

# 1 Introduction: Europe and the politics of capabilities

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## 1 Introduction

Since the mid-1990s the employment and social policy agenda of the European Union has been more focused on employment promotion than on addressing Member States' systems of social protection. There has been a shift away from old concepts of welfare states towards broader social initiatives that align social and economic objectives within a coherent approach. This calls for a different framework for employment and social policy, which will permit social dialogue and political deliberation to inform and complement legislative action at all levels. The theme of this volume is to demonstrate that this framework for employment and social policy in Europe can develop from a new, different set of policy principles: a *capability approach*.

In a capability approach to work and welfare, what matters for public policies is what a person can do and be with the resources over which she has command. In other words, what matters is her achievement as a person (and, as a consequence, the effective freedom she has to achieve her goals), compared with what is judged normal (i.e. conventionally agreed) in a given society. For Amartya Sen, from whom we take inspiration, empirical evidence shows that, when faced with the same hazard, people are unequal in their capabilities of doing and being with the same basket of commodities or amount of money. The true question for social policies is thus to struggle against inequality of capabilities and to open for all an effective freedom, that is a widening of the possibilities she has the capability to achieve in her work and her life. The more fully this condition is satisfied, the more can individual and collective initiative be deployed, the more can economic efficiency and social justice be reconciled.

This volume addresses the current impact of European policy implementation while also offering a new perspective for future debate, and discussing the conditions for its development. It tries to reassess current trends critically by showing the links between social improvement and economic prosperity that result from policies designed specifically

to facilitate participation by all, through an enhancement of their capabilities. Hence, it breaks with approaches, mostly macroeconomic and financial, that argue for structural reforms oriented toward pure market flexibility for Europe; these reforms ultimately comprehend social welfare as counterproductive to economic prosperity. By outlining the contours of a capability approach in widely different areas of European politics, the book illustrates a ‘hidden agenda’ in the sense that, from the outset, this approach can inspire desirable advances in European social policies and legislation as well as in methodology – in contrast to alternative approaches that have neglected this area. Now is a good time to make this hidden agenda explicit and develop it further. At the end of 2000, the European Commission launched a new initiative, the European Social Agenda, to run until 2006 and to be renewed in 2005.

To achieve this programme, an interdisciplinary team of European social science researchers (covering economics, history, law and sociology) has worked in close collaboration with high-level representatives from agencies of the European social dialogue (ETUC, ECPE, UNICE). Following a series of collaborative seminars, research results were presented at a European conference held in Brussels in January 2001, under the presidency of the DG, ‘Employment and Social Affairs’. This collaboration resulted in this book, based on original research by the participants with contributions by both researchers and actors involved in European social dialogue. Using a capability orientation, each chapter offers a critical assessment of how various European initiatives are implemented ‘on the ground’, thereby generating new perspectives on how future developments may be shaped. Empirical studies have been chosen to demonstrate the range of policy contexts – firms, local partnerships, social dialogue at various levels. The case studies are an opportunity to appreciate the European political process in employment and social affairs, and become aware of the varied ways in which European initiatives may be interpreted or oriented towards a politics of capabilities. In this introduction, written jointly by a researcher and a European social actor, we would like to draw the reader’s attention to this ‘red line’ that runs through the set of contributions.<sup>1</sup>

The argument is developed in the following sections. Going back to the Delors project (1985–92) for social Europe, section 2 emphasises the need for EU initiatives on social issues. Section 3 develops the set of principles that constitutes a ‘capability approach’ and explains how it meets the requirements of a knowledge-based economy (specifically, the transformation of work). Section 4 explains why the European Employment

<sup>1</sup> Bibliographical references may be found in the individual chapters.

Strategy (EES) and its open method of co-ordination risk promoting an activation route. Europe is at the crossroads between going down an activation and a capability route. While trying to retain the best of these strategies, implementing Social Europe should follow another path, via the development of social and civil dialogue and a fresh interpretation of the principle of subsidiarity. Section 5 develops this line and advocates a ‘new alliance’ in favour of the development of Social Europe.

## 2 The need for EU initiatives on social issues

Social Europe remains the poor relation in Europe’s construction. The shape and content of its future is obscure owing to a confused mixture of blockages, contradictions and potential outcomes. Strategies are unclear and their consequences risk becoming uncontrollable. The project of a Constitution for Europe has not modified this state of affairs. Under the Delors presidency (1985–92), the European Commission had a strategy, concentrating on ‘the social dimension of the internal market’. This strategy has ground to a halt, at a moment when it should have been pushed forward to cope with emergent ‘social objectives’ on a European scale.

### 2.1 *The Delors project: successes and failures*

Whatever they may be, European norms modify national norms. But the political process and the outcomes are different depending on the options selected and the methods used. Roughly speaking, the key issue was and remains whether European policies and legislation should seek (1) to substitute, or (2) add to – or simply by focusing on new problems originating in the creation of Europe, (3) to complement – national policies and legislation. *A priori*, one would expect that the first option (substitution) would raise fundamental opposition, the second (addition) would risk being dismissed for provoking further complexity in national social and economic decision-making. The third (complement) would appear the most acceptable as it *a priori* offers relevant solutions not available at national level (even if it also creates incentives to modify national norms).

The project initiated by Jacques Delors at the end of the 1980s was something between options 2 and 3. It tried to implement a set of general principles that should and could guide the development of national legislation and policy to cope with the internal market. This set of principles was labelled a ‘charter of fundamental social rights for workers’. In the spirit of subsidiarity, countries were left to translate these principles into their own model and legislation, some pressure being exercised

by social actors via the mechanism of European Social Dialogue and by the negotiation of European collective agreements. For the Commission, the ambition was not (as it is in France) to make these rights effectively universal, but simply to ask the Member States to use these principles as reference points (or benchmarks) in policy development. Member States were expected first to respect selected minimal social and employment standards of their own, then to start a process of improving these standards. This assumed that social negotiation, involving intermediaries (economic, social and civil actors), could focus on new social objectives created by European economic integration (see below) and prepare the ground for European legislation.

This strategy partly succeeded and partly failed. The success was the introduction of a new title in the Treaty on the social dimension of the Union (now Title XI). This title created a new mechanism, European Social Dialogue, allowing future European legislation in this sphere to be prepared, if possible by collective agreements between European social partners, or at least following consultation with these partners. Failure was elsewhere: in a reduced scope for qualified majority voting (QMV); in more restricted possibilities for free negotiations by the social partners; in progressive blockage of the legislative process. Governments of Member States have basically resisted losing any control over programmes of social policy and national employment. At the same time, European economic integration is proceeding apace: monetary union, the single market, the creation of European champions and multinationals; the reconstruction of interest groups at a European level and the redefinition of their spheres of activity. In some respects, these trends are good reasons for governments to protect their welfare states and employment against unwelcome consequences. But doing so introduces a prisoner's dilemma in which the absence of co-operation between the Member States risks promoting a *minima* solutions at European level. It also gives incentives to put national social models in competition with each other by relocating jobs and geographically restructuring activities.

## 2.2 *Providing economic integration with social content*

As a consequence, a growing tension is evident between progress towards economic integration and the stagnation of social co-ordination, all the more as the enlargement of Europe is now going on. The EES, launched in 1997, is grounded on other foundations than the Delors strategy: European guidelines for national policies (placed under macroeconomic control), peer review, statistical indicators benchmarking (emphasising the macro job rate) and the open method of co-ordination (OMC).

This emphasises a switch from European strategies to national solutions, with the risk that incoherence will hamper the building of Europe. The OMC strategy, based on governance, quantitative benchmarking and co-ordination of national policies, has yet to prove its effectiveness, not to mention its coherence and efficacy. One striking aspect of the OMC strategy is that, in the long run, it seems to share the very ambitious option 1 outlined above (substituting a European framework for national frameworks) without exhibiting, nor discussing, its substantive content, or the means by which this could plausibly be achieved. In brief the OMC resembles the Delors strategy, minus what made the latter original and, presumably, relevant: the predefinition of a set of normative principles.

The conviction shared by all the contributors to this book is that, owing to its origin and specificity, Europe must endow public action with an ethical and practical orientation. Does its intervention effectively improve personal situations in terms of jobs, work and life prospects, environment and security in case of hazard? Are European policies and legislation, when combined with national ones, effectively doing more and better for people than national policies by themselves? Are they developing an atmosphere of competitiveness and justice that proves both efficient and fair in a global world? The objectives of Europe-wide participation, solidarity, inclusion and personal responsibility are essential to the success of the European project. Thus the true questions are what substantial content and direction must be given to European governance, and how this may be achieved. These questions are especially relevant for social dialogue in Europe and its role in implementing social, work and economic norms.

Facts plead in favour of such a move and for a redefinition of the stakes. On one side, the transformation of work initiated by changing markets and demands requires more responsive organisations and workers capable of initiative and responsibility, to foster the diffusion of knowledge-based technologies. Owing to their novelty and to their diverse manifestations between sectors, territories or professions, these call for collective negotiation and agreement before being introduced into European law. These objectives include, for instance: the search for positive trade-offs between flexibility and security; the promotion of secure geographical and occupational mobility; equal treatment for men and women; continual life-long learning; respect for fundamental rights; information, consultation and participation by workers and territories in economic decision-making and restructuring. On the other side, actors in Europe have accumulated experience about European matters; they are able to link these issues with their own preoccupations, interests, values and projects. By virtue

of path-dependency, existing institutions have begun to frame possible choices and actions and, perhaps, to shape the ‘corridor’ within which social Europe can develop.

### 3 **Towards a capability approach**

Such a context of potential crisis is propitious for developing new ideas. New European data confront accumulated experience. The question is how to relate data and actors’ experience to each other and exploit them to enable social Europe to progress. This book advocates a capability approach, which can serve this very purpose. In this section, we present a set of principles for public action and the main arguments in their favour.

#### 3.1 *Development as freedom: learning from Amartya Sen*

The central theme of a capability approach is the construction of a *framework of active security* to cope with work transformation and economic uncertainty; this should become a fundamental objective for social Europe. This objective should be accommodated within territories, labour laws and social protection systems throughout Europe in ways specific to local practice. To achieve this, European action in each of these areas ought to establish a *focal point* towards which all should converge. The focal point to be chosen is the development of capabilities – of actors, workers, firms and territories.

*The concept of capabilities in economics and law* The concept of capabilities has a long tradition in two areas of economics (the theory of production and the normative economics of well being) and in law. The concept originated from the analysis of relations between division of labour, knowledge and specialisation of the firm operating under market conditions (from Adam Smith to Alfred Marshall). Amartya Sen, 1998 winner of the Nobel prize for Economics, attached his name to the concept of capabilities in his work on social justice and collective choice. In law, the concept of capabilities refers to the endowment of persons with procedural and substantive collective rights, which permits engagement in all forms of co-operation and agreement within the security of the law. This concept is the foundation of personal responsibility that holds individuals accountable for their actions and the source of expectations as to their future conduct.

In the economics of well being, Sen argued that ‘economic development can be seen as a process of expanding the real freedoms that people

enjoy'.<sup>2</sup> This contrasts with narrower views identifying development with the growth of GNP or individual incomes. These can be very important as *means*, but means cannot be confused with the *ends* toward which attention and means must be directed. These ends, real freedoms, have as a counterpart the expansion of the *capabilities* for people to live the life they value. A politics of capabilities will aim at generating a 'virtuous process' in which '[real] freedoms are not only the primary ends of development, they are also among its principal means'.<sup>3</sup> More specifically, criticising John Rawls, Sen argues that, to evaluate well being, people's capabilities are more just and efficient criteria than endowments in primary goods. First, persons endowed with the same resources (notably financial) remain unequal in terms of expected outcomes. Such empirical evidence is central, for instance, to the equality of treatment between men and women, as much as for an efficient functioning of the labour market. Second, certain goods have intrinsic value, independent of individual evaluation or preference (to be suitably fed or housed, to participate in community life, to have access to a good job, to be adequately trained, etc.). Such goods are clearly fundamental rights to which public authorities should guarantee real access for everyone. These are not simply minimal rights. What counts is access to a *real freedom of choice at every stage of life*. It is about guaranteeing the security of personal development.

In the economics of production, a capability approach considers that the source of a firm's competitiveness resides not in cost minimisation, but basically in its capacity to work, organise and innovate. The organisation of industry, as George B. Richardson,<sup>4</sup> an influential authority, said, must be understood in terms of numerous activities (R&D, production, sales, services, etc.) which ought to be undertaken by firms offering the required *capabilities*, that is to say those 'with the appropriate knowledge, experience and skills'. It is more efficient and secure to concentrate on specific activities and to leave complementary ones to other firms. The concept of capabilities promotes a vision of the firm in terms of security and efficiency of its development. It leads to a theory of co-operation (beyond a theory of organisation aiming at controlling moral hazard, as in Williamson<sup>5</sup>). Long-term contracts, joint ventures (JVs), licensed agreements, etc. are efficient because they provide access to required complementary products and services. The concept thus offers the basis for a theory of endogenous territorial growth, because it

<sup>2</sup> Sen (1999: 3).      <sup>3</sup> Sen (1999: 10).

<sup>4</sup> Richardson (1990).      <sup>5</sup> See Williamson (1985).

emphasises specialisation in products and services acquired in which territories accumulate absolute advantages.

These origins make the concept of capabilities especially relevant for Europe. It focuses on the firm as well on the individual. The connection between the two lies in a common interest in the scope of possibilities open to an economic agent and the manner in which these possibilities are created and exploited. The vision is dynamic and contextual. A positive relationship between efficiency and equity is achievable. These studies conceive the economic agent (company or individual) as capable of co-operation, of making agreements and of keeping them. This, in one sense, stems from a recognized common interest. Each actor participates in co-ordination with others (in a firm, an industry, a territory, in her life); the satisfaction of her own objectives depends on sound development of this co-ordination. Each actor must offer adequate capabilities to both sustain her position and to ensure the high quality of the collective result.

*Situated European action and collective negotiation* In retaining the positive aspects of liberalism while removing the negative ones, a capability approach offers a credible alternative to so-called ‘neo-liberalism’. The standard governance approach deals with *a priori* strictly opportunist actors. By contrast, the capability approach aims at creating a learning process of participation and of developing capabilities. It considers that the European Union is a public actor centrally concerned with common goods (more and better jobs, social inclusion, etc.) agreed upon at a European level. As such, it has an ethical and practical orientation, not solely a political and strategic one. But its premise is that common goods are achievable only by internal guidance through situated public action. By ‘situated,’ we mean a public action located within established negotiation and decision-making of local actors, in territories, trades, networks or firms. Such public action relies on each actor acting freely in compliance with the common good and continuing to do so, with a view to the increased capabilities and freedom of choice that she will acquire. The public authority should guide the creation of mutual expectations, which subsequently become self-sustaining. This model of collective action offers, in a sense, an end product for collective negotiation. The public actor compensates – temporarily and proportionately – for the incapacity of others. But this cannot be resolved externally, only internally redeveloped. Though this action does not comply with the model of hierarchical State authority, it remains public in the sense that it is publicly agreed upon among numerous actors (including expected beneficiaries); interested parties participate in its implementation. In principle, actors



are given rights to act, in their diverse ways, subject to customary good practice. This allows the origins of European social dialogue, as recalled in section 1, to be revisited to discover new possibilities for European construction.

To conclude, a politics of capabilities would endow people and actors with adequate, fair and efficient resources: with effective rights to social deliberation and participation, with benefits and collective services focused on the development of personal and collective capabilities. In such a strategy, social Europe should fight for *equality of capabilities* between its citizens and between its firms. Doing this would gain public support for social Europe.

### 3.2 *Some illustrations*

We would like to suggest the relevance of a capability approach by offering some examples: territorial development, the employment problem and responsibility.

*Collective capabilities and territorial development* The single market and the Euro do not only mean wage and price stability and pressure to cut labour costs, as the European Central Bank (ECB) and the macroeconomic view advocate. In parallel, by expanding the markets accessible to firms and making transactions easier and safer, the process of European economic integration creates an incentive to search out new opportunities for innovation, products and work competencies. These could be used as a foundation for creating employment and improving economic competition based on product and job quality. Europe-wide industries are developing their own process of territorial division of labour. This offers opportunities for new standards of work and social protection to be built on the upward trend of the EU trajectory. Studies of territorial economic specialisation indicate that many (but not all) European regions contain specialisation in specific products and services in the long run, which have accumulated absolute advantages. Their capacities in skills, innovation and production permit these regions, at least potentially, to benefit from a process of endogenous growth that could be encouraged by territorial co-ordination and adequate European structural policies. Less favoured regions merit the greatest attention from the European Structural Funds and should be involved with more favoured ones in a learning process about good economic practices. Overall, there is a need for fresh expertise on economic integration that can facilitate the development of social Europe. In particular, reforms of European competition policy that facilitate these trends should be promoted.

*The employment problem* In employment questions, a capability approach would break with the standard perception that the level of employment is a process of exogenous factors, economic, financial or technological. Furthermore these factors are commonly viewed more as preventing the rise of employment rather than as facilitating it. A capability approach considers that, in a knowledge-based economy, employment becomes an endogenous input for growth and for raising productivity. In such an economy a continuous dynamic, of gradual and permanent innovation, is taking place. New products and services and new markets are generated that both create jobs and raise productivity. Reciprocally, the creation of jobs stimulates global demand and higher productivity liberates resources that can be used in new investments. Both sustain the growth of the economy. The key factor in profiting from such virtuous circles is thus to develop capabilities, at individual and collective levels, and to maintain them whatever the economic and social circumstances. Individual employability is necessary, but this is no longer enough in relation to the transformation of work: the key issue is responsibility.

*Individual capabilities and responsibility* Capability-based policy principles fit well with the transformation of work that accompanies the emergence of a knowledge-based European economy. To be competitive and innovative, standards for employment require responsibility, initiative, autonomy and relational skills. The deployment of these qualities requires workers to possess initiative and the reflexive freedom of action that has no technological substitute. From the social justice point of view, widespread consensus supports claims to a fair balance between work time and private time, a fair wage, good career prospects, the freedom to choose an appropriate job and so on.

The heated debate between a neo-liberal and a capability approach focuses on whether these positive freedoms should or should not be accommodated under the law and through collective bargaining over job design and welfare provision.<sup>6</sup>

Neo-liberals consider that these issues are the individual's responsibility. Individuals can choose whether or not to invest in their human capital. In terms of public policy, employability has to be a strictly individual affair. This is the case, for instance, with the British 'New Deal' or for workfare policies. If necessary, the neo-liberals permit the State to create incentives and penalties to force the development of individual responsibility. Their arguments are ultimately contradictory. Labour does not move because it has no real capability to do so and remains insecure.

<sup>6</sup> The so-called 'Supiot Report' develops all these points. (See Supiot 2001.)