

***Freedom of choice and resource allocation mechanisms in scarcity conditions:
the poverty of Mr. Well Being and the need for external action***

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1. Understanding the actor for a redefinition of poverty: the role of economic sociology in choice theory

One task of economic sociology is to disprove Samuelson's assertion that the study of rational behaviour pertains to economic sciences, and the study of irrational behaviour to sociology. If the perspective of a borderline discipline is to protect and reinforce the border – as a guarantee for its own existence – new bridges should be created between economics and sociology over the issues of rationality.

Most sociological criticisms of the utilitarian microeconomic model, and its imperialistic pretensions to the explanation of individual choices, have objected to the theory of the rational agent who maximizes his own interests, playing "at home" so to speak. The cultural and value elements that create links in communities, social capital rather than intangible inexplicable elements such as the feelings and instincts that affect personal taste, are able to influence human behaviour just as much as the pursuit of personal utility. The scientific foundation and empirical pragmatism of these statements are beyond dispute: yet a possible criticism can be made concerning their limited epistemological utility.

These considerations do not represent a counter-theory, for they simply destructure the statements of utilitarian individualism put forward by the neoclassical doctrine. The clash of methodological orientations, however, eliminates the possibility of dialogue between those economists and sociologists who concern themselves with choice theory.

One goal for the new socio-economics may be the construction of a working perspective shared by social scientists belonging to different disciplines. This is an interesting and useful endeavour for two reasons. Firstly, it would reinforce the role of a discipline able to combine traditional analysis of 'social' variables aprioristically derived from the microeconomic model with study of economic rationality considered as a "variable in man's institutional life", the purpose being to "understand and explain its variations" (Martinelli, Smelser 1995, 54).

The second reason for constructing a theoretical model that rejects the foundations of classic utilitarianism, without abandoning the framework of rational behaviour and incorporating sociological analysis, is to prevent the dispersion of the individual attempts to achieve theoretical progress made so far.

One of the greatest difficulties faced by those who seek to develop models of individual behaviour models in opposition to neoclassical economic models is finding a way to incorporate the partial results derived from the evidence of their failures into a systematic model (Franzini, Messori 1991).

It is necessary to mark out a common perimeter for economic and sociological analyses, one capable of going beyond the existing knowledge, while rejecting certain rigid positions taken up by utilitarian individualism and laying the basis for a counter-theory. Otherwise, the development of rational behaviour science and its relation to allocation mechanisms will advance very slowly, because although criticism of the traditional theory is correct, it is not sufficiently systematic to constitute a counter-theory, and not sufficiently ductile to modify the standard doctrine.

Against this theoretical background, this paper analyzes an issue of interest to both sociology and economics: the concept of poverty and the effects that derive from its definition by policy-makers. Two working hypotheses will be put forward:

- 1) the preference for one particular theoretical framework – normally assumed implicitly – for the behavioural mechanisms that determine individual choice affects the regulatory (and allocatory) system of public policies;
- 2) the equity and efficiency limitations of the market mechanism in the social policies sector, and the efficacy limitations of public regulation in anti-poverty policies, derive from underestimation of the limits to the freedom of agency of individuals when they make choices in scarcity conditions.

The first hypothesis will be simply assumed with no further discussion. In what follows I shall attempt to prove the second hypothesis, while answering two questions that arise from it. The first concerns the effects of the differing exposure of individuals to regulatory mechanisms: is there some sort of ‘segmentation’ in the behaviour of the rational agent envisaged by individual choice theory along his resource *continuum*? If there is, can it be described? The third section presents a model that bears out this segmentation and shows that its recomposition is possible through external action (section 4) that remedies the original deficit, increasing the efficiency and equity of the allocation system.

The answer to the first question, however, prompts a second one with substantive characteristics: if the assumption of a particular theoretical reference framework influences the policy model, how are anti-poverty policies affected by a definition of poverty based on individual agency, rather than being exclusively focused on individual well-being?¹

Both questions concern an issue central to the social theory of choice, which studies how individual interests are aggregated into judgements on collective well-being. The analysis of the concept of poverty and the indicators thereof consequently requires the expression of a normative judgement.

If, as Scitovsky says, the preference for economic development compared to recession involves a redistributive value judgment in favour of those who cannot rely on wealth reserves during scarcity periods², then a study on the definition of poverty and poverty-fighting policies must be founded on epistemological, rather than methodological, considerations, given that it refers to a disciplinary stance on how judgements on social well-being and individual desires influence collective decisions. At issue is the creation of what Sen calls a meta-order in order to give ‘weights’ to preferences, rather than acceptance or rejection of methodological individualism.

In what follows I shall demonstrate the shortcomings of the utilitarian model based on the rational agent’s maximization of well-being, doing so in terms of resource allocation and examining the matter both from the perspective of fair distribution centered on social justice and in the light of efficiency parameters of the general system. I shall advance a number of criticisms against this model of choice founded on the central role of individual rights.

Finally, I shall use Sen’s capabilities approach to show how it is possible to combine analysis based on individual freedom with an interpretation that takes the importance of individual well-being into account.

My analysis will focus on a single, extreme form of individual behaviour: that manifested by individuals in scarcity conditions. Such analysis is important and interesting for at least three reasons. Firstly, it can be *integrated* into the general scheme because it studies an aspect of behaviour not usually given much consideration and which may not fit with the general scheme of rational choice. Secondly, as mentioned earlier, a theoretical work on resource *poverty* may be useful for analysis of that concept and suited to the methodological purpose of this paper. In this regard, on the one hand there is an evident need to reformulate the concept of poverty in Western societies, owing to the obsolescence of its classical meaning and the onset of new forms of

¹ The notion of ‘well-being’ used in this paper centres on the satisfaction accruing from the fulfilment of personal interests. Consequently, the paper implicitly conceives well-being as the ultimate goal of individual utilitarian action, as opposed to the action undertaken in pursuit of freedom and the full enjoyment of rights envisaged by ‘liberal’ theorists. This simplification may cause some confusion, and it has the severe shortcoming that it neglects thorough analysis of the concept of well-being – which, as we know, is not necessarily connected with the achievement of utilitarian ends. However, although I am aware that careful analysis of well-being would take us into semantic domains rather distant from utilitarian action in the strict sense, I prefer to make this simplification for analytical convenience. Indeed, it thus becomes possible to use Sen’s theory to reconcile the concept of well-being in the strict (utilitarian) sense with that of agency, so that action by Sen’s individual is directed towards a well-being of broader scope (see sections 2 and 3).

² In “The State of Welfare Economics” (in *American Economic Review*, 41, 1951) Scitovsky argues that even the simplest economic policy involves interpersonal comparisons and a judgement of value. This point was subsequently reiterated by Orshansky, who stated that “poverty is a judgement of value” (Orshansky M. “How Poverty is Measured”, in *Monthly Labor Review*”, 1969) and by Garraty in 1979, with his statement that “the adoption of a definition is the beginning of policy formulation” (Spanò, 1999, 13).

exclusion, risk and social vulnerability. On the other hand, as illustrated in section 3, the approach centered on well-being is markedly deficient in its integration of individual interests with freedom of agency. Finally, as Sen stresses, the analytical plane of social judgements founded on individual capabilities can only be related to indicators (Sen 1982) in extreme poverty conditions.

The third reason is that re-examination of individual agency within allocation mechanisms may yield insights into the external actions – what I call ‘visible’ hands – that can be taken (if necessary) in order to reduce possible distortions in those mechanisms.

As mentioned earlier, which theoretical viewpoint is adopted on the effective abilities of poor individuals to take advantage of opportunities, and to realize their desires (or preferences), affects the manner in which social policies are formulated. The relation between theoretical-conceptual foundations of poverty and social policy models has various aspects; in what follows I shall focus on two of them that particularly warrant discussion.

I first consider the different ‘ideas’ of poverty. These are not merely the result of different definitions. On the contrary, they denote different principles of political philosophy, thereby indicating some sort of ethical relativism, and they represent opposite conceptions of social justice, and thus engender very different policy models.

The theoretical foundations of utilitarianism and libertarian choice³ have justified the use of market regulation mechanisms in social policies. If the fundamental rights of every individual are taken to be given and inviolable, as if they were an ethical perimeter for actions, and if on the basis of these rights every individual seeks to maximize his/her own well-being, the fairest social choice is the one in which every individual is able to enjoy the maximum “negative” freedom (Constant 1818, cit. in Pizzorno 2003); that is to say, the possibility for “total action” ensured by the absence of external interventions.

This is the origin of the ethical justification for giving the entire responsibility for social service delivery to the market, or to reciprocity mechanisms (family or neighbours). The presence of a state to balance initial inequalities is considered not only as unnecessary but also as a hinderance to the full enjoyment of “original” rights of choice (Nozick 1974).

Counterposing this logic is a different notion of freedom, indeed one opposed to it: namely ‘freedom of achievement’ (Sen 1999). Here attention focuses on the need for equality among individual capabilities. If a person is endowed with inferior capabilities, s/he must make greater efforts (in terms of economic resources, for example) to obtain the same ‘achievements’ (or functionings), the consequence being that his/her agency is restricted. In this case, ethical justification is provided for an external action that intervenes in the ‘starting order’ and grants full substantial freedom to all individuals.

We shall see that these two ideas of freedom originate from opposing political philosophies. Resource allocation models and welfare models derive from different concepts of freedom. If we take this assumption to its theoretical extremes, we can reduce our analysis to two opposing models of social policies: Mr Well Being and Mr. Agency.

I have also mentioned a second aspect to the relation between poverty and policy, which constitutes the macro dimension of the discussion on choice conducted thus far at the individual level alone. Whilst in some areas of social policy demand is strongly segmented, the action of the market as an allocation mechanism is harmful in its effects not only because it treats disadvantaged individuals unfairly but also because it is an inefficient mechanism of collective choice.

The principles of Paretian efficiency, according to which individual rational choices give rise to the best social state possible, already discussed by traditional sociology and by heterodox approaches to economic rationality such as Simon’s, are further weakened when actors suffer from severe

³ Libertarianism refers here to the extreme conception of the protection of freedom formulated by Nozick (1974) in opposition to Rawls’ liberal doctrine. There is much debate on the semantic differences between liberalism and libertarianism, as well as on different ideas of freedom. Among others, see Rawls (1971), Nozick (1974), Sen and Williams (1982), Berlin (1969), Sen (1999), and Sen, 1976, “Liberty, Unanimity and Rights”, *Economica*, 43, pp. 217-46 in Sen (1982).

resources scarcity. In these circumstances, individuals have a distorted perception of their interests (see section 3) which affects the mechanism whereby choices are made in full freedom. This deviant process requires institutional corrections that, as Rousseau puts it, “constrain us to enjoy more freedom”.

The difficulty of ‘achieving’ individual preferences renders the market regulation mechanism inefficient, as well as being unfair. My purpose here is not to show its failure from the policy viewpoint – the market has nothing to do with anti-poverty policies because these do not involve ‘business’ – but rather to describe how the shift from micro to macro in the welfare sector comes about.

There is a gap between the welfare economics developed by Pigou in the last century with its welfare functions as calculations of maximum individual interest, on the one hand, and the macro studies that pertain to comparative political economy, sociology and political science on the other. And the new socio-economics has every right to occupy this space.

2. Choice theories between utility and rights: agency versus well-being?

Despite great efforts to unify, or at least to harmonize, the analytical frameworks applied to choice theory in economics and sociology, there is still a profound normative cleavage between the two disciplines. However, recent years have seen growing interest in heterodox works which set themselves the ambitious task of analyzing individual behaviour in terms of the principles of economic rationality, but at the same time ‘embedding’ such behaviour in society.

Among economists, ‘neo-institutionalism’ has recently posed the problem of how individual economic actions can be explained with account also being taken of motivations not strictly related to economic variables, especially on the promptings of Simon and Sen. Analysis has focused on the effects exerted by the presence of ‘social’ variables, as well as of public goods and externalities, on economic action, with the conclusion being drawn that these may require allocation mechanisms other than the market if the economic system is to achieve greater efficiency and equity (Franzini Messori 1991).

Among sociologists, Etzioni’s work can be located within what in some respects is a contrary (yet complementary) perspective but which has similar intentions: namely to understand how individual preferences change over time under the influence of both economic and social variables. In the latter case Etzioni sides with traditional sociology, especially when he analyses the effects produced by education, group socialization (primary and secondary) and emotions on individual preferences “through non-rational processes, such as empathy, identification and interiorization” (Etzioni, 1985). The preferences of individuals, he contends, may depend on elements that they do not directly control.

The originality of Etzioni’s work resides in its attempt to use economic sociology to overcome the dichotomic division wrought by analysis of the consequences on individual action of variations in prices (the remit of economists) and preferences (the remit of sociologists). Etzioni argues that preference variation should be studied together with, and not in opposition to, price variations if we are to identify the factors determining individual choices. An interpretation based on this co-determination of individual behaviour would aid understanding of the mechanisms by which an individual’s resources or economic actions may determine his/her future preferences – what Elster calls the relationship between opportunities and desires. Etzioni thus extends the analysis of rational economic behaviour to endogenous preferences, those impenetrable aspects that the identification of preferences with individual behaviour typical of economic discourse (the so-called theory of exogenous preferences) fails to consider.

On Etzioni’s definition, “socioeconomics is based on the Kantian conception of human beings as subjects endowed with the faculty of choosing whether to pursue a goal or not, cultivate or repress a desire or act to modify it” (Etzioni, 1985). The innovative element introduced by Etzioni is the

possibility of considering a meta-order of metapreferences – a sort of arrangement by priority which orders different sets of preferences according to a scale of relative importance. The allocation of ‘weights’ to variables helps resolve some of the issues repeatedly addressed by economists and which cannot easily be fitted into the neoclassical utilitarian scheme: the existence of ‘conflictual’ desires (Schelling 1984) or cases in which the attempt to maximize individual interest gives rise to disutility (Sidgwick 1919, Schotter 1981).⁴

Metapreferences seem to be the only device with which the behaviour of ‘homo socioeconomicus’⁵ can be kept within the framework of rational choice. ‘Homo socioeconomicus’ acts and chooses in a scenario where the pursuit of maximum well-being and the enjoyment of effective agency do not conflict with each other, and where the importance of individual choices adds to the weight of contextual factors and social structure.

Before continuing, I shall briefly dwell on the origin of the opposition between the two choice theories: the one based on well-being maximization and the other which considers the central role of rights. According to the traditional utilitarian theory, “given the possible actions, the individual operates his choice in a rational way, if no other action is available, whose result he prefers compared to the result associated with the chosen action” (Hahn-Hollis 1979, 4).⁶

Apart from some theoretical hypotheses discussed in more detail later, when I examine utilitarianism as normative theory, I shall now point out the assumptions most frequently criticized by heterodox sociologists and economists. Among them, the presumption that choice behaviour always reflects individual desires; the determination of collective utility as the mere summation of individual utilities (principle of summed utility); the assumption of exogeneity and normative indifference for the formation of preferences and initial allocation of resources.⁷

On the basis of these principles, Paretian theories on well-being conclude that the maximization of social well-being – understood as the sum of individual functions able to give maximum efficiency and equity to the system – should be entrusted to regulation by the market. Two main criticisms have been brought against this theoretical system. The first concerns equity. According to Pareto, a state is preferable if at least one individual improves his condition without any other individual’s condition worsening. Under this conception of social choice, however, this pretended equity is obtained simply as the product of efficiency, without the two aspects being compared.

As Sen and Williams point out (1982), Paretian efficiency pays tribute not so much to the invisible hand as to a market mechanism that fails to address the problem of the initial resource allocation and does not provide for possible redistributive intervention by the state. I shall seek to show that the results of the initial ‘lottery’ are important in terms of both equity and efficiency, since a highly

⁴ The reference is to game theory, which also analyses the relation among behaviour, individual interests and external coercive interventions. For an analysis of this relation see the authors cited in the paper.

⁵ This term, coined by Lindenberg (1990), denotes a behavioural model which removes the opposition between the pursuit of *expediency* as the outcome of cost-benefit calculations typical of *homo oeconomicus* and sanctions intended to ensure compliance with the moral norms constraining the behaviour of *homo sociologicus* (Busilacchi 2001). The opposition between morality and utilitarianism, the source of the so-called “sociologist dilemma” (Lindenberg 1983), is resolved by the model of *homo socio-oeconomicus*, who “maximizes utilities and nourishes expectations, and also has normative constraints and a non “automatic” evaluation process”. A man who differentiates between ends and means, the former being related to compliance with rules, the latter being affected by a process of “convenient” choice; a flexible maximizing individual within a frame of rationality bounded not only by the limitations of the mind but also by the values system.” (Busilacchi 2001, 29-30).

⁶ Hahn F., Hollis M. (1979) Introduction, in Hahn F., Hollis M. (eds) *Philosophy and Economic Theory*, Oxford, Oxford University Press.; Italian translation in S. Zamagni (ed.) *Saggi di filosofia della scienza economica.*, NIS, Firenze, 1982.

⁷ Their weaknesses in the neoclassic system, such as perfect information and bounded rationality, are not discussed here because they would be beyond the scope of the paper.

unequal distribution gives rise to ‘distortion’ in the realization of individual preferences and the Paretian efficiency of the second fundamental theorem of welfare⁸ loses part of its meaning.

As we shall see in section 3, some situations are characterized by a problem of matching individual preferences and choice possibilities because the absence of Sen’s ‘substantial freedom’ prevents some individuals from expressing their desires. Although Sen is referring in particular to the lack of freedom due to non-democratic regimes (Sen 1982), here I shall focus on the lack of agency due to extreme poverty.

Just as ‘minimum’ rights of civil and political freedom cannot be isolated from the sphere of individual action independently of economic needs, neither can agency. The obvious moral consideration as to the unfairness of the radical inequalities that cause extreme poverty in wealthy societies thus assumes a theoretical dimension in terms of efficiency. This brings us to the second main criticism against Paretian theories, given that the collective choice derived from the Paretian principle may not respect all real individual preferences.

Two conclusions can be drawn. Firstly, we need a greater amount of prior information about individual preferences independently of the initial resource allocation if we are to talk about allocation efficiency. Secondly, so-called Paretian efficiency is based on an idea of efficiency that does not deal with substantial individual agency.

The interpretation of agency therefore differentiating various doctrines, becomes the crux of the debate on whether choice models can be integrated or whether they are mutually exclusive. The social choice that springs from the ‘bounded’ economic rationality of utilitarianism displays incongruities that Sen (1970) has aptly summarized as “the impossibility of a Paretian Liberal” (Sen 1970). Sen demonstrates that the efficiency of the Paretian principle on which the welfare theory of social choices is based cannot be reconciled with a liberalism founded on rights.

If this concept of freedom could be incorporated into social choice theory, it would be possible to move from ‘bounded’ rationality to ‘liberated’ rationality. Achieving this objective inevitably requires intervention by a ‘visible’ hand to deal with two problems: primarily the constraints on individual capabilities imposed by extreme resource scarcity due to highly unequal allocations. This would restore the match-up between endogenous preferences and individual economic actions, with the consequence that the approach centered on preferences and well-being would be reconciled with the approach based on rights and freedom.

Before I examine how aggregation can be achieved through the construction of metapreferences, I shall seek to understand why it is believed that the current theoretical account of economic rationality does not enable utilitarianism to be reconciled with rights in the social choice function. As mentioned earlier, in some cases (such as tyranny or extreme poverty) individuals cannot choose what they want because their range of options is too limited for them to ‘encounter’ their own preferences (see Fig. 2 section 3). There are other cases in which the rational maximization of individual preferences does not coincide with choice: in the case of “commitment” or “obligation” (Sen 1982), for example, individuals assume moral behaviour codes that go beyond the pursuit of individual interests.

In the former case, the behaviour can be fitted into the utilitarian scheme because individual utility can also be increased by the performance of good deeds (the increase in utility derives from the satisfaction felt when acting generously). In the latter case, the decision to abide by a behavioural rule stems from a moral obligation, not from a deliberate choice. Obligation “leaves a track between personal choice and personal well-being” (Sen 1982). In this case, individual choice becomes a

⁸ This theorem states that any Paretian-efficient allocation can be realized through the perfect competition market. We shall see in section 3 that in “extreme” allocation conditions (with particular regard to scarcity) a shift takes place in the match-up between the rational choice capabilities of individuals and their preferences with respect to the objects initially involved in the choice and to their real interests (represented by metapreferences). This is due to the conditioning exerted by the magnitude of resources on the trends of preferences. Hence the importance of external intervention to redress the balance.

social deed difficult to construe if utilitarian analytical instruments are used. But also with regard to 'commitment', which as said can be incorporated into the traditional utilitarian scheme, interesting aspects arise which confute the theory of a 'homo economicus' concerned solely to pursue his own personal advantage in all situations.

A series of simulations have demonstrated, in fact, that the non-egoistic option is often chosen in situations similar to the 'prisoner's dilemma' (Lave 1962). More recently, experiments have found that, on average, individuals are motivated by reciprocity and ready to sacrifice some of their preferences for the collective well-being, provided that the others behave in the same way and the risk of free-riding is averted (Charness, Rabin 2002). These studies seemingly show that individual choices are conditioned by a series of factors, among which individual utility, the protection of rights and ethics are of almost equal importance.

Whether we consider these desires to be entirely related to the 'ultimate' objective of personal well-being, or whether we believe that the motives for action cannot be integrated into a single set of preferences, there is an evident need for analytical instruments more sophisticated than the simple ordering of individual preferences if decisional mechanisms are to be satisfactorily explained.

The concept of metapreferences – that is to say, the 'ultimate' desires set by individuals as the final objectives for their actions (not only economic) – enables choice theory to handle these high-level ends, which can also be achieved in conditions other than Pareto optimal – for example by means of choices apparently in conflict with the final objective.⁹

If metapreferences can be ordered, moreover, it becomes possible to express moral judgements and restore the theme of obligations, rights, and all the factors other than personal interest that affect individual choice mechanisms to the analytical frame of preference-centered rationality, thereby releasing it from utilitarianism and taking rights into account.

Does this resolve the opposition between the central role played by preferences and rights, between well-being and substantial freedom, between Mr Well-being and Mr Agency? No, it does not., for the argument thus far prompts a consideration which I now briefly address but will discuss in detail in section 4. The consideration is as follows: the relationship between individual interests and choices to achieve social well-being raises the question of the strategic interaction among individual actions, especially in the long run, analyzed by game theory.

The absence of complete information about preferences and the limitations to action discussed above entail the failure of individual rationality in the presence of moral norms. It is therefore necessary for individual actions to be coordinated by institutional instruments able to correct the invisible hand¹⁰ and steer the "motives of individual behavior into a social rather than individual orientation, though still on the basis of privately directed preferences" (Hirsch 1977, 146).

The moral norms that constrain individual choices to obligations at odds with personal utilitarian interest require the presence of a communitarian institution with coercive powers. In our case, the external intervention to re-allocate resources in cases of extreme inequality should be viewed not solely as a means to ensure greater equity, but also as a means to guarantee the efficiency of individual actions geared to economic rationality. Taxation for redistributive purposes, for instance, is a classical example of collective action that guarantees greater social well-being, also in the Paretian sense. It does so for various reasons. Firstly, the elimination of extreme poverty yields social and ethical advantages that may also affect individual utilities. Secondly, the elimination of marked inequalities may be advantageous for production and stimulate the demand for goods. But most of all, the elimination of marked inequalities endows the poor with substantial agency, thereby

⁹ The prisoner's dilemma is an emblematic case. But similar examples can be found in cases where there is no coordination with another individual. Take, for instance, Ulrich Beck's story of the happy peasant who, in order to maximize his individual interest decides not to become a capitalist, despite opportunities for significant earnings, because he is unwilling to run the risk of finding himself once again in his initial situation, with only a little more money, after so much hard work and stress (Beck 1982).

¹⁰ For an analysis of the role of social institutions in facilitating the achievement of results advantageous to the community see Schotter A. (1981).

bringing about an increase in systemic efficiency. If poverty is such that individuals have no more than a minimum resources allocation, the Paretian principle is not applicable because individuals are not in a position to evaluate their real preferences. Finally, it provides security for all individuals who may one day find themselves impoverished.

Still to be explained is the normative basis for the aggregation of individual preferences. Which type of social judgement and collective interest is chosen in order to remedy the failure of ‘bounded’ individual rationalities? The social choice may be made on the basis of different value judgements: the collective well-being can be assessed according to variation in the units of well-being of individuals (utilitarianism) rather than in their levels (Rawls), or in terms of substantial freedoms (Sen’s capabilities).

In the light of the discussion thus far, therefore, we may enquire as to the metaorder¹¹ used as the reference standard to weigh metapreferences. The expression of a judgement of value is thus operationalized by applying a scale of priorities and values to these ‘ultimate’ goals of action.

Individual well-being and substantial freedom, however, do not suffice to derive the various models of normative theories. The two concepts are in fact susceptible to different interpretations: we have seen, for instance, how diverse the motives for individual actions may be – from the satisfaction of individual interests to the maximization of economic resources, to assertion of rights and compliance with moral obligations.

If we use the various meanings of well-being and agency as our reference variables, we can specify the different models of justice theory.

<i>Choice theory</i>	<i>Reference metapreference</i>	<i>Informative base (metapreference declination)</i>	<i>Action informing principles</i>	<i>Metaorder (and compatibility between agency and well being)</i>
Utilitarianism	Individual well-being	Happiness (Bentham); satisfaction of desires (Hare); income; choices (Robbins)	Summed utility Welfarism Consequentialism	Priority of well-being over freedom
Liberalism	Freedom and protection of rights	Passive rights, procedural freedom, negative lack of constraints	Libertarianism (Nozick); primary goods (Rawls)	Priority rights
Sen’s capabilities	Substantial freedom	Substantial freedom (possibility of self-realization); achievement of functionings	Capabilities theory	Compatibility between the two concepts

I have already set out the theoretical hypotheses of *utilitarian* theory. As regards its normative foundations, the maximization of individual well-being, as said, may assume different forms that represent the different “informative bases” of utility (Sen 1991). Bentham generically interpreted utility as a mental state of happiness; while subsequent utilitarian studies viewed it as predicated on the satisfaction of desires (Hare), on income, and finally on representation of choices (Robbins). This last interpretation derived from Robbins’ criticism of Bentham’s approach that it emptied interpersonal comparisons among utilities unconnected with concrete choices of any meaning¹².

¹¹ This term is used to refer to a metapreference order.

¹² Harsanyi has attempted to overcome the problem of the confrontation of utilities exclusively based on choices, used as proxy for individual utilities, through the theory of hypothetical choices in which individual A imagines that he is individual B in order to compare the utility of the two states A and B (J. Harsanyi, “Cardinal Welfare, Individualistic Ethics, and Interpersonal Comparison of Utility”, *Journal of Political Economy*, 63, 1955). As Sen notes, utility cannot be the object of value since it is a mental reaction and its achievement depends on cultural and social factors. Wealth-focused approaches are characterized by higher concreteness and objectivity (Sen 1991).

According to utilitarianism, choices must be judged only on the basis of their results (consequentialism); and judgements on states of affairs depend solely on their utility (welfarism), regardless of how this may be achieved. Consequently, agency freedom plays no part in value judgements. Finally, the maximization of social well-being is obtained by summing personal utilities (summed utility principle).

Although this theory of justice takes account of the results of individual well-being, it has evident flaws, most notably its amoral indifference to initial resource allocation and to non-utilitarian values such as freedom. However, the defect of utilitarianism of most concern to those investigating the real freedom of preference representation exercised by individuals with resources scarcity – also in terms of the effects of rational choices on system efficiency – is the fact that the theory’s indifference to initial distribution and to substantial freedom is reflected in a lack of information about real individual preferences.

The mental condition that determines utility may be affected by adaptation to deprivation: to use Elster’s famous metaphor, the fox that cannot reach the grapes adapts its preferences into a dislike of the fruit. The adaptation of mental state to resource scarcity, however, causes ‘poverty chronicization’, or ‘generation transmission’. As explained later, a theoretical assumption founded on capabilities may have significant effects in terms of policies.

Secondly, as stressed by Sen, indifference to individual substantial freedom creates a distortion in interpersonal utility comparisons: two individuals may act in similar ways without enjoying the same utilities from their choices. A famous example tells the story of the rich ascetic and the poor man, whose abstinences from food are choice and a need, respectively.¹³

Apart from the specific case of individuals suffering from extreme poverty, perplexities arise as to the identification of utility with a mental state of happiness. Indeed, individuals may be happy and not live in a state that corresponds to their original desires. Consider, for example, the case of an individual who craves state A and makes efforts to achieve it, but fails and ends up in state B, finding the same or even greater happiness in state B than he expected in state A.

Is the relation between welfarism and consequentialism collapsing? The problem in fact, concerns another assumption not considered by utilitarianism, namely the impossibility of having perfect information on all states, preferences and variations.

The theory of justice that focuses on the central role played by freedom stems from a completely different perspective. Although heterogeneous theories can be classified under the general heading of *liberalism*, there are great differences among them. Generally speaking, the analysis focuses on the concept of freedom in its “negative” interpretation (Constant 1818 in Pizzorno 2003) as freedom *from* external constraints and coercion, rather than as a real possibility *of* agency. Other definitions instead concentrate on the formal or ‘procedural’ aspect, with attention primarily addressed to processes “that allow for free actions and decisions” (Sen 1999,23), that is to say, the characteristics of a community (presence of democratic values, negotiation of civil rights, etc.), without considering the ‘positive’ aspect that enables individual freedom.

There are, however, great differences among the authors who adopt this approach. Nozick, for instance, gives overriding priority to libertarian rights, without being concerned that the intransigent emphasis placed on procedural aspects of freedom may have ‘secondary’ effects on needs (Sen 1999) and violate the substantial aspect of freedom. Rights are interpreted as an insurmountable frontier, as constraints on social choice. It does not matter that these ‘entitlements’ are unequally assigned at birth, depending on the country or family of origin: they are the resources possessed by individuals and are beyond dispute.

As mentioned in the first section, the extreme libertarian approach excludes all forms of taxation, deeming this exclusion necessary to protect property rights, and thus rules out any possibility of

¹³ The heterogeneity of individuals justifies the different well-beings derived from abstinence from food. This characteristic is one of the elements that shows the distance between well-being and agency in the theory of utilitarian choice.

redistribution with respect to original allocations. Two criticisms can be brought against this theory of justice: its exclusive concern with procedural, rather than substantial, aspects of freedom results makes it impossible to resolve some cases of asymmetry in rights. How should we act when the rights of some individuals impede or impair the rights of others?

Especially in cases when individuals are not physically or mentally able to exercise their rights, the hyper-libertarian position denies the right itself. Consider the supreme right of all – the right to life – which is denied by extreme procedural freedom to those who do not have enough resources to survive.

Herbert Hart was the first to note, in 1973, how economic need, on which life itself may depend, must be considered first of any other rights. This criticism gives rise to a second, ‘softer’, interpretation of liberalism: John Rawls maintains that a series of primary needs must be guaranteed for all through access to such “primary goods” as minimal levels of “rights and liberties, powers and opportunities, wealth and income ... and the foundations of self-respect” (Rawls 1971). Rawls thus combines an approach based on freedom with utilitarian considerations: primary goods, among them income, guarantee access to a minimum level of well-being.

Nevertheless, the blend between well-being and liberty is not total, for Rawls does not go so far as to envisage full, substantial ‘positive’ freedom that enables the achievement of objectives leading to personal self-realization.

Attention thus shifts from the passive exercise of rights to their active exercise: primary goods guarantee participation in community life and functions so that the person does not feel ‘excluded’. According to Rawls, fundamental rights include the right not to live in deprivation or, as we say today, in ‘absolute poverty’, extending the meaning of this term to include not only the income needed for survival but also satisfaction of certain needs crucial for community life¹⁴ (Whelan, Nolan et al. 2001, 2002; UNDP 1997¹⁵).

Amartya Sen’s *capabilities* theory extends Rawls’ theory of justice to include those elements that regulate the conversion of primary goods into capabilities to achieve individual desires. Sen takes into account both the achievement of well-being as self-realization and the concept of freedom as the capability to undertake substantial actions. At macro level, the consequence of an increase in substantial individual freedom lead to an increase in social well-being.

The opposition between well-being and agency appears to be resolved by the capabilities approach. Capabilities are abilities to realize ‘functionings’ – a concept similar to the primary needs that all individuals may desire to satisfy.

This theory therefore comprises a concept of freedom related to individual capacities for realization. However, the theory overlooks the fact that the factors which convert primary goods into desires include aspects related to the social structure, and primarily social capital, both as the trust that holds a community together and the strength of relational networks.

The context in which individual actions take place either nourishes or stunts substantial freedom. If the analysis is concerned with the poor and the excluded, social policies may play a crucial role in stimulating their capability to stand on their own two feet. The use of a particular policy should express the social choice made by the community, and its analysis may yield better understanding

¹⁴ Interestingly, the apparently modern concept of the balance between material well-being and participative freedom has been derived by Rawls from works written centuries ago. The enjoyment of minimum wealth as the fulfilment of man’s true objectives derives from Aristotle’s *Etica Nicomachea*. In *The Wealth of Nations* Adam Smith (considered, probably erroneously, the ideological father of the invisible hand) argued that access to certain “necessary goods” is essential for self-respect, meaning “by necessaries..not only commodities which are indispensably necessary for the support of life, but whatever the customs of the country renders it indecent for creditable people, even the lowest order to be without...A linen shirt, for example, is, strictly speaking, not a necessary of life...the Greeks and Romans lived, I suppose, very comfortably though they had no linen. But in the present times, through the greater part of Europe, a creditable day laborer would be ashamed to appear in public without a linen shirt” (Smith A., *The Wealth of Nations*, 1773: 1050)

¹⁵ Report no. 8 of 1997 was the first of the “Human Development Reports” in which the UNDP introduced the “human poverty” index based on this definition of poverty.

of the level of freedom in the exercise of individual rights granted by the community to its members.

In conclusion, Sen's approach handles aspects ignored by other theories of justice. By only considering the outcomes of achievements, utilitarianism fails because it focuses neither on the way these achievements are reached, nor on the fulfilment of basic rights. Other forms of liberalism concentrate on negative freedom and procedural aspects, and do not concern themselves with possible social inequalities or with personal well-being.

The capability theory uses positive freedom as an analytical variable which combines the consequential aspect of achievements and procedural elements of the entitlement to rights. The concept of substantial freedom has a twofold meaning with respect to material resources: it guarantees their free use, giving full entitlement to rights (*liberty to*), and at the same time indicates liberty *from* resources - by which is meant that it prevents the onset of material dependence processes - through their minimal presence. Under this interpretation, the right to freedom also ensures the elimination of poverty.

Finally, we have seen that capabilities may also be fostered by policies and vice versa. The participatory capacity of a community affects the results of policies and their implementation, especially in the case of policies that require an active response from citizens if they are to produce efficacious results (Sen 1999).

How can we measure capabilities? According to Sen, capabilities are the combinations of functionings on which the choice functions can be exercised (Sen 1999), but this is not very helpful at the empirical level. Paradoxically, it is easier to evaluate the capabilities of those who live in conditions of extreme poverty, "because the evaluation of better nourishment, lower mortality or longer average life tends to be an objective, universal exercise with respect to minimal objectives" (Piatti 1993, 21). Those who do not eat because of extreme poverty are not acting out of personal choice.

I shall now concentrate on the potential effects of the theory of capabilities on the rational choice of individuals in scarcity conditions.

3. Resource scarcity and bounded rationality: the hunger constraint

The introductions to handbooks on microeconomics usually cite the classical theory of the rational actor who must choose between two goods on the basis of a given endowment of resources expressed by the budget constraint, and the individual utility function represented by the actor's indifference curve.

The following example clarifies the nature of choice in scarcity conditions: Hugo has €3 to buy fruit and can choose apples or peaches. Apples cost €0.20 each, while peaches cost €0.30 each. If Hugo preferred apples, he would buy 15 apples at a lower unit cost. But he decides to buy 6 apples and 6 peaches: his preference for peaches, in fact, is such that he forgoes one fruit more for every two items purchased.

This model of individual choice behaviour has been the object of numerous criticisms. Here I shall dwell only on those that will enable me to demonstrate how individuals in scarcity conditions make their choices in the absence of substantial freedom, and to show that capabilities to achieve certain functionings are significantly limited. For analytical convenience, my treatment will divide between criticisms concerning the object of the choice and criticisms on the conditions of the choice.

The former group comprises considerations relative to the goods involved in the choice, whose characteristics affect individual behaviour, contrary to what the above example might suggest. The utility deriving from some goods (or services), for instance, is not '*divisible*' into the units of value expressed by price. If Hugo spent his money on a cinema ticket, receiving a utility from watching the film equal to 10 peaches, one could not simply deduce that, given the marginal substitution rate

between the two goods, the total utility would not vary if Hugo bought 5 peaches and half a cinema ticket!¹⁶

As regards other types of goods, like *public* or *merit goods*, it has been proved that the traditional mechanisms of individual rationality do not work when choices are made (Franzini, Messori 1991). In the case of merit goods, in particular, the gaps in the choice process centered on the maximization of individual interests are more evident in terms of the expression of substantial freedom. These goods, in fact are, characterized by a lack of direct information about the utility arising from their consumption. The utility of school education, medical care, or other goods such as car safety belts, is not immediately perceived, except by default: that is, their absence may give rise to disutility. On the hypothesis that consumers do not perceive the utility of these goods, which may instead be of primary importance, the literature maintains that external action (public supply or coercion in the case of safety belts) is necessary to orientate individual choice (Schotter 1981). We shall see that a lack of information as just exemplified directly affects the freedom of individual choice, especially for those who live in scarcity conditions.

The choice model related to the utilities deriving directly from goods (peaches and apples in the example above) becomes complicated in other cases as well. Individual preferences are particularly susceptible to the influence of aspects that establish a *relation* between initial goods and other goods, and, in general terms, a wider range of preferences and needs.

An individual especially averse to the exploitation of labour, for example, may include this element in his set of preferences if he knows that such exploitation is more widespread in apple than peach harvesting. However, the inclusion among preferences of factors other than the most immediate ones, such as taste, establish a relation between the two initial goods and other goods, characteristics and choices. In this case the context of choice is related to and dependent on other contexts. The initial preference for peaches acquired ‘acontextually’ may become secondary if the evaluation includes features such as nutritional values, rather than ethical considerations alone.

I referred in the previous section to the need to precede the preference order with respect to a variable (for example ‘taste for fruit’) with a meta-order which establishes the priorities of individuals when they make a choice. When fruit is purchased, the metapreference order of one individual may be different from that of another individual. To resume the example, Hugo may decide to choose on the basis of a metapreference order where taste and price are the priorities, whereas nutritional and ethical aspects may be more important for his friend Karl.

The simplification made by the neoclassical model is based on the hypothesis that relative preferences are formed according to the relation between the characteristics of goods and their prices. The suggestion made here is that in some instances this relation becomes less important than others, for example the relation between two characteristics of the goods, or in special cases like the extreme condition of ‘hunger’,¹⁷ the relation between the price of the less costly article and its nutritional contents.

The simplification made by microeconomic theory in order to describe the behavioural model of utilitarian choice makes no distinction among the intrinsic characteristics of goods. It simply considers the set of characteristics in relation to the utility enjoyed by individuals from consumption, which is one of the reasons why it has been accused of bearing little relation to reality. Obviously, models need to make simplifications if they are to maintain their general descriptive capacity. But it is nevertheless true that an ‘extreme’ economic phenomenon like resources scarcity calls for different analytical instruments – and especially when we wish to observe poverty from a new perspective.

¹⁶ In addition to perfect flexibility of his own utility with respect to the quantity offered, Hugo should also find a movie theatre with very flexible pricing policies with respect to demand.

¹⁷ Figure 2 below illustrates Hugo’s choices if a resource variation beyond the minimum scarcity threshold induces him to discard the “taste” variable from his metaorder. The figure shows the shift (from taste-price to nourishment-price) of the metapreference considered on three Cartesian axes.

If the focus shifts from the maximization of general utility to the elimination of hunger, the characteristics of a good may assume very different weights. The neoclassical model considers the quantity and price of the two goods as variables and represents them on Cartesian axes. Indifference curves express the relation of relative preference for a good, which reflects the relation between generic properties and price. My assumption here is that indifference curves reflect the metapreference (for example, the central role of taste compared to price) on the basis of which choices are made. This, however, still does not explain the origin, significance and purpose of the metapreference: maximization of utility, of nourishment, of taste, or of all of them together? The problem arises because all the properties of a good are taken into consideration when the preference order is constructed.

However, as shown in Fig. 2 below, this descriptive model becomes extremely weak when resource scarcity is such that it is unable to ensure the stability of the preference order underlying the choice process.

I shall now attempt to decompose the good into its various properties: these may be the basis for new metapreferences (e.g. relation between the good's nutritional capacity and its price). The indifference relation between the goods may now change. In a scheme again with two variables, quantity and price, the indifference curves may differ according to the properties of the goods considered in relation to price, or in relation to each other, i.e. according to the metapreference chosen (Fig. 1). Despite this complication, the result is better understanding of the choice mechanism in extreme cases. By adding a third variable for 'hunger' to quantity and price, we obtain a single interpretation with indifference curves reflecting the three variables (Fig. 2).

By now evident are the limitations of the model of rational choice that considers the selection mechanism as a bi-modal scheme.

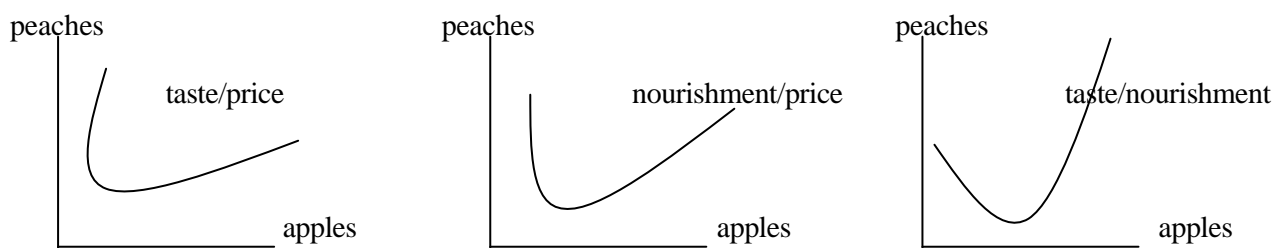


FIG. 1: Effects of metapreference variation considered on indifference curves between two goods¹⁸

Of course, the phenomenon is more evident for some types of goods. Consumption may sometimes become the symbol of a lifestyle, in which case the choice involves the evident characteristics of a good to only a small extent. In the case of symbolic and 'relational'¹⁹ goods in general, poor information and a limited preference structure significantly hamper orientation of the choice process towards conscious and therefore free evaluation.

The other aspects that prove the limitations of the traditional utilitarian model of choice relate to the context and conditions of the evaluation process. In the classical model, Hugo ceases to exist as a decision-making actor at t_0 . The fact that his preferences may also be related to *future choices* is not considered. In this case, the decisional process would be significantly complicated from the cognitive viewpoint by a series of factors that are difficult to calculate and may restrict the actor's rational capabilities: for example, the possibility to take into account the opportunity cost of the

¹⁸ The shapes and slopes of the curves are merely indicative.

¹⁹ I use this term to denote the property of relating different characteristics and goods together. This is at odds with the traditional literature, which considers as 'relational' those goods whose utility deriving from consumption is not intrinsic to them but depends on the relation that the consumer establishes with such goods (e.g. educational or cultural services, friendship, etc.).

money that can be saved once he has satisfied his hunger or, to return to merit goods, the fact that the ‘purchase’ of education or vocational training not only yields utility when it is consumed but may also bring competitive advantages in the labour market at t_1 .

Obviously, models of rational choice use hypotheses and simplifications because their purpose is to exemplify a behavioural model, not to describe Hugo’s day or life. However, the framing of this model in a social context and its use to evaluate descriptive limitations in scarcity conditions, as well as possible normative effects, entails its complication and modification in order to let it gain further goals. I shall return to this point later.

There is another feature, probably the one most frequently studied in recent times, which complicates the model of individual rational choice: the *presence of other individuals* able to choose may condition the final results and affect personal decisions.

Game theory has analyzed these aspects in depth. The prisoner’s dilemma is a typical example of the failure of individual rationality, showing that in some cases the pursuit of individual interests leads to a result which is worse than that achieved through cooperation with other individuals. This aspect, however, concerns my analysis on resource scarcity to only a minor extent. The main criticism against this interpretation is that Hugo’s preferences may *depend on his resources*. This issue has been studied from different analytical perspectives, from Elster’s ‘Sour grapes’ (1983) to the theory of endogenous preferences,²⁰ and it is the most interesting aspect for an analysis of choice behaviour in scarcity conditions and founded on a perspective based on the free formation of preferences.

Indeed, if we review the criticisms discussed so far and seek to imagine their effects on the formation of preferences in poor individuals, and on their free choice modes, some more than others demonstrate the weakness of the traditional rational choice theory. The imperfect “‘divisibility’ of certain goods, for example, is an important constraint on the realization of individual preferences in scarcity conditions. If resources are so scarce that not even one unit of the indivisible good can be bought, the formation process of consumption choices cannot be defined as totally free. Likewise, the presence of merit goods which may affect personal utility only in the long term and indirectly or ‘negatively’, as in the case of health care or school education, shows the limitations of the mono-period and acontextual interpretation of the neoclassical approach.

Again, only if a new metapreference (i.e. interest in health or (future) work position with respect to time²¹) that orientates individual action is introduced into the model can the scheme of utility comparisons deriving from the resource-preference interpretation continue to work. Otherwise, if these goods are not supplied by the state, individuals in scarcity conditions make their choices on the basis of the intrinsic utility that they perceive immediately, and not on latent characteristics with related or indirect utility. The poor are unlikely to choose to ‘purchase’ high school education rather than employment after compulsory schooling, or private medical care rather than other necessities. Implementation of this theoretical choice model increases the risk of poverty and social exclusion for those categories traditionally most exposed to poverty and social exclusion because they belong to the lowest income classes. Evidence of the vicious effects of these choice processes is provided by those countries in which social policies are exclusively entrusted to the market, with no health or social security protection provided by a public subject. Analysis of the choice process of poor individuals centered on capabilities theory must necessarily investigate the relation between preferences and opportunities in more depth than utilitarianism does.

The hypothesis of independence made by economists – according to which, regardless of resources, individuals choose between two goods solely on the basis of their marginal substitution rate – creates a series of problems in ‘marginal’ conditions, that is to say, conditions in which the individual budget constraint is either very limited or very strong.

²⁰ For a review of this aspect see Busilacchi 2001.

²¹ On the assumption that working positions are positively related to education level.

The behaviour deviating from the traditional model that I have elsewhere termed “abundance or hunger” (Busilacchi 2001) can be easily perceived. Let us concentrate on the second condition, namely ‘hunger’²², not only to understand the shortcomings of the traditional approach to choice in poverty conditions but also to extend the scope of the concept of poverty.

The connections among initial resource allocation, agency capability and the achievement of well-being become more evident if we conceive poverty not only as material deprivation – i.e. scarcity of resources - but also as deprivation of agency freedom. Four cases are possible.

In the first, the individual enjoys a good level of information on the characteristics of the goods²³, since he has already chosen them in the past or has had indirect experience of other states. At this stage the individual is in a state of temporary deprivation and therefore cannot ‘achieve’ the object of his preferences, which have been formulated freely on the basis of information acquired in the past. Hugo knows that he prefers peaches to apples because he has tasted both types of fruit, but he has €0.20 and can only buy one apple. A person knows that he would like to become a doctor, because he has received information about this job from his friends, but he cannot afford to attend university.

Above a certain threshold of scarce resources, therefore, the budget constraint no longer exists²⁴ as a set of combinations between goods, and the indifference curve indicating the utility determined by the combination of two goods turns into simple dots which denote that choices are obligatory. The persistence of this condition over time may give rise to a second state of deprivation in which Hugo’s awareness that it is impossible for him to buy the ‘peaches’ induces him to modify his preferences in favour of apples. Imagine, for example, that in a multi-period model with no possibility of saving, Hugo earns €0.20 a day and is therefore forced to eat apples every day.²⁵

To adapt Elster’s position exemplified by the sour grapes story to the theoretical platform of rational consumption choice, the prolonged awareness of limited resources gives rise to a distortion of individual indifference curves. The transformation of preferences according to past consumption has been investigated by theorists of endogenous preferences on the basis of habit forming models (Gilboa-Schmeidler 1995; on the relation between repeated choice and rationality see Lindenberg 1983).

Scarcity becomes chronic in the third deprivation state, and it causes a lack of substantial freedom in choice. Individuals suffering extreme poverty have such severe needs that the mechanism of rational choice between two different goods on the basis of characteristics and prices becomes meaningless. The information level diminishes because a shift takes place in important information: in that relative to time because the ‘haze’ induced by hunger prevents the actor from making long-term evaluations and forces him to concentrate on immediate circumstances, while information about the original metapreference (taste/price) is replaced with other information. Imagine that

²² Just as scarcity conditions affect choice and the formation of individual preferences, so do abundance conditions. If Hugo had €30 a day to buy fruit, abundance would induce him to neglect the indifference relation between apples and peaches so that he only buys peaches. Can we state in this case that his choice is not rational, or that his taste-price metapreference has been replaced by another metapreference (for example taste-vitamin contents), with the economic convenience related to the price ratio of the fruit becoming of secondary importance?

²³ The choice is made solely on the basis of original metapreferences, that is to say, the relation between taste and price.

²⁴ The limit depends both on resources and the divisibility of goods. If resources are not sufficient to buy one unit of the most costly goods, the budget constraint and the indifference curve between two goods cease to exist in that Cartesian space (they will exist in a space defined by different variables, see Fig.2).

²⁵ Even if the possibility of saving some money exists, in view of the indifference relation between apples and peaches, it cannot be taken for granted that Hugo will choose to fast one day every three days in order to eat peaches instead of apples. Likewise, if we limit the analysis to a mono-period model in which Hugo is able to buy 40% of an apple and 40% of a peach, we should verify whether the consumption of at least one fruit a day is not necessary for Hugo’s nutritional requirements and whether he prefers to choose freely according to his taste or to consume the additional 20% of food that he needs to satisfy his hunger. The object of his choice becomes complicated, since the alternative is no longer the simple preference between apples and peaches, but between two metapreferences: taste/price and nourishment/price. This is the reason why, in some non-conventional cases, such as resource scarcity, the introduction of an analysis with more than two variables appears necessary. This consideration is discussed further in the third case.

Hugo has not eaten for several days (t_0, t_1, t_2) and has an income of €0.60 at t_3 . It is highly unlikely that his taste preference will induce him to buy 2 peaches instead of 3 apples, for in this case his taste/price metapreference succumbs to the priority of the metapreference that involves ‘hunger’, or even ‘survival’.

<i>Deprivation state</i>	<i>Previous experience</i>	<i>Information level</i>	<i>Preference-choice formation</i>	<i>Problem</i>
1. Temporary deprivation (static)	Well-being states	Good	Free	Not achievable
2. Prolonged deprivation (multi-period)	State 1	Good	Corrupt	Preference distortion
3. Deprivation of freedom (severe)	State 2	Limited	Not free	Instantaneous choice in severe need conditions
4. Chronic, permanent, total deprivation (absolute)	State 2 or 3	Null	Non-existent	Forced choice (only one)

The use of meta-order plays is therefore of central importance when analyzing choice based on substantial freedom of individuals in scarcity conditions.

Substantial freedom is eliminated in the fourth deprivation state: individuals have never been able to choose, so that their ignorance about the characteristics of the other states prevents them from forming any preference at all²⁶. Imagine that Hugo does not know what peaches taste like because he has never eaten one, or that he is unaware of their existence, just like any other fruit except for apples.

This condition falls partially outside the semantic field of poverty according to its Western definition. It belongs to the semantic domain of misery or extreme poverty, which by contrast is a quite common situation for individuals in the underdeveloped countries, whose fate depends entirely on their social conditions at birth.

The four deprivation levels furnish important insights in two different areas: they redefine the concept of poverty, highlighting its different levels of intensity; and they point up its implications for the theory of individual choice, by allowing us to verify a sort of segmentation of rational behaviour along the Cartesian axes. I shall deal with the first point in the next section.

As regards the second aspect, the analysis of choice behaviour in scarcity conditions has shown that the opening up of the analytical perspective of utilitarianism centered on well-being to include substantial freedom, also in terms of agency capabilities, affects the relation between the formation of preferences and the amount of resources. In particular, the study of specific deprivation conditions, such as the second and, especially, the third case, has required the introduction of the metapreference concept into the analytical framework to shed light on the constraints to individual choice. If we wish to maintain the perspective of the rational actor, in fact, the behaviour of those on the margins of the Cartesian space would otherwise not be understandable.

The segmentation of individual behaviour can be interpreted as a modification of metapreferences: these guide individual preferences on the basis of taste/price comparison in the central part of the Cartesian space, while this relation loses importance in extreme spaces and choice is guided by other metapreferences²⁷. In extreme abundance, price becomes almost insignificant and the

²⁶ From a theoretical viewpoint the condition of choice in this stage may be likened to the lack of freedom identified by Sen in dictatorial regimes (Sen, 1982).

²⁷ Or better by a meta-order in which metapreferences (taste/price, nourishment/price, taste/nourishment, etc.) are distributed according to a different scale of priorities. Here I shall not examine differences in meta-orders among individuals. However, one may hypothesise that variability in the orientations of metapreferences (e.g. towards the good,

taste/price metapreference loses some of its importance, since the relation leads to the predominance of taste (it tends to infinity). However, our concern us here is with scarcity conditions.

According to an approach based on economic rationality, the loss of meaning in the indifference relation between prices and taste can be explained by saying that individual behaviour is guided by the ‘hunger’²⁸ metapreference when deprivation reaches significant levels. Fig. 1 shows the effects of metapreference variations on indifference curves and choice processes when variables remain unchanged. Let us now introduce a third variable in addition to quantities and prices.

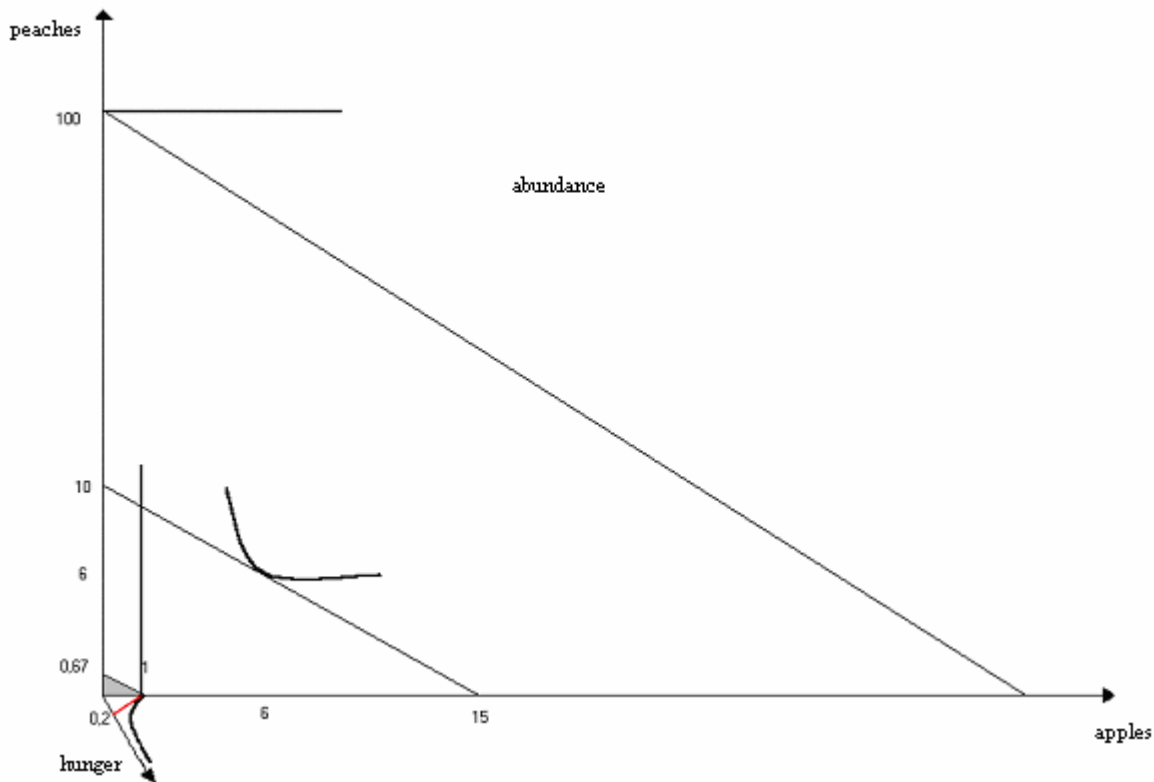


FIG 2: Consequences of metapreference modification in a space with a third variable²⁹

The advantage of considering severe scarcity as a variable, and not as a static situation on which preferences for goods (considered as given) “gravitate”, is that it highlights the restriction of agency under a certain resource threshold.

By introducing the ‘hunger’ variable, the indifference curves in the Cartesian space (x, z) represent the ‘nourishment-price of the most economic good’ metapreference, and not the taste/price metapreference. In a single interpretation scheme the shift from one metapreference to another under a certain threshold of minimum resources becomes apparent.

towards the value, etc.) may reflect factors to do which the contexts in which individuals live. Analysis of this possible relation is an interesting area for further inquiry.

²⁸ I have so far referred to the concept of metapreference as a relation between two variables, and not as one variable. In this case the ‘nourishment-price of the cheapest goods’ metapreference would be more appropriate: the term ‘hunger’ is of course used for analytical convenience. However, in this case the term ‘hunger’ also indicates the introduction of a third variable in the Cartesian space. The third axis is used to indicate the capacity to use money to provide nourishment. In this case hunger is eliminated when Hugo buys one apple. Otherwise Hugo can save €0.20 by starving. The red line is the border of possible solutions, a sort of ‘hunger constraint’.

²⁹ Here I shall do no more than introduce a complication of the choice model in scarcity conditions, without addressing every individual consequence for the microeconomic theory in analytical detail.

As shown in Fig. 2, the segment that defines scarcity (grey) marks the border where the choice process ceases to be free: scarcity is such that the purchase of one apple becomes a forced choice. If we consider a bi-dimensional space (x, y), the condition may be similar to the one indicated as deprivation state 1 in the table above: scarcity is such that indifference curves between apples and peaches have high slopes and lead to a corner solution.³⁰ The real individual preferences between peaches and apples typical of standard conditions cannot be achieved in this case, and a forced choice occurs. However, the scheme does not explain the reason for the marked change in the indifference curves and their disappearance in the gray area.

In extreme poverty, shown in the table as deprivation state 3, the individual no longer uses the taste metapreference and his choice behaviour is guided by the hunger metapreference.³¹ His behaviour is segmented into different moments, in which the contraction of the well-being state is accompanied by a reduction in agency capability: moments in which a metapreference mechanism in 'standard' conditions operates; moments in which partial scarcity (or abundance) gives rise to preference distortion with angular solutions, and moments in which other metapreferences are pursued.

This complication of the model undoubtedly has its drawbacks. Nevertheless, it allows the opposition between well-being and freedom to be avoided by considering both aspects as central factors in the choice process. It is an alternative model which starts from the assumption that the neoclassical theory of consumption does not work in 'marginal' positions.

As we have seen, the relation between resources and preference formation varies among different levels of poverty. It does so for reasons ranging from the indivisibility of goods and their specific characteristics (merit goods) in the mildest cases of deprivation cases to the reduction or negation of substantial freedom in choice or preference formation in the most severe ones. More generally, a theory of poverty can be based on analysis of rational choice in scarcity conditions: the combination of these two types of analysis, apparently very distant, enables Mr Agency and Mr Well Being to be reconciled.

4. Poverty of what?

The concept of poverty has been thus far addressed in indirect and marginal manner in two different contexts. Some aspects of the theory of social choice were illustrated in the second section, where I showed the opposition between well-being as the maximization of personal utilities and freedom as the protection of fundamental rights.

The theoretical considerations put forward have induced us to regard choices made in the absence of freedom due to extreme poverty as inefficient. From the normative viewpoint, by analyzing the various theories of social justice and interpretation of freedom, this finding has also been applied to equity, both in Rawls' theory of primary goods and in Sen's capabilities theory.

The considerations were borne out in the third section, where I tried to apply the conclusions of Sen's approach to a model of rational consumption choice-making in scarcity conditions. Focusing on this specific situation clarified the relation between well-being and agency: the necessity conditions of extreme poverty are a strong constraint on individual behaviour, giving rise to a distortion in the relation among information, the formation of preferences and their satisfaction. The discussion in the third section on the limitations encountered by a model of rational choice in extreme resource scarcity led to a classification of four poverty conditions.

Let us set aside the general aspects of the theory of choice and observations on social justice to concentrate on the concept of poverty. The two areas cannot, of course, be separated and analyzed individually, since the choice of a reference theoretical frame is also a normative choice, and this is especially true for poverty. We thus have a further interpretive device with which to analyse the differences among definitions of poverty: the choice of an analytical perspective from which to

³⁰ Likewise, peaches are always chosen in extreme abundance conditions.

³¹ States 2 and 4 are not illustrated in the scheme, since they require a multi-period model.

observe poverty cannot be considered to be independent from the other theoretical and prescriptive elements that guide a particular approach.

The discussion on poverty offers ample opportunities for borderline interpretation: the failures of 'integralist' approaches from a disciplinary viewpoint have been demonstrated above. And in this area of inquiry more than others, the adoption of a socioeconomic perspective enables the weight of the actor to be balanced with the weight of social structure, and the correlation to be broken between individual rationality and utilitarianism, between a rejection of rationality and the protection of rights.

Reconciliation is possible if we dedicate analytical space to the debate on poverty, without concentrating solely on income. The choice of the analytical 'space' is crucial: it indicates, first of all, a normative choice, the set of variables that affect deprivation (income, capital, health state, etc.), but it also influences the formulation of policies to deal with it.

The first step is to decide whether we are discussing mere monetary poverty alone, or whether we are also considering the ways in which income can be converted into functionings. The link with normative aspects is very close, and a relation with the theoretical aspects of the theory of choice becomes evident if we consider the analytical variable chosen to define the semantic space of poverty (income, freedom of agency, etc.) as a metapreference. Let us return to the descriptive aspects.

The title of this section evokes a famous study in which Amartya Sen³² argues that equality in some 'spaces' (income for example) may involve inequality from other viewpoints, such as the ability to convert the same amount of money into well-being. Economists usually opt for the income (or consumption) 'space' when they evaluate inequality and poverty, doing so for reasons of calculation convenience. This choice, however, involves the value judgement of identifying the utility acquired from income with well-being. Setting himself the theoretical task of refuting this model, Sen opposes a 'descriptive' definition of inequality exclusively based on income with a notion of 'ethical' inequality which comprises other aspects related to the achievement of well-being, such as freedom, health, enjoyment, etc. (Sen 1982; Sen 1992).

The step from the limitations of descriptive inequality to those of descriptive poverty is a short one. Firstly because the most commonly used official indexes for poverty measurement, among which the *International Standard of Poverty Line*, measure economic inequality by calculating the percentage of the population living below average living standards in a specific country.³³ Secondly, because measurements of relative poverty use per capita income (or consumption) to set the threshold requisites.

A definition of poverty exclusively based on income-related aspects has the same shortcomings as those indicated by Sen for the definition of inequality. The importance of the intensity of need is neglected, the number of individuals in real indigence condition³⁴ is not certain, and no attention is paid to the original circumstances of deprivation.

A fourth criticism concerns the fact that if the focus is exclusively on income, the ways in which income is converted into functionings are not taken into consideration. Sen uses this argument when he discusses inequality. In my view, however, it holds even truer for poverty, since, unlike inequality, poverty is not a concept of "differential" nature. In fact, however much we may

³² "Equality of What?", in S. McMurrin (ed.), *Tanner Lectures on Human Values*, I, Cambridge, Cambridge University Press, 1980; Italian translation in 1986 "Scelta, benessere, equità", Il Mulino, Bologna.

³³ This index defines as poor a family of two individuals with an income lower than the per capita income in the country. Apart from the slight corrections required by the application of equivalence scales, this amounts to saying that a person is poor if his/her income is less than half of the average income of the population. This formulation is closer to inequality than absolute poverty.

³⁴ The flanking of relative poverty incidence with another two measures of poverty – poverty intensity and absolute poverty incidence – recently introduced by the National Statistical Institutes in almost all countries has partially solved the first two problems.

relativize the definition of poverty with respect to a historical period or geographical context, the aspects related to deprivation states must emerge if we are to distinguish poverty from inequality.

Imagine that the 100 wealthiest men in the world live in a country characterized by a very high level of general well-being. If we measure economic inequality in that rich country, it will probably be higher than in a sub-Saharan country characterized by 'equally' distributed poverty. Although we might wish to relativize poverty to the reference context, it would be absurd to consider an individual from the first country earning less than 50% of per capita income as poor, and not a person from the second country with an income above that threshold.

While the concept of poverty would be irrelevant to study of the first country, the concept of inequality may prove useful for measurement of its income distribution or living standards, although these have little to do with deprivation conditions in which all individuals probably achieve the functionings necessary for a decent lifestyle in that community.³⁵ The relation between relative poverty and social exclusion, therefore, does not invest the concept of economic inequality in all cases.

The use of the income criterion seems better suited to measuring the 'distance' expressed by economic inequality than to measuring such an intricate concept as poverty. By contrast, the relation between monetary resources and the purchase of goods to satisfy primary needs is not sufficient to describe the various "steps" between income and poverty. If we consider income, two individuals with incomes above the poverty threshold are not deemed to be poor. But human diversities (sex, age, physical disabilities, etc.) may prevent the conversion of income equality into realization of the functionalities of purchasable goods (that is, equality of functionings). A sick person, for example, may have a much higher income than a healthy one but is forced to spend so much money on medicine that he finds himself impoverished.

Hence, the considerations on the importance of converting income into well-being are extremely pertinent to the debate on poverty as a condition in which the conversion process does not come about for various reasons – of which low income is only one. Using solely income to define poverty may have dangerous consequences in terms of policy. It may create the illusion that poverty can be eliminated by bringing the incomes of the poor above, or close to, the threshold value. Thus neglected would be the task of eliminating the real causes of poverty and, in case of scarce public resources, concomitantly with assertion of the dangerous utilitarian argument (put forward in public policies via the distinction between the 'deserving' and 'undeserving' poor) that resources should be guaranteed only to those who can more easily escape poverty (because they are young and healthy, suitable for any job, etc.), thereby ensuring the more efficient management of public money.

Assuming that any definition of poverty implies a value judgement, the objective should be to choose the widest possible semantic space, one that encompasses the evocative expression "obvious want and squalor" coined by Rowntree in his studies on poverty (1902). Different analytical variables can be chosen to measure poverty and describe the "misery of lives" (Sen 1999, 26): income, well-being, utility, capabilities and achievements. Normally, deprivation states display a causal relation between privations of single analytical variables (low income-earners are more susceptible to illness, the illiterate are less likely to become rich, etc.). However, as Sen says, this strong relation should not distract us from the possibility of analyzing incapability alone.

Sen envisages functionings as the "basic" elements that enable us to live a "valuable life" (Ruggeri Laderchi 2001). This broadens the discourse on poverty without relating it exclusively to income but neither opposing it to this interpretation. According to Sen, the relation between capabilities and income is simply instrumental. Many variables affect deprivation (or activation) of capabilities; income does not play a primary role among them because the relation between low income and low

³⁵ No matter how 'exigent' the life style of a community may be in creating a sense of belonging among its members, some sort of integralist "relativism" may create conceptual confusion. If the concept of social exclusion has to take account of relative poverty, the risk arises that a citizen from the Arab Emirates will be deemed to be excluded because he does not own a yacht.

capabilities is a “parametrically variable” relation (Ruggeri Laderchi 2001). The incidence of this relation depends on other conditions and factors related to community and family of origin. In his definition of poverty, Sen seems to devote the same attention to aspects of what elsewhere has been defined as social capital as he does to income.

Three comments on this interesting and innovative approach are in order. First, Sen’s definition of poverty merges into that of social exclusion.³⁶ Admittedly, these flexible definitions allows for joint examination of the two concepts and discussion of their space of action. Nevertheless, it is important to avoid conceptual confusion. Social exclusion refers to a notion of citizenship and participation in a community with rules and life styles; poverty refers to only one aspect of social exclusion, that is, scarcity.³⁷

Another comment is prompted by Sen’s seeming belief that the semantic space of poverty can be extended to include other approaches (like the one based on income) by using the space of capabilities, and not, for example, the space of well-being. I shall not discuss this issue here, since it would take us too far afield, preferring to concentrate on the third aspect – probably the most important one – that may undermine the theory of poverty as incapability.

The disadvantage of this approach is that it is difficult to operationalize into synthetic indicators. Given that such an intricate concept as poverty is unlikely to be entirely captured by a single indicator,³⁸ a choice must be made between the greater descriptive capacity of multiple indexes and the greater practicality of a single measure. Sen considers the use of the monetary dimension as deficient in terms of ‘relevance’, but necessary in terms of applicability (Sen 1993): the lack of income is still the most significant indicator of at least the extent of poverty.

The recent debate on ‘new poverty’ or ‘specific poverty’ – for example poverty related to housing, work, health, etc. (Spanò 1999) – indicates the need to use other instruments besides figures on income to gain full understanding of specific deprivation phenomena. We should use instead a single indicator if we consider poverty as an aggregate phenomenon in which single deprivations of specific needs are added together. It appears evident that for measurement as well the value-driven and normative choice directly affects the selection of the most suitable indicators.

When the general idea of poverty is used, the income variable proves inadequate to describe the phenomenon in all its complexity, and, despite recent authoritative efforts, the inclusion of other specific dimensions also appears difficult (Atkinson et al. 2002). I agree with the simple solution proposed by Sen (1994) that a suitable approach based on agency freedom is one that identifies an income that is ‘inadequate’ to fulfil basic functionings, rather than a threshold relative to the rest of the population. Income is simply chosen as the variable that may indirectly reflect a condition of scarcity and incapability better than other variables. At the same time it is evident that the income-related component plays an important role in the formation of capabilities that depend also on a society’s culture. Still with regard to aggregate poverty, deprivation phenomena can be investigated as failures of social integration mechanisms.

Apart from income, the conversion of capabilities depends on other factors that concern not only the person (health, education, social and professional relations, etc.) but also a group, and the culture, ideology and cohesion of a given society.

In conclusion, results that can be expressed in terms of well-being are determined by the possibilities of individuals in terms of agency that also take the form of free expression, education, and social capital. Sen mentions, for instance, that in some societies machismo may affect the ability of women to convert income into functionings (Sen 1994). These factors enable a strong

³⁶ To be noted is that Sen’s first contributions to the study of poverty based on the capabilities approach preceded the debate on the concept of social exclusion.

³⁷ This should be true regardless of the object of scarcity, be it income, capabilities or well-being. This does not mean that poverty is included in social exclusion, simply that it is more limited in its semantic range: there may be excluded individuals who are not poor and even the poor who are not excluded.

³⁸ Sen is aware of this limitation. He writes that “given the complex nature of the concept of poverty, it can be reasonably affirmed that no single measure can capture the entire concept”. It is therefore necessary to sustain “pluralism, aiming at a set of measures rather than a single, “correct” measurement of poverty” (Sen 1982).

connection to be established between the concept of global poverty in the sense of freedom and the concept of vulnerability and social exclusion. At the same time, certain macro factors may directly affect the ‘rational’ choices of individuals in scarcity conditions.

The gap between a merely descriptive definition of poverty focused on income and an ‘ethical’ dimension of poverty expressed by indicators using the same variable – although only for illustrative convenience and not conceptual aporia – appears manifest. According to the latter approach, factors related to the community in which the individual lives become equally important. In spite of the risk of ambiguity associated with concepts such as social exclusion, the advantage of this approach is the close connection that it establishes between the theoretical conceptual aspects of poverty and its policy implications – a relationship which is less direct and visible in the other approach.

If poverty is seen as a mechanism that hinders the freedom of individual choice and prevents access to an income ‘adequate’ to fulfil certain functionings, the argument for policy action becomes different and more cogent. This is not a matter merely of using the ethical element of social equity in order to justify the introduction of a minimum income for those in greatest need. Helping these individuals to escape from poverty may be seen as a means to ensure greater freedom of choice and greater efficiency of the system.

If we assume the theory set out in section 3, we may argue for anti-poverty policy able to free all individuals from the ‘hunger mechanism’. The need for greater effort in poverty-fighting policies can be therefore supported even with liberal arguments. If the only objective is to optimize system efficiency through the perfect operation of individual choice mechanisms, all obstacles against the ‘hunger mechanism’ must be removed. Severe scarcity conditions may dramatically jeopardize the process of free choice, and consequently hinder free market processes.

There is a free market principle to the effect that the choice of each actor must be perfectly flexible with respect to price. But this cannot hold if personal survival is at risk (Esping Andersen 1999). The failure of the market in excluding high-risk individuals therefore requires a response from the state in the form of social policies (Barr 1993). I have argued in favour of this approach with an interpretation centered on individual agency freedom as the right to develop ‘capabilities’, defining poverty as the absence of this condition.

This is not the place to discuss the fascinating relationship among liberalism, rights and state intervention. As Marshall noted, political freedom requires fundamental social rights as its foundation. The need for state intervention to protect the most vulnerable part of the population has been reformulated by the most enlightened liberals. Greater efficiency goes together with social equity: social policies must be seen as entailing a social security network able to alleviate a risk condition that would be intolerable if it were borne by individuals alone.

A welfare state may serve to convert risk from the negative connotation related to social vulnerability into a positive connotation related to new social opportunities and the ability to exercise agency. This justification for state intervention in the economy is rather new: traditional microeconomics comprises other cases in which market failures require intervention by a state authority as an efficient and rational social means to deliver certain goods, or in other special cases (public goods, negative externalities, etc.).

Intervention by an ‘ethical’ state which decides for the ‘good’ of individuals, on the grounds that in some cases they are unable to protect their real interests, has occurred in very few cases, for instance that of merit goods. The justification provided by the traditional theory for coercive intervention by the state is in this case based on the inability of individuals to convert the properties of specific goods (such as school education) into utilities.³⁹

This justification, however, seems inadequate, for it implicitly assumes that what is right and good can be imposed by fiat, and that the state must guarantee the achievement of the general good by the community. This would be an imposition detrimental to individual freedom. As Franzini and

³⁹ See Franzini Messori (1991), p. 21 with special reference to note 17.

Messori ask (1991), why should it be the state that decides which preferences should be adopted? Instead, the justification should comprise the idea that there are situations in which individuals are unable to evaluate the choice best suited to their interests, regardless of what these are, or situations in which they know the best choice but are unable to make it, and are therefore forced to modify their preferences. In these cases the market cannot be the best system to coordinate the economy. As regards the case analysed here, that of scarcity, we have seen the distortion of preferences that no longer coincide with original individual interests. The situation must be balanced so that Paretian efficiency can operate once again. And the problem can only be solved by external intervention.

Conclusions

The foregoing discussion has concerned two theoretical issues of great interest to the social sciences: social choice and poverty. I have sought to show that the two issues should be considered jointly in order to furnish a new interpretation of poverty based on analysis of social choice. As Simon wrote some years ago, “nothing is more fundamental in setting our research agenda and informing our research methods than our view of the nature of the human being, whose behavior we are studying”.⁴⁰

I started from the assumption that redefining the concept of poverty into a notion no longer based solely on a lack of income first requires us to understand the behaviour of individuals in conditions of resources scarcity. In the second section, I pointed out the existence of a marked antithesis between the utilitarian interpretation centered on rational choice and its results in terms of personal well-being, on the one hand, and the view predicated on the importance of rights and freedom on the other. As a borderline discipline, economic sociology has the important task of integrating the two approaches and overcoming their current incompatibilities so that we increase our knowledge of the conditions in which deprived individuals make their choices.

I opted for the theoretical framework of economic rationality but rejected at the same time a view based exclusively on well-being. In accordance with Sen’s capabilities theory, I used a substantial definition of freedom in order to integrate an emphasis on rights and agency with freedom as the precondition for personal self-realization. The main purpose of my discussion, in fact, was to provide a normative account of poverty as the lack of agency capabilities, and not just of resources, affirming that a scarcity of minimum resources induces individuals to choose without exercising real agency freedom. In support of this contention I drew on the neoclassical economic approach to describe the behaviour of a rational actor in extreme scarcity conditions. With respect to that model, however, I used the concept of ‘metapreference’: a theoretical device defined by Etzioni which enables consideration of the ultimate objectives that guide individual actions within a model of rational choice between two goods. I argued that metapreferences change above a certain level of minimum resources, modifying an individual’s choice behaviour. This yielded an interpretation of poverty as ‘incapability’, and in the third section I identified four incapability states brought about by resources scarcity.

As Etzioni points out, metapreferences enable ‘homo socioeconomicus’ to reconcile the pursuit of economic interest on the one hand with the social structure on the other. This approach to the study of poverty gives rise to a concept of economic deprivation that is also ‘embedded’ in society.

I repeatedly pointed out that incapacities are not only the result of individual poverty conditions: they can be stimulated or instead depressed by the social and political context in which individuals live. The presence of communitarian support, trust and solidaristic relations, social and cultural capital, and the presence of a political system characterized by a democratic regime and economic regulatory mechanisms able to reallocate unequally distributed resources may intervene in

⁴⁰ Simon H. (1985) “Human Nature in Politics: the Dialogue of Psychology with Political Science”, *American Political Science Review*, 79, 293-304, cit. p.303.

individual ‘capability’ paths. I have also briefly mentioned that anti-poverty policies may stimulate the capacity for individual activation and eradicate impoverishment, thereby guaranteeing greater social equity as well as greater efficiency.

My definition of poverty links the defeat of poverty to the improvement of individual choice processes freed from the obstacles that constrain their full realization. Market processes can operate with greater efficacy in these conditions.

This interpretation of poverty therefore provides some indications as regards policies: there is a need for an external intervention, a ‘visible’ hand able to remedy the most evident distortions that deprive some individuals of substantial freedom, thereby guaranteeing greater economic efficiency and greater social equity. Policy makers, however, should bear in mind that poverty is not solely a condition of income scarcity that can be eliminated by means of subsidies to the poor. The poor must also be given the opportunity to deal with the original causes of their impoverishment: ‘capabilities’ must be supported, not just income.

The frontier of these policies is a basic income, a right pertaining to all citizens, which would allow full freedom of agency in terms of work choices, the management of leisure and freedom from the economic constraint defined here as ‘hunger’. Some perplexities remain as to the relationship between public finance needs and cultural acceptance of an innovative instrument of this kind. Active instruments for income protection have become quite popular in Europe in recent years: they combine monetary transfers with the social and professional activation of the beneficiaries, not their passive participation or welfare dependence. Theoretically, this sort of policy seems to be the ‘middle way’ towards achieving the growth of capabilities for all individuals: doubts, errors and amendments essentially concern its implementation.

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