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Social capabilities–based flexicurity for a learning economy

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Abstract

Mainstream economists argue that unemployment must be tackled with 'flexibilisation' or 'labour market deregulation'. The public policy application has been the principle of 'flexicurity', with mixed labour market outcomes and limited success. Central contributions to theoretical and empirical economics writing on unemployment issues still espouse 'flexibilisation' as a general approach and warn about the detrimental effects of systematic deregulation under expectations of outcomes such as lower unemployment. Departing from a review of this literature, we take a step further from the 'flexicurity' prescription, to follow the capabilities approach of Sen and others, and develop a concept of *social capabilities–based flexicurity for a learning economy*, arguing that labour market performance must be targeted in an approach that includes a strong commitment to social well-being.

JEL Codes: J80, J58, I38

Keywords

Capabilities, flexibility, flexicurity, institutions, labour market, unemployment

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Introduction

This article presents an alternative perspective on labour market institutions (LMIs) to that encapsulated in the policy advice of so-called 'flexibilisation' or 'labour market deregulation'. It advocates an approach that is both more productive and more equitable, based on the concept of *social capabilities–based flexicurity for a learning economy*. While the European idea of 'flexicurity' has been developed to address the downsides of labour market flexibility policies, this approach has weaknesses as well as strengths, and we argue that the incorporation of a 'social capabilities' approach, with a focus on the importance of learning and development, can move the theoretical, empirical and policy debates in a more fruitful direction.

Labour market deregulation has become the orthodox solution for potentially better labour market outcomes. Although this concept had its theoretical formulation in the 1970s, it emerged strongly in the policy arena in the 1990s as an answer to persistent unemployment problems, especially in Europe, and regained momentum in 2008–2009 during the turmoil generated by the Great Recession.[1]

The benefits of labour market flexibilisation have essentially become dogma, such as the claim, accepted as received wisdom, that labour market regulatory institutions are at the root of unemployment. According to the standard line of thinking, LMIs have contributed to unemployment because they do not allow the labour market to adjust efficiently to exogenous macroeconomics shifts (Nickell et al., 2005). In all, the main view is that reduction of labour protection will improve labour market outcomes.

This article provides a critical evaluation of labour market flexibilisation as a solution for unemployment, basing our argument on evidence rather than beliefs.[2] We survey the literature, evaluating how labour markets have reacted to flexibilisation, and discuss what may be alternative paths for sound economic performance, as openly recognised by the International Labour Organization (ILO) and other institutions.[3]

We argue, additionally, as has been observed by Piketty (2014), Galbraith (2012) and others, that the dismantling of protective LMIs has contributed significantly to the increases in inequality observed around the world. Together with an increase in the capital–income ratio, the continuing rents to capital and high compensations to 'supermanagers' (unrelated to their actual productivities), the deconstruction of protective LMIs can explain much of this unhealthy increase in income and wealth inequalities.

In this article, the term 'labour market institutions', or LMIs, refers to the following four pillars of labour policy: (1) wage bargaining (union density and coverage, degree of centralisation of bargaining, union power); (2) employment protection (dismissal protection and other regulation protecting workers); (3) unemployment benefits and welfare transfers; and (4) taxation (direct and indirect taxes, in particular labour taxation and the tax wedge on labour pay).

A policy response in recent years has been the development of the concept of 'flexicurity' in European labour markets, which was supposed to combine the desirable aspects of economic flexibility and efficiency with some reasonable degree of security for workers. The results have been quite mixed and the idea of 'flexicurity' remains somewhat confusing (Burroni and Keune, 2011; Heyes, 2011). Better functioning of 'flexicurity' requires a determined social well-being approach, with lifelong training alongside minimum standard of living programmes. Improved social equilibria can be reached with a policy agenda committed to maintaining and enhancing capabilities. Thus, a more secure and holistic 'flexicurity' may be called 'social capabilities–based flexicurity'. The required investment in innovation, training and capabilities can take place in a 'National Systems of Innovation' (Lundvall, 1992) kind of 'learning economy'. This is the essence of our somewhat novel concept of *social capabilities–based flexicurity for a learning economy*.

Our analysis takes as its starting point a critique of the orthodox approach of labour market flexibilisation (with a selected literature review), identifying the disappointing performance of flexibility, illustrated by Richard Freeman's comparison of the performance in the US and Germany's labour markets in the Great Recession. We then review the performance of 'flexicurity' and argue that – as represented by its implementations to date – it is not the solution that will offer quality employment and social well-being. We thus elaborate the concept of *social capabilities–based flexicurity for a learning economy* from the perspective of a categorical social awareness approach.

The orthodox approach: *Flexibilisation*

'Flexibility' as applied to the labour market refers to 'the ease with which firms lay off workers and alter pay as economic circumstances change, and to the ability of workers to move among jobs and between unemployment and employment' (Freeman, 2013: 78). The conceptual framework for labour market flexibilisation – that is, the promotion of 'flexibility' – was provided by Layard, Nickell and Jackman's cornerstone book of 1991, *Unemployment: Macroeconomic Performance and the Labour Market*, and followed closely by related research including Nickell (1997, 1998), Elmeskov et al. (1998), Blanchard and Wolfers (2000), Daveri and Tabellini (2000), and Nickell et al. (2005), among others.

Proponents of labour market flexibilisation argue that unemployment is caused by excessive rigidity in labour markets. They generally blame LMIs for persistent unemployment. The theoretical basis evolved from the notion of a natural rate of unemployment (NRU) to the non-accelerating inflation rate of unemployment (NAIRU), underpinned by a model developed by Layard et al. (1991).[4] According to the standard NAIRU model, the equilibrium unemployment rate is fully determined by 'wage-push factors including long and durable unemployment benefits, strict employment protection legislation, generous social security contributions and high labour taxes, collective wage coordination, and strong labour unions' (Storm and Naastepad, 2008: 527). In turn, unemployment is unrelated to aggregate demand. Then, unemployment works as an impediment to the workers' bargaining position, thus keeping inflation controlled. The bottom line argument is that maintaining a strong bargaining position for workers requires a higher equilibrium unemployment rate in order to accommodate real wage demands to corresponding labour productivity level (Storm and Naastepad, 2008).

Storm and Naastepad explain how all demand-side policy is dismissed in the NAIRU framework since it is assumed to be ineffective in the long run. The mechanism is as follows: a demand stimulus may temporarily reduce actual unemployment below equilibrium unemployment, but this will lead to rising wages and prices, and these inflationary tendencies can only be compensated by a rise in unemployment up to the NAIRU level, so as to force workers to accept the given long-run wage share and desist on their wage demands.

At this point, there is abundant and robust evidence that global deconstruction of institutional structures is not a solution for unemployment. As stated by Berg and Kucera (2008), 'there is only weak evidence for the negative impacts of labour market regulations' (p. 1). Rather, investment (capital accumulation) policies that stoke aggregate effective demand, and active labour market programmes and policy, among other drivers, are more strongly associated with better labour market outcomes and other desirable macroeconomic conditions (such as lower income inequality) than is deregulation.

Challenges to the *flexibility* orthodoxy

One of the most relevant critiques of the flexibility orthodoxy is research by Baker et al. (2005). Analysing stylised models, they argue that there is no observable relation between the strength of crucial institutions (like employment protection legislation (EPL) index) and unemployment. Baker et al. also demonstrate that there is no consensus among the most popular NAIRU-flexibilisation papers regarding the magnitude of the measured impact of LMIs on unemployment. Evaluating the most cited papers one by one, they show that their findings (i.e. that LMIs increase unemployment) are not robust to alternative definitions of the variables, time periods or estimation methodology.

This same study performs regression analysis, using several LMIs as explanatory variables for unemployment (levels), and applies a similar methodology to the NAIRU literature for comparability, but extends the data to longer time periods and combines institutional variables from diverse sources. Among their strongest results, they find that bargaining coordination is a 'good' institutional variable as it tends to reduce unemployment. They also characterise two LMIs as 'bad' institutions – employment protection and unemployment benefits – but here their findings are much more equivocal: depending on the model specification, these variables have positive, weak or non-existent effects on unemployment. In all, the results of Baker et al. (2005) suggest a significant gap between the confidence with which flexibilisation policy has been promoted and the evidence that the regulating institutions are behind poor labour market performance.

In a related paper, Baccaro and Rei (2007) also question whether the empirical evidence actually supports flexibilisation policies. They conduct a time-series cross-section analysis of 18 OECD (Organisation for Economic Co-Operation and Development) countries between 1960 and 1998, including one macroeconomic control (the interest rate) and six institutional variables: employment protection, unionisation rate, generosity of unemployment benefits, tax wedge, central bank independence and wage bargaining coordination. They conclude that the empirical evidence does not support deregulation since 'the generosity of unemployment benefits and the size of the tax wedge do not seem to be associated with higher unemployment' (Baccaro and Rei, 2007: 528).

Nevertheless, the investigation by Baccaro and Rei includes possible indirect effects of institutions on unemployment. They test whether institutions could eventually magnify the size of adverse external shocks, but the results are inconclusive. Union density is the only variable they find to show a positive and robust (though small) effect on unemployment.

Importantly, neither Baker et al. (2005) nor Baccaro and Rei (2007) find empirical support for the relationship between LMIs and unemployment levels. A central conclusion of both papers is that one-size-fits-all approaches like flexibilisation are, at best, ineffective. The effect of LMIs on unemployment is country-specific and depends strongly on the regulatory setting and other idiosyncrasies. In the context of the NAIRU model, there is a null long-run effect of capital accumulation on unemployment because the elasticity of substitution between labour and capital is assumed to be one (following the Cobb–Douglas model of aggregate production). Nevertheless, sound empirical evidence shows that this elasticity is rarely unity.[5]

Keynesian economics provides an alternative approach to labour market policy. Stockhammer and Klär (2011) use econometric analysis to explain medium-term unemployment according to the evolution of capital accumulation, LMIs and macroeconomic controls in a panel including 20 OECD countries. They find that capital accumulation and the real interest rate have robust effects on unemployment, whereas LMIs have weak effects. Among LMIs, only union density and the coordination of collective bargaining were found to have statistically significant and robust effects (in line with the other cited papers), where robustness is defined as results that hold over time and across countries in two different LMI datasets. They conclude that institutions do have an effect on unemployment, but it is a minor one compared with that of macroeconomic variables, which have a much greater impact. Then, it follows that inadequate capital accumulation and/or high interest rates are more strongly responsible for high unemployment rates, and investment is the 'genuine Keynesian variable in explaining unemployment' (Stockhammer and Klär, 2011: 438).

Despite considerable effort, researchers have not (yet) come near a broad agreement on the effects of institutions on other aggregate economic outcomes such as unemployment (Freeman, 2008). Notwithstanding the lack of conclusive results, these issues still attract mainstream attention.

From *flexibility* to *flexicurity*

In the last few decades, there have been efforts to bring about a convergence of the welfare state of the mid-20th century with the axiomatic truth of 'flexibility', fostering the link – and a certain 'balance' – between social protection and economic paradigms such as efficiency and competitiveness. The European public policy arena gave birth to the concept of 'flexicurity', initially stimulated by the experiences of Denmark and the Netherlands during the 1990s, where policymakers argued that 'flexibility' is not necessarily contradicted with labour security for workers. After experiencing periods of high unemployment, both countries were able to reduce unemployment significantly while keeping unemployment benefits. One may wonder about the likelihood of applying that model to other countries with weak labour market outcomes. Is 'flexicurity' the end of the trade-off between flexibility and labour protection?

The European Commission (EC) has adopted 'flexicurity' as the main labour market policy scheme in its public discourse since 2007. According to Heyes (2011), the four pillars of the EC implementation of flexicurity are (1) flexible and reliable contractual arrangements, (2) lifelong programmes for learning and skill transmission, (3) effective labour market policies and (4) modern social security systems that not only provide adequate income but also encourage employment and facilitate labour mobility. As pointed out by Heyes, several concepts are quite ambiguous. For example, what does it mean to achieve contacts that are both 'flexible' and 'stable'? What does 'modern social security' imply in this context? In addition to the ambiguity, 'flexicurity' was constructed on the basis of a reductionist view of both 'flexibility' and 'security'. Sectoral and industrial heterogeneity in the institutional setting, regional differences in production schemes and the role of communitarian organisations, among other factors, are not brought into the scope of policy design (Burroni and Keune, 2011).

The EC approach to EPL is complex. The Commission does not encourage further protection, but the 'flexicurity' discourse does not allow for free-market ease of hiring and firing. This is the main difference between flexicurity and a full-flexibilisation scheme. Moreover, it is assumed that unemployment could be reduced with better mobility between firms, locations and industries. 'Flexicurity' allows this mobility through active policy and skills acquisition, leading to the concept of 'employability', understood as employment security based on a match between worker and job characteristics (Heyes, 2011).

Heyes argues, however, that there is little evidence of any widespread shift towards the pursuit of 'flexicurity' or even strong evidence of successful implementation. For example, Spain experienced an extremely large fall in employment rates despite having a notably high score in employment protection ranking, which can be explained by the high proportion of workers with limited-duration contracts. This contractual scheme was the reform made in Spain to allow for a certain level of 'flexicurity': subsequently, 90% of job losses in 2008–2009 were among those on temporary employment contracts (Heyes, 2011). From this point of view, 'flexicurity' was not a productive solution for the enduring malfunctioning of the Spanish labour market; on the contrary, it seems to have exacerbated its problems.

Other aspects of 'flexicurity' include mandatory job-seeking activity for recipients of social security benefits. In the fallout from the Great Recession, some EC countries (e.g. Belgium) increased and extended unemployment benefits for vulnerable worker groups, including temporary workers, migrants and young workers. In return, beneficiaries submit to stricter supervision. Recipients of unemployment benefits must show to be actively searching for work in the UK, Denmark, Italy, Poland and several other European Union (EU) countries (Heyes, 2011).

These combined policy schemes had uneven results. Heyes (2013) explains that in Ireland, which had weak employment protection and a liberal welfare state, along with active unions and active social dialogue, the unemployment rate rose from 4.6% to 11.9% between 2007 and 2009, one of the highest crisis-induced increases in any EU country. In the UK, the impact was relatively mild compared to Ireland. The government response, as in Ireland, was creating schemes for the unemployed rather than job protection to limit losses (benefits and skill acquisition to facilitate mobility). In Germany, work-time reductions helped a robust mitigation of job losses, and the labour market performance was remarkable during the recession, considering gross domestic product (GDP) fell almost 5% in 2009 (Heyes, 2013).

The unsuccessful performance of 'flexicurity' approaches allows us to question 'flexibility' altogether as a desirable characteristic or policy target for labour markets.

Following Freeman (2013), given that the US labour market is the model of a flexible, market-oriented, competitive labour market, why did it have such a painful recovery from the last Great Recession?

The US had a remarkable employment performance in the 1980s and 1990s and was indeed considered a 'flexible jobs machine' despite, as Freeman (2013) remarks, hiding 'high earnings inequality, stagnant poverty rates, falling collective representation of workers, and reduced pension and health insurance coverage' (p. 79), which are the big hazards of flexibility.

During this same period, European labour markets were old-fashioned, overly complex and sluggish. Europe's unemployment problem was supposed to be solved by deregulation of labour markets. Policy advice included recommendations to increase working-time flexibility, increase wage and labour cost flexibility, reduce employment security provisions and reduce unemployment and welfare benefit systems (e.g. OECD, 1994). Germany, with its works councils, apprenticeship system and social partner bargaining, was a prime example of the sick economies of 1990s Europe. Despite failure to implement flexibility reforms, with its relative success in mitigating the impacts of the Great Recession, Germany became the new north star of labour market policy (Rinne and Zimmermann, 2013).

In contrast, US-style flexibility was supposed to enhance the ability of unemployment to fall and recover promptly, closely following the economic cycle; however, that did not happen. The 2007–2009 recession provoked the most profound and long-lasting job loss in modern US history. Most of the unemployment phenomena were economic cyclic phenomena rather than the byproduct of regulation (Lazear and Spletzer, 2012; Rothstein, 2012). In other words, LMIs were not to blame for unemployment.

When looking into the causes of the job-less recovery, Freeman (2013) stresses that public sector employment fell in those years, contributing to the problem instead of providing a countercyclical buffer. Also, wages did not adjust flexibly to the negative output shock. Theoretically, a decline in the demand for products that reduces demand for labour should produce downward pressure on wages, preserving employment at individual firms (albeit with debatable consequences for aggregate demand and employment). That did not happen. Layoffs went from being a last resort for troubled firms to accepted practice in quotidian managerial activities. This is, according to Freeman, another possible explanation for the weak employment performance of the United States in the recession: it reflects a broad change in business policy towards layoffs.

We agree with Freeman's view that there is not an ideal labour market system for all problems in the complex economic world in which we live, whether it be a flexible structure *à la* United States or institutionally driven *à la* advanced Europe. From this point of view, a mixed scheme like 'flexicurity' may work better than a fully 'flexible' labour market. But when we take a look at social well-being, we see major prevailing concerns for welfare. Regarding economic inequality, there is a consensus that LMIs play an important role in guaranteeing a more desirable distribution of income. Freeman (2008), for example, contrasts the consensus about the positive function of LMIs with the lack of consensus as to their effect on labour market outcomes.

Changes in bargaining institutions affect the dispersion of pay, as documented by Freeman (2008). The decline in collective bargaining coverage as in the US or UK, the partition of centralised negotiations between the major union federation and major employer association in Sweden or the end of the Scala Mobile mode of centralised wage setting in Italy, all present increasing inequalities. The fact that more institutional wage determination (and less full-market wage determination) narrows earnings inequality is hard to question.

The numerous critiques of this new orthodoxy have driven the OECD to retreat from its strong Jobs Study claim to a more equivocal position about the impact of institutions on outcomes. The 2004 OECD Employment Outlook admitted that 'the evidence of the role played by EPL (employment protection legislation) on aggregate employment and unemployment rates remains mixed' (OECD, 2004: 81). The Outlook also argued for 'the plausibility of the Jobs Strategy diagnosis that excessively high aggregate wages and/or wage compression have been impediments' to jobs, while admitting that 'this evidence is somewhat fragile' (OECD, 2004: 165).

Back to the consensus, while proponents and opponents of the case against labour institutions disagree about whether labour institutions are a significant contributor to unemployment and aggregate economic efficiency, it is important to recognise that they concur on one point: that labour institutions, particularly those associated with trade unions, reduce inequality of pay compared to pay in competitive markets. The outcome of this debate, following contrasted empirical evidence, is that labour institutions reduce earnings inequality but that they have no clear relation to other aggregate outcomes, such as unemployment (Freeman, 2005).

The joint issues of inequalities, social needs and anaemic employment require a fresh policy approach that needs to reset the whole board of labour market policy. Full old-style security, full flexibility or even 'flexicurity' has not performed well in the last decades. Labour policy must include not only the idea of 'flexibility' (i.e. market efficiency) and traditional job 'security' (i.e. worker rights) but also social capabilities in a fully democratic environment.

Towards a *social capabilities–based flexicurity for a learning economy*

From the above considerations, it would appear that ambiguities in the concept of 'flexicurity' can be overcome in light of concrete country experiences and putting the idea of quality of employment and job security in the forefront. Doing this will require a form of lifelong learning and training flexibility, funded by employers and social state policies. Furthermore, it will also involve guaranteed minimum moral and historical standards of living for all. This might be achieved in various ways, including the guaranteed basic income programme championed by many in Europe and around the world. To this end, Khan (2008, 2013a, 2013b, 2014, 2016) has advocated a capabilities-maintaining and enhancing programme. Thus, a more secure 'flexicurity' may be called *social capabilities–based flexicurity*. It may be useful to elaborate upon this somewhat novel idea to pinpoint its relevance in formulating better employment policies.

Fundamentally, *social capabilities–based flexicurity* is a concept developed from key insights that go as far back as Adam Smith in economics to Aristotle in ethics. Recently, Sen and Nussbaum extended the scope of the concept and gave it a rigorous modern form. Khan (1998) gave an explicitly social and political economic formulation of capabilities grounded in a network of normative institutions by extending Hegel's idea of *Sittlichkeit (ethical community)*.

To put the argument very succinctly, various theorists drawing upon the insights of Adam Smith have proposed a theoretically rigorous and elaborate evaluation of well-being (Smith, [1759] 2006, [1776] 1904). Sen is the originator of this 'capability approach' in recent times (e.g. Sen, 1992, 1999, 2004). The primary theoretical criticism to the utilitarian approach by Sen, Nussbaum and others – namely, that this approach reduces all qualities into quanta of utilities – is a serious one. Nussbaum gives a graphic example of this by quoting the exchange between Mr Gradgrind, economist and grief-stricken father, and his pupil Bitzer. The student outdoes his mentor by adhering to a strict code of utilitarian rationality that cannot comprehend a father's grief (Nussbaum, 1995, 2000).[6] Khan has pursued a similar line of criticism in a number of recent papers and in the book *Technology, Development and Democracy*.[7] This approach makes the capabilities explicitly social and asks what concatenation of economic (real and financial) and other (e.g. political and social) institutions will allow capabilities to both increase steadily on the average and tend to equalise them among diverse individuals. In effect, as the following discussion makes clear, we are asking, how can we increase and equalise real positive freedom for individuals in specific social contexts?

In discussing the well-being implications of human rights for workers in particular, we wish to take on a version of the social capabilities approach. It is not our intent to present how human rights policies for labour affect detailed empirical indicators of well-being. We simply wish to pose clearly the conceptual problem of evaluating the problems of denying workers their rights and the possible consequences of labour rights–based reforms. The institutional reforms and changes proposed by progressive labour scholars, suggesting alternate labour market structures, must be proven to be capability-enhancing for workers or at least not to be capability-reducing for them. Furthermore, we still need to ask what social capabilities means both abstractly and concretely.

In a number of influential and insightful contributions, Martha Nussbaum (2000) has developed an Aristotelian interpretation of capabilities. The connections between capabilities and a distinctly Aristotelian conception of human flourishing are indeed striking. We have available now (see, for example, Khan, 1998) a list of general capabilities drawing upon both Sen and Nussbaum and extending these for addressing the question of well-being for workers in particular.

Khan (1998) points out some Hegelian connections as well. In particular, the Hegelian concept of freedom as an interactive arrangement in society where concrete institutions of family, civil society, and state all play definite roles seems a specifically modern way of viewing the possibilities and limits of human flourishing in a liberal society based on private property. Hegel's ([1821] 2005) *Philosophy of Right* is a landmark contribution, in this sense, to the elucidation of the problem of freedom in modern societies.

Following this line of reasoning, Khan has emphasised elsewhere the irreducibly social (not merely biological) character of these human capabilities. Sen himself emphasises 'a certain sort of possibility or opportunity for functioning' without always carefully specifying the institutional setting (Khan, 1998, 2014). In particular, neither Sen nor Nussbaum has addressed directly the question of workers' capabilities.

In order to assess the critical reach of such a fully social capabilities perspective to labour, we need to go further and try to describe more concretely what some of the basic capabilities may be. Crocker (1992) gives an admirable summary of both Nussbaum's and Sen's approach to capabilities in a recent essay. Mainly relying on Nussbaum, and also on other sources, he has compiled a list that is reproduced in Appendix 1.

As Crocker (1992) correctly points out, we can facilitate this ordering by requiring that 'it might be better for practical rationality and affiliation to *infuse* but not *organize* the other virtues' (p. 176). Crocker (1992) contrasts Nussbaum's approach with Sen's:

> Sen's and Nussbaum's lists differ at a few points. For Sen, the bodily capabilities and functionings are intrinsically good and not, as they are in some dualistic theories of the good life, merely instrumental means to other (higher) goods. In interpreting Aristotle, Nussbaum distinguishes between bodily functionings that are chosen and intentional, for instance, 'chosen self-nutritive and reproductive activities that form part of a reason-guided life' and those that are non-intentional, such as digestion and other 'functioning of the bodily system in sleep'. (pp. 176–177)

Furthermore, Nussbaum has included items such as 'being able to have attachments to things and persons outside ourselves' and 'being able to live with concern for and in relation to animals, plants and the world of nature' (Crocker, 1992: 175), for which Sen has no counterparts. These items are welcome features. Item 8, 'ecological virtue', is an especially important addition to Nussbaum's outlook.[8]

Both Sen and Nussbaum agree, however, that these capabilities are distinct and of central importance (Crocker, 1992). One cannot easily trade off one dimension of capability against another. At most, one can do so in a very limited way. One cannot reduce capabilities to a common measure such as utility. As Crocker points out, 'capability ethic' has implications for freedom, rights and justice going far beyond simple distribution of income considerations. If one accepts the capability approach as a serious foundation for human development including maintenance and development of social capabilities of workers, it then follows that going beyond distributive justice is necessary for a complete evaluation of the impact of economic policies.

Conclusion

In evaluating any policy regime, for instance LMIs and policy complexes and particularly specific national economic policies for labour under globalisation, from the social capabilities perspective, not only do we wish to pose the question of efficiency but also the whole set of questions regarding *human freedom* – in particular, the *positive human freedom* to be or to do certain things. Thus, creation of markets and efficient production by itself would mean very little if it led to a lopsided distribution of benefits. Worse yet, if markets and other institutions led to phenomena such as reduced life expectancy, increased unemployment, reduced consumption levels for many and deprivation for certain groups such as women and minorities, then they will not even be weakly equitable economic structures. On the contrary, under such circumstances, the global markets and other financial institutions will be strongly inequitable from the capability perspective.

It is because of this perspective that the existing positive analysis of the problems of political economy such as those of labour markets and institutions from the perspective of social capabilities approach to workers' rights need to be put in a completely transparent 'social capabilities' framework. Such a framework is openly normative and makes a strong ethical case for helping the disadvantaged workers increase their capabilities towards achieving equality of capabilities. Thus, for instance, poorer nations and poor people who must find work in the global economy deserve a special ethical attention within any proposed global and national LMI architecture (Khan, 2013a, 2013b, 2013c). Such freedom as social capabilities of workers, as Sen points out in a general context without specific reference to workers, has both an instrumental value and an ultimate value. Instrumentally, freedom as social capabilities can lead to a further increase in productivity (Sen, 1999). Thus, even a hard-nosed, efficiency-driven analysis of labour markets must address this aspect as an empirical issue. Therefore, an Aristotelian–Hegelian interpretation of the Sen–Nussbaum conceptualisation of capabilities can go a long way towards a social democratic regime of development as freedom, and this is much to be applauded.

However, pushing the concept of social capabilities further in the Hegel–Marx direction of overcoming alienation by achieving freedom as a concrete universal right requires a very radical form of global social democracy. An added strength of such an approach will be to go some distance towards bridging the gap between the process aspect of human and workers' rights and the social capabilities approach. We have to treat modifications of 'flexicurity' from a social capabilities perspective keeping this point in mind. This is the essence of our somewhat novel concept of *social capabilities–based flexicurity for a learning economy*.

The idea of a 'learning economy' is the strong presence of innovating economic activities at the micro- and meso-levels through a combination of industrial and innovation policies, firm level learning, civil society engagement and social democratic macropolicies, in the spirit of Lundvall's work on 'National Systems of Innovation' (e.g. Lundvall, 1992). Khan (2004) and Gabriele and Khan (2010) extend Lundvall's original formulation to models of complex learning economies and implement their theory at the economy-wide micro–meso interactive level via the use of social accounting matrices for modelling empirically the capabilities of workers in a learning economy.

To sum up our critique and an alternative, actual experiences of flexicurity are mixed; however, 'flexicurity' can be extended into an attractive idea via the foundational concept of workers' preserving or enhancing their basic capabilities in a learning economy. This is an attractive concept that may help in arriving at better long-run labour market outcomes while keeping employment protection and unemployment benefits in place. As we have shown, in reality the application of flexicurity has proven to be complicated with mixed results. The reasonable conclusion to draw is that each country can try to apply a scheme with main traits of flexibility and security, adapted to its institutional background, in order to find an equilibrium that brings macroeconomic improvements as well as micro- and mesoeconomic benefits for all. To this end, we propose that implementation of these ideas would require that we first explore the concrete country-specific dimensions of *social capabilities–based flexicurity for a learning economy* for making adequate social and labour policies.

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Notes

1. A typical example of this policy prescription is the OECD (Organisation for Economic Co-Operation and Development) Jobs Study of 1994, which stresses, for example, that

   In most countries where relative wages have been flexible (the United States, Canada, Australia), both the relative employment and unemployment rates of the unskilled changed little during the 1980s. In comparatively inflexible Europe, on the other hand, both relative employment and unemployment rates deteriorated. (OECD, 1994: part 1d)

   An efficient and flexible supply side of the economy is also crucial in ensuring that practices and policies operate in ways that create new jobs and help people fill them. (OECD, 1994: part 2b)

2. In the spirit of Robert Solow (1997), 'it ain't the things you don't know that hurt you, it's the things you know that ain't so'.
3. For example, ILO and OECD (2015) and ILO (2015).
4. Notwithstanding the similarities between both concepts, it is important to stress that the natural rate of unemployment (NRU) considers unemployment to be voluntary, while the non-accelerating inflation rate of unemployment (NAIRU) models involuntary unemployment.
5. See, for example, Judzik and Sala (2015).
6. Describing Bitzer as a 'good student' because of his 'remarkably flat and abstract description' of a horse that was devoid of emotion (Nussbaum, 2000: 23).
7. See Khan (1998), Khan and Sogabe (1994), Khan (2007a, 2007b) and Frame and Khan (2007).
8. Crocker (1992) points out that

   In a period when many are exploring ways of effecting a convergence between environmental ethics and development ethics, it is important that an essentially anthropocentric ethic 'make room' for respect for other species and for ecological systems. Worth considering is whether Nussbaum's 'ecological virtue' is strong enough. Perhaps it should be formulated to read: 'Being able to live with concern for and in relation to animals, plants, and nature as intrinsically valuable'. Item 9 injects some appealing playfulness in a list otherwise marked by the 'spirit of seriousness'. What explains the presence of these items on Nussbaum's list, their absence on Sen's list, and, more generally, the more concrete texture often displayed in Nussbaum's descriptions? One hypothesis is that the differences are due to Nussbaum's greater attention to the limits, vulnerabilities, and needs of human existence. Further, it may be that Nussbaum's richer conception of human beings derives from making use 'of the storytelling imagination far more than the scientific intellect'. On the other hand, Sen helpfully includes the good of self-respect, a virtue that enables him to find common ground with Rawls and to establish links with the Kantian ethical tradition, in which moral agents have the obligation to respect all persons, including themselves, as ends-in-themselves. (p. 177)

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Appendix 1. Crocker's list of basic human 'social capabilities'.

1. Virtues in Relation to Mortality
   1.1. N and S: 'Being able to live to the end of a complete human life, so far as is possible'
   1.2. N: Being able to be courageous
2. Bodily Virtues
   2.1. N and S: 'Being able to have good health'
   2.2. N and S: 'Being able to be adequately nourished'
   2.3. N and S: 'Being able to have adequate shelter'
   2.4. N: 'Being able to have opportunities for sexual satisfaction'
   2.5. N and S: 'Being able to move about from place to place'
3. Virtue of Pleasure
   3.1. N and S: Being able to avoid unnecessary and non-useful pain and to have pleasurable experiences
4. Cognitive Virtues
   4.1. N: 'Being able to use the five senses'
   4.2. N: 'Being able to imagine'
   4.3. N: 'Being able to think and reason'
   4.4. N and S: Being 'acceptably well-informed'
5. Virtues of Affiliation I (Compassion)
   5.1. N: 'Being able to have attachments to things and persons outside ourselves'
   5.2. N: 'Being able to love, grieve, to feel longing and gratitude'
6. Virtue of Practical Reason (Agency)
   6.1. N: 'Being able to form a conception of the good'
   S: 'Capability to choose', 'ability to form goals, commitments, values'
   6.2. N and S: 'Being able to engage in critical reflection about the planning of one's own life'
7. Affiliation II (Friendship and Justice)
   7.1. N: 'Being able to live for and to others, to recognize and show concern for other human beings, to engage in various forms of familial and social interaction'
      7.1.1. N: Being capable of friendship
      S: Being able to visit and entertain friends
      7.1.2. S: Being able to participate in the community
      7.1.3. N: Being able to participate politically and being capable of justice
8. Ecological Virtue
   8.1. N: 'Being able to live with concern for and in relation to animals, plants and the world of nature'
9. Leisure Virtues
   9.1. N: 'Being able to laugh, to play, to enjoy recreational activities'
10. Virtues of Separateness
   10.1. N: 'Being able to live one's own life and nobody else's'
   10.2. N: 'Being able to live in one's very own surroundings and context'
11. Virtue of Self-respect
   11.1. S: 'Capability to have self-respect'
   11.2. S: 'Capability of appearing in public without shame'
12. Virtue of Human Flourishing
   12.1. N: 'Capability to live a rich and fully human life, up to the limit permitted by natural possibilities'
   12.2. S: 'Ability to achieve valuable functionings'.

Source: Crocker (1992).
N and S stand for 'Nussbaum' and 'Sen', respectively; the quoted items come from Nussbaum unless otherwise noted.