating inclusive growth. Again, while growth is not automatically inclusive, a country in which the principle of equal opportunity has to a great extent been realized *certainly* faces better economic prospects than does a country characterized by massive social inequalities. It is therefore incumbent upon states to target the following six policy areas in developing actionable measures that help enable people to participate more fully in society.

### 1. Poverty prevention – tackling child poverty must become a top priority

The causes of poverty are complex. Poverty can, in part, be attributed to the limits of a national government's short- and medium-term discretionary power. In many ways, however, poverty reflects the consequences of weak policymaking in areas such as education, the labor market and integration policy. From the perspective of social justice, the battle against child poverty tops the list of issues in need of urgent attention because it undermines the goal of establishing greater equality of life chances. A society that deprives many of its youngest members the opportunities of participation is wasting potential and undermining its own development.

The current numbers and trends are not encouraging. Child poverty within the European Union has clearly risen over the last years, especially in the crisis-mired southern European countries. Also, in 20 out of 34 OECD countries child poverty has increased since 2008. In the US, nearly 21 percent of children and young people (0-17 years) are affected by poverty. With this staggering amount of poor young people, the US finds itself only slightly ahead of Chile and on a similar weak level as some southern European crisis states, such as Greece and Spain. Moreover, children across the EU and OECD face a much higher risk of poverty than do elderly people.

In terms of social justice and inclusive growth, children represent a particularly vulnerable group, especially when they grow up in single-parent households. The Nordic countries show that low child poverty levels can be achieved when priorities are set and socially disadvantaged groups receive targeted support through a functioning tax and transfer system (e.g., effective child benefit and allowance schemes, housing benefits). However, combating poverty is not only a question of monetary support, it also depends on sound policies in other areas, such as education and employment.

## 2. Education – investing in early-childhood education is key

From the perspective of social justice, it is particularly important that a student's socioeconomic background has no effect on his or her academic success. Within the OECD, this principle is realized to the greatest degree in Estonia, Iceland and Norway. In these countries, the impact of students' socioeconomic background on their learning achievements is weakest. Canada, Finland and South Korea have also been performing very well in this regard over the last years.

In order to mitigate the influence of students' and schools' socioeconomic backgrounds on education performance, governments must improve student support as well as educational systems and their infrastructure. Doing so is first and foremost an ethical necessity in terms of social justice, but there is an economic dimension to be considered as well. The costs resulting from the effects of inadequate performance and justice in education are immense.

Investing in early-childhood education is a key component of efforts to level the playing field in this regard. Numerous studies show that investments of this kind have positive effects on later academic opportunities, job prospects and overall chances for social advancement. Countries that make early and well-targeted investments in the capabilities and opportunities of the youngest members of their societies act not only in a morally sound, but also in an economically useful way (Bertelsmann Stiftung 2013).

PISA study results are clear about the impact of pre-primary education: "Students who attended pre-primary school tend to perform better than students who have not. This advantage is greater in school systems where pre-primary education lasts longer, where there are smaller pupil-to-teacher ratios at the pre-primary level and where there is higher public expenditure per pupil at that level of education" (OECD 2010).

The PISA study results also point to another key factor shaping just opportunities in education: the earlier children are tracked and separated according to performance, the greater the influence of socioeconomic background on their educational success. At the same time, however, overall performance does not improve as a result of early tracking. In other words, integrative school systems in which children are not separated early on according to their performance are a better alternative in terms of learning success and educational justice.

Generally, in order to limit the impact of socioeconomic factors on educational outcomes it is important that economically disadvantaged families receive targeted support to increase their opportunities to invest in education (e.g., reduced fees for child-care, early-childhood education, tertiary education).

### 3. Labor market – creating incentives for high employment, fighting long-term unemployment and securing decent working conditions

From a perspective of growth, increasing employment and reducing unemployment is vital. Whereas in the course of the crisis most OECD and EU countries saw a massive deterioration of their labor markets, some countries are actually faring better than they were before the crisis. Germany's "Job Wunder" is particularly notable in this respect. Along with the responsible conduct of the country's social partners (trade unions and employers) over the past few years, as well as the use of effective crisis-management instruments such as short-time working benefits, the various labor-market reforms of the past decade have definitively taken effect. The reforms of past years have significantly increased the flexibility and absorptive capacity of the German labor market.

However, while such developments are positive from the point of view of rising employment figures, they also have a negative side. In particular, there has developed a dual labor market with classic regular employment relationships, on the one hand, and a rising incidence of non-standard employment with insufficient vertical permeability (low-wage sector, marginal employment, temporary and contract work), on the other. Many other OECD and EU countries show similar problems in this respect. In Spain and Cyprus, the situation has become extreme. For example, more than 90 percent of people with temporary work contracts are involuntarily in this kind of employment in these countries.

From a perspective of inclusive growth, it is thus not only important to increase employment and reduce unemployment, but also to make sure that people have a chance to move up from non-standard forms of employment to regular jobs with decent wages and good working conditions. With regard to the latter aspects, balanced minimum-wage schemes can serve as a first corrective measure. Strengthening collective bargaining rights is important as well. A recent study demonstrates that the decline in collective bargaining is the number one factor in rising wage inequality in Germany (Bertelsmann Stiftung 2015). Moreover, governments are well-advised to invest in targeted qualification measures for low-skilled people and young people, who often find themselves in such non-standard forms of employment. This is all the more important as low-skilled individuals are often also affected by long-term unemployment, which is one of the key drivers of poverty.

With regard to youth unemployment, which is a massive problem not only in the European crisis states, governments must seek to improve vocational training, reduce the number of early school leavers and improve the transition from the education system to the labor market. Often, there is a strong mismatch between labor market demands and the qualifications provided by the education system. Balancing supply and demand on the labor market by providing sufficient mobility of the labor force according to the needs of potential employers is therefore very important. Next to the particularly vulnerable groups of low-skilled individuals and young people, inequalities in access to the labor market also often exist for women, people with migrant background and elderly people. Measures that enable parents to combine

parenting and work, legal provisions that preclude discrimination, efforts to enforce the principle of equal pay for equal work as well as creating incentives for life-long learning are useful instruments to address such inequalities.

#### **4. Strengthening social cohesion by fighting discrimination of minorities and disadvantaged groups**

Strong economic and social inequalities can not only impede sustainable growth, they also have very negative implications for social cohesion. Effective anti-discrimination legislation (and its implementation) is thus one crucial element to reducing inequality of opportunity. Discrimination occurs in many areas of our social, political and economic life. It can be based on factors such as gender, sexual orientation, physical and mental ability, health, age, ethnic origin, social status, political views or religion. Our empirical analyses show that several discrimination tendencies still exist in EU and OECD countries, even though most countries have enacted anti-discrimination legislation. To pick out one example: the discrimination of the Roma minority remains a massive problem in many south-eastern European countries.

Non-discrimination is also closely linked to the field of integration. In most EU and OECD countries, people with an immigrant background have poorer education and job chances. Moreover, in several countries (such as France) immigrants are often concentrated in urban/suburban ghettos because other neighborhoods are simply unaffordable. Sound integration and immigration policies are thus imperative – including with regard to the common challenge of demographic change. Most countries are increasingly economically dependent on immigration to rebalance the negative economic effects of societal aging. Policies fostering the integration of migrants should therefore ensure equal access to the labor market and education, opportunities for family reunion and political participation, the right of long-term residence as well as effective pathways to nationality.

Finally, the aforementioned problem of social segregation in cities is often not only confined to people with an immigrant background, but to socially disadvantaged people more generally. Discriminatory urban zoning laws and practices that make certain neighborhoods increasingly unaffordable for less well-off people should therefore be revised (Hertz 2014). In this context, governments could also consider establishing specific rent control regulations social housing programs.

#### **5. Improving access to high quality health care provision**

Healthy living conditions depend to a large extent on an individual's socioeconomic background. The question of health therefore clearly relates to equal opportunities for self-realization and has strong economic implications. Long-term exclusion from the labor market, for instance, not only increases the risk of poverty, it can also lead to serious health stresses. Poor health conditions and health related inequalities generate high social and economic costs. It is therefore important that health care policies aim at providing high-quality health care for the largest possible share of the

population and at the lowest possible cost. Governments must strengthen preventive health measures and conditions of access. Doing so can save a lot of money and improve the state of individual health in a society. The latter aspect is important because opportunities for societal and economic participation may be constrained not only through structural injustices in a country's health care system, but also as a result of individuals' states of health.

#### **6. Improving intergenerational justice by reducing inequalities in social spending patterns (old vs. young) and improving the opportunities of families**

Social justice and inclusive growth can be ensured only if social burdens are shared among young and old, and if future generations are guaranteed sound social and environmental conditions. When it comes to the specific question of consistency in policy support for younger and older people, most OECD countries show very unequal (i.e., intergenerationally unfair) spending patterns. Most countries allocate a disproportionately large share of social expenditure to the elderly (citizens 65 years of age and older) relative to that allocated for young people (Bertelsmann Stiftung 2013). Remarkably, these spending patterns cannot be explained by a country's demographic structure, since even demographically "young" countries spend much more on the elderly than on the young. Again, the Nordic countries perform better than others in this respect. Sweden, for instance, manages to invest more in its young people than is the case in other demographically similar OECD states.

One strategy to improve spending patterns in terms of greater intergenerational justice can consist of earmarking tax revenues raised in one dimension of intergenerational justice for spending in another. Such an approach might involve, for example, slating revenues (or at least a share thereof) generated by environmental taxes for investments targeting early childhood education or efforts to improve the ability to combine family and career goals (Bertelsmann Stiftung 2013).

Generally, the Nordic countries stand out when it comes to such pro-young and family-friendly policies. The provision of day care and preschool facilities as well as generous parental leave schemes is still exemplary. The Nordic countries' successful approach to combining parenting and the labor market can thus serve as an inspiration for policy reforms in other countries.

## Are such inequality-reducing measures sufficient and how can they be implemented? The question of redistribution and investment

Clearly, each of the aforementioned recommendations are justified and useful. They are suited to expand equal opportunities in society and thereby improve the prospects for growth. There are, however, two points that must be mentioned in this context. First, it is important to bear in mind that policies and approaches yielding success in one country will not necessarily yield the same success in another political system. Long-standing institutional path dependencies, the diversity of political cultures and diverging concepts of the welfare state must be taken into account when considering the state of affairs in another country. Nevertheless, this should not prevent those in search of effective approaches from drawing inspiration from the priorities set and success of measures taken in other countries.

Second, it can, of course, be asked if reforms aimed at improving equal access to education, health care, and the labor market, although essential, can truly be sufficient when there are such fundamental trends of *extreme* income and wealth inequalities, which authors like Piketty (2014) rightly criticize. Reducing massive income inequalities especially at the top end of the distribution would certainly require stronger redistributive measures than many countries currently have in place. Here, the international debate is in full swing. There are many different options when it comes to reforming tax schemes for top income earners (see, for instance, Förster et al. 2014). While some of these proposed approaches seem to be generally acceptable and worthwhile in the eyes of both the broader public and among policymakers (e.g., improving tax compliance and fighting tax evasion), other ideas are quite controversial. Piketty, for instance, proposes, among others, a global tax on wealth, which is hardly feasible politically. In a *Foreign Affairs* article on Piketty's book, the reviewer is generally very critical about strong redistributive state interventions. He argues, among others, that a "more sensible and practicable policy agenda for reducing inequality would include calls for offering more opportunity grants for young people and for improving education. Creating more value in an economy would do more than wealth redistribution to combat the harmful effects of inequality" (Cowen 2014).

In this context, the conclusions of the above quoted OECD and IMF papers are quite interesting and can be helpful for policymakers. The authors find evidence that "redistribution appears generally benign in terms of its impact on growth; only in extreme cases is there some evidence that it may have direct negative effects on growth. Thus the combined direct and indirect effects of redistribution – including the growth effects of the resulting lower inequality – are on average pro-growth" (Ostry, Berg, Tsangarides 2014). This is an important finding. On the one hand, it shows that further research is needed to identify the point beyond which redistribution might become too extreme and, respectively, what *kind* of redistribution measures are preferable. Policymakers will then have to make decisions regarding the appropriateness of redistribution measures that account for their country's specific socioeconomic

situation and political culture. On the other hand, the findings deliver sound arguments for the general usefulness of *tailor-made* redistribution policies.

Many of the above outlined measures – such as active labor market instruments, investing in childcare facilities, etc. – can as such already be considered redistributive or “pre-distributive,” since they are suited to reduce disparities in market incomes by expanding labor market opportunities of under-represented groups (Cingano 2014). However, because *active* social spending measures also depend on the availability of sufficient financial resources, other redistribution measures that help generate such financial resources are necessary as well. To be sure, much can already be achieved by reforming structures or legal provisions that hamper the idea of equal opportunity (e.g., changing structures in the area of education, implementing new anti-discrimination policies, strengthening collective bargaining rights). Yet, actively investing in the capabilities of people also always requires money. This is not to say that governments necessarily have to massively expand their welfare states, it is rather a question of setting the right priorities and adjusting redistribution policies through growth-friendly tax and transfer systems. When effective, such approaches can afford policymakers greater leeway in shaping tailor-made measures targeting disadvantaged and vulnerable groups (cash and/or in kind benefits).

In this context, recent research suggests that while it is very important that governments “consider re-examining their tax systems to ensure that wealthier individuals contribute their fair share of the tax burden,” it is also particularly important to “focus on inequality at the bottom of the income distribution” (Cingano 2014). “Government transfers have an important role to play in guaranteeing that low-income households do not fall further back in the income distribution. This is not only restricted to cash transfers. Other important elements of this pillar are policies to promote and increase access to public services. This concerns services such as high-quality education or access to health. Such measures smooth inequality stemming from cash incomes immediately, but they furthermore constitute a longer-term social investment to foster upward mobility and create greater equality of opportunities in the long run” (ibid.).

This brings us back to the discussion at the beginning of this paper about what makes growth “inclusive.” We said that growth can only be considered inclusive if it increases the social opportunity function, which depends on the average opportunities available to the population and on how opportunities are shared among the population. In every country, however, the level of opportunities available to the population as well as the respective distribution of opportunities varies considerably, as has been widely shown in our studies on social justice. Given the uniqueness of each countries’ socioeconomic makeup and their diverse political cultures, governments always have to find context-sensitive policy solutions. There is not one simple recipe that works and that would find acceptance in every country. However, the key areas outlined here are certainly relevant *to all countries*. Governments first have to identify those areas where the need for reform is most pressing in order to then shape tailor-made policies that are both growth friendly and suited to enhance the opportunities of disadvantaged groups.

In this regard, the sharp economic downturn that many countries experienced in the course of the crisis has clearly limited their capacity to take action. In particular, the highly indebted southern European countries had to cut spending in almost every policy area in order to adhere to the aim of budget consolidation. The reduction of excessive debt levels is undoubtedly a necessary socioeconomic objective, not least with regard to the opportunities of future generations. However, to the greatest degree possible, care should be taken in the course of fiscal consolidation to maintain investment in those policy areas that are particularly relevant to the future. Massive cuts in areas such as education or research and development are self-defeating from the perspectives both of social justice and of future economic viability.

The creation of equal participation opportunities constitutes more than an ethical and social obligation in terms of ensuring solidarity and mutual responsibility in society; it is a fundamental investment in the sustainability of our societies. Such investment can be justified based on social, economic and political considerations, as growing inequalities can also lead to political polarization and extremism endangering the stability of our democracies. Generally, the strong negative sociopolitical implications resulting from extreme inequalities deserve much more attention than could be given in this paper. Not only does social inequality negatively affect democratic participation of people with weaker socioeconomic background, growing inequalities and politics often also interact directly; wealth can generate power and political influence, which can be misused (Stiglitz 2012).

Thus, policies that facilitate participation in society require widespread consensus on a regulative and conceptual framework in which values such as solidarity, social responsibility, and the common good are cherished. Political actors – as well as individual citizens – must therefore act to uphold the principles of a sustainable and socially just order in which economic strength and social equality do not undermine but complement and facilitate each other.



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