

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

*GIANLUCA BUSILACCHI*

[busilacchi@posta.econ.unian.it](mailto:busilacchi@posta.econ.unian.it)

*DEPARTMENT OF SOCIAL STUDIES – UNIVERSITY OF BRESCIA*

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

One task of economic sociology is to disprove Samuelson's statement, which entrusts the study of rational behavior to economic sciences, and the study of irrational behavior 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 over the issues of rationality.

Most sociologists have criticized the utilitarian microeconomic model and its imperialistic pretensions in the explanation of individual choices. They have tried to object the theory of the rational agent who maximizes his own interests, playing "at home". Cultural and value elements that create links in communities, social capital rather than intangible inexplicable elements, such as feelings and instincts that affect personal taste, can influence human behavior just like considerations on personal utility.

The scientific foundation and empirical pragmatism of these statements cannot be discussed: a possible negative comment refers to their limited epistemological utility.

Similar considerations do not represent a counter-theory, since they simply destructure the statements of utilitarian individualism used by the neo-classic doctrine. The strong opposition of methodological orientation eliminates, however, the possibility for a dialogue between economists and sociologists who study the theory of choice.

A goal for the new sociologic economy may be the construction of a common working perspective for social scientists of different disciplines.

It is a fascinating, useful attempt for two reasons: firstly, it reinforces the role of a discipline capable of combining traditional analysis of "social" variables, aprioristically derived from the microeconomic model, with a study of economic rationality, which should be considered as a "variable of man's institutional life", in the attempt to "understand and explain its variations" (Martinelli, Smelser 1995, 54).

The second reason for the construction of a theoretical model that rejects the foundations of classic utilitarianism, without leaving the frame of rational behavior and opening up to sociological analysis, is to avoid the dispersion of the individual attempts for theoretical progress that have been made so far.

One of the greatest difficulties in the identification of individual behavior models in opposition to neoclassic economic models is the introduction of partial results derived from the evidence of its failures into an organic model (Franzini, Messori 1991).

It is necessary to mark a common perimeter for economic and sociologic analyses, capable of overcoming the existing knowledge, rejecting some rigid positions of utilitarian individualism and representing a base for a counter-theory.

Otherwise, the development of rational behavior science and its relation with allocation mechanisms will advance very slowly, since criticism to the traditional system, although correct, is not sufficiently organic to represent a counter-theory and not sufficiently ductile to partially modify the standard mainstream system.

This paper analyzes from this theoretical perspective an issue that interests both sociology and economics: it studies the concept of poverty and the effects that derive from its definition in terms of policies.

Two working hypotheses will be made:

1) the preference for a theoretical frame, normally implicitly assumed, on behavior mechanisms of individual choice affects the regulation (and allocation) system of public policies;

2) the equity and efficiency limits of allocation mechanisms of the social policies market and the efficacy limits of public regulation in policies against poverty derive from an underestimate of the limits encountered by individuals in scarcity conditions in terms of freedom of agency when making a choice.

The first hypothesis shall be simply assumed without discussion. We shall attempt to prove the second hypothesis and answer a couple of questions arising from it.

The first issue relates to the effects of the different exposure of individuals to regulative mechanisms: is there a kind of "segmentation" in the behavior of the rational agent who is the protagonist of the individual choice theory along his resource *continuum*? If yes, can this scenario be described?

In the third chapter we shall present a model that supports segmentation and shows that re-composition is possible through an external action (chapter 4) that balances the original deficit, increasing efficiency and equity of the allocation system.

The first answer, however, leads to a second question, with substantive characteristics: if it is true that the assumption of an exact theoretical reference affects the policy model, which are the effects on policies against poverty of a definition of poverty that analyses individual agency, instead of exclusively focusing on individual well-being?

Both issues refer to a central element of the social theory of choice, which studies how individual interests are aggregated in judgements on collective well-being.

The analysis of the concept of poverty and its indicators involves therefore the expression of a normative judgement.

If, as Scitovsky says, the preference for economic development compared to recessionary periods involves a re-distributive value judgment in favor of those who cannot count on wealth reserves during scarcity periods<sup>1</sup>, a study on the definition of poverty and poverty-fighting policies must be founded on an epistemological, rather than methodological, choice since it refers to disciplinary orientation on how judgements on social well-being and individual desires influence collective decisions.

It is the creation of a meta-order to give “weights” to preferences, rather than the choice or refusal of methodological individualism.

In the following pages we shall demonstrate the limits of the utilitarian model based on the maximization of well-being for the rational agent, in terms of resource allocation, both in the perspective of fair distribution centered on social justice, and according to efficiency parameters of the general system. We shall voice criticism on this model of choice founded on the central role of individual rights.

Finally, using Sen’s capabilities approach, we shall illustrate the possibility of combining the analysis based on individual freedom with an interpretation that takes into account the importance of individual well-being.

Our analysis shall focus on a single, extreme condition of individual behavior: individuals in scarcity conditions.

Such a study is not secondary and uninteresting for at least three reasons: on one hand, it can be *integrated* in the general scheme, since it studies an aspect of behavior that is not usually taken into great consideration and that may not obey the general scheme of rational choice.

Secondly, as mentioned earlier, a theoretical work on resource *poverty* can be useful to analyze this concept and suitable for the methodological purpose of this work.

On one hand, we feel the need for reformulating the concept of poverty in Western societies, due the obsolescence of its classical meaning and the appearance of new exclusion, risk and social vulnerability phenomena. On the other hand, as illustrated in chapter 3, the well being-focused approach shows great deficiencies in the integration between individual interests and freedom of agency. Finally, as Sen stress, the analytical plane of social judgements founded on individual capabilities can be related to indicators (Sen 1982) only in extreme poverty conditions.

Thirdly, the review of individual agency within allocation mechanisms gives the possibility to make considerations on possible external actions (if necessary), “visible” hands to reduce possible mechanism distortion.

As mentioned earlier, the theoretical viewpoint on the real capacities of poor individuals to take advantage of opportunities and realize desires (or preferences) affects the formulation of a social policies model.

The relation between theoretical-conceptual foundations of poverty and social policy models has different aspects; in the following pages we shall focus on two elements that are worth discussing.

Firstly, the different “ideas” of poverty, which are not the mere result of different definitions. On the contrary, they indicate different principles of political philosophy, indicating a sort of ethical relativism, and represent opposite concepts of social justice, thus generating distant policy models.

The theoretical foundations of utilitarianism and libertarian choice<sup>2</sup> create the premises for using market regulation mechanisms in social policies. If we consider the fundamental rights of every individual as given

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<sup>1</sup> In “The State of Welfare Economics” (in *American Economic Review*, 41, 1951) the author affirms that even the simplest indication of economic policy involves interpersonal comparisons and a judgement of value. This consideration was then reiterated by Orshansky affirming that “poverty is a judgement of value” (Orshansky M. *How Poverty is measured*, in “*Monthly Labor Review*”, 1969) and Garraty in 1979 stating that “the adoption of a definition is the beginning of policy formulation” (Spanò, 1999, 13).

<sup>2</sup> Libertarianism here refers to an extreme conception of protection of freedom as formulated by Nozick (1974) in opposition to Rawls’ liberal doctrine. A great debate exists on semantic differences between liberalism and libertarianism, as well as on different ideas of freedom. Among others, see Rawls (1971), Nozick (1974), Sen and

and inviolable, as if they were an ethic perimeter for actions, and if, based on these rights, every individual pursues the maximization of his/her own well-being, the fairest social choice is when every individual may enjoy the maximum “negative” freedom (Constant 1818 cit. in Pizzorno 2003), that is to say the possibility for “total action” ensured by lack of external interventions.

This is the origin of the ethical justification that gives total space of social offer to the market, or reciprocity mechanisms (family or neighbors).

The presence of a State to balance original inequalities is not only considered as unnecessary, but hinders full enjoyment of “original” rights of choice (Nozick 1974).

This logic is opposed to a different idea of freedom: the so-called freedom of achievement (Sen 1999).

Attention is focused on the need for equality of individual capacities. If individual capacities are lower, the person shall have to make greater efforts (in terms of economic resources, for example) to obtain the same “achievements” (or functionings), and therefore his/her agency shall be limited.

In this case the ethical justification is for an external action that intervenes on starting lines and grants full substantial freedom for all individuals.

We shall see that these two ideas of freedom originate from opposite political philosophies.

Resource allocation models and welfare models derive from a different concept of freedom: if we take this assumption to extremes from a theoretical viewpoint we can reduce our analysis to two opposite models of social policies, Mr. Well Being versus Mr. Agency.

We have also mentioned a second aspect in the relation between poverty and policy, which is the macro aspect of the same discussion on choice, so far made at individual level only.

While we see a strong segmentation of demand in some fields of social policies, the action of the market as allocation mechanism produces degenerative consequences, not only for the iniquity towards disadvantaged individuals, but also as efficient mechanism of collective choice.

The principles of Paretian efficiency, according to which individual rational choices lead 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 live in severe resource scarcity.

A distortion of interest perception originates (see chapt.3) , affecting the assumption mechanism of choice in full freedom. Such a corrupt process needs institutional corrections that, with Rousseau’s words, “constrain us to enjoy more freedom”.

The difficulty to “reach” individual preferences makes the market regulation mechanism inefficient, in addition to unfair. Our goal is not to show its failure from the policy viewpoint - the market does not exist in policies against poverty, since there is no business. We want to give our contribution to the description of passages from micro to macro in the welfare sector.

A gap exists between the welfare economics introduced by Pigou in the last century and developed with welfare functions as calculation of maximum individual interest, and macro studies, which are the territory of comparative political economy, sociologists and political scientists. And the new sociological economy occupies this space with full rights.

## ***2. Theories of choice between utility and rights: agency against well-being?***

Regardless of great efforts to unify, or at least harmonize, analytical scenarios of the theory of choice in economy and sociology, the situation is still characterized by a profound normative division between the two disciplines.

In the last few years, however, there has been growing interest for heterodox works with the ambitious task of analyzing an individual behavior model according to the principles of economic rationality, but at the same time “embedded” in the society.

As regards economists, “neo-institutionalism” has recently raised the question of explaining individual economic actions taking into account motivations that are not strictly related to economic variables, especially thanks to Simon and Sen’s work.

The research has focused on the effects of “social” variables, as well as public goods and externalities, drawing the conclusion that they may require allocation mechanisms other than the market to guarantee higher efficiency and equity to the economic system (Franzini Messori 1991).

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Williams (1982), Berlin (1969), Sen (1999), Sen ,1976, *Liberty, Unanimity and Rights*, *Economica*, 43, pp. 217-46 in Sen (1982).

On the sociologists side, Etzioni's work can be situated in a somehow opposite, yet complementary, perspective, with similar intention. The purpose here is to understand the change of individual preferences over time, due to both economic and social variables.

In the latter case the author is aligned 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). Individual preferences may depend on elements that are not directly controlled by individuals.

Most of all, the originality of Etzioni's work lies in the attempt to use economic sociology to overcome the dichotomic division in the analysis of consequences on individual action of variation of price (a competence of economists) and preferences (a competence of sociologists).

The author affirms the need to study preference variation together with, and not in opposition to, price variations to understand the determining factors of individual choices. An interpretation based on the co-determination of individual behavior would contribute to understand the mechanisms by which resources or economic actions of individual may determine future preferences. This is what Elster defines as relation between opportunities and desires.

The analysis of rational economic behavior extends with Etzioni to endogenous preferences, impenetrable aspects that are not considered by the identification of preferences with individual behavior typical of economists (the so-called exogenous preferences).

According to 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 refers to the possibility of considering a meta-order of metapreferences, a sort of arrangement by priority that orders different sets of preferences according to a relative importance scale.

The distribution of "weights" to variables contributes to solve some of the issues that have been repeatedly addressed by economists and cannot be easily integrated in the neoclassic utilitarian scheme: the possibility of "conflictual" desires (Schelling 1984) or cases in which the attempt to maximize individual interest leads to disutility (Sidgwick 1919, Schotter 1981)<sup>3</sup>.

Metapreferences seem to be the only instrument capable of maintaining the behavior of the "homo socioeconomicus"<sup>4</sup> within the frame of rational choice. The "homo socioeconomicus" acts and chooses in a scenario in which the pursuing of maximum well-being and the possibility of enjoying effective agency are not in opposition and where the importance of individual choices adds to the weight of contextual factors and social structure.

Before continuing, we shall examine the origin of the opposition between the theory based on well-being maximization and the theory that 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)<sup>5</sup>.

Apart from some theoretical hypotheses that will be discussed in the explanation of utilitarianism as normative theory, we shall now continue by highlighting the assumptions that have been frequently criticized by heterodox sociologists and economists. Among them, the presumption that choice behavior always

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<sup>3</sup> This issue refers to the game-theory that also analyses the relation between behavior, individual interests and external coercive interventions. For an analysis of this relation see the authors indicated in the paper.

<sup>4</sup> The formulation made by Lindenberg (1990) aims at identifying a behavioral model overcoming the opposition between pursuit of *expediency* as result of cost-benefit evaluation, typical of the homo oeconomicus, and attention to sanctions that should bring to compliance of moral norms orienting the choice of the homo sociologicus (Busilacchi 2001). The opposition between morality and utilitarianism, the base of the so-called "sociologist dilemma" (Lindenberg 1983) is solved 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 final objectives and instrumental means: the first being related to compliance with rules, the latter affected by a process of "convenient" choice. A flexible maximizing individual within a frame of rationality limited not only by mental limits, but also by the value scenario." (Busilacchi 2001, 29-30).

<sup>5</sup> Hahn F., Hollis M. (1979) Introduction, in Hahn F., Hollis M. (a cura di) *Philosophy and Economic Theory*, Oxford, Oxford University Press.; Italian translation in *Saggi di filosofia della scienza economica*, a cura di Zamagni S., NIS, Firenze, 1982.

reflects individual desires; the determination of collective utility as mere addition of individual utility (principle of summed utility); the assumption of exogeneity and normative indifference for the formation of preferences and initial allocation of resources<sup>6</sup>.

Based on these principles, the Paretian theories on well-being conclude that maximization of social well-being, interpreted as the sum of individual functions capable to guarantee maximum system efficiency and equity, is entrusted to the market regulation.

Two types of criticism have been made to this theoretical system.

The first criticism refers to equity: according to Pareto, a state is preferable if at least one individual improves his condition without any other individual worsening his condition. In this way, in the formulation of social choice, the presumption of equity is simply obtained as the product of efficiency, without comparing the two aspects.

As Sen and Williams say (1982), Paretian efficiency is not a tribute to the invisible hand; it is a tribute to a market mechanism that does not consider the initial resource allocation and does not provide for a possible re-distributive intervention by the state.

We shall try to prove that the results of the initial “lottery” are important not only in terms of equity, but also in terms of efficiency, since a very unequal distribution involves a “distortion” in the realization of individual preferences and the Paretian efficiency of the second fundamental theorem of welfare<sup>7</sup> loses part of its meaning.

As we shall see in chapter 3, some conditions are characterized by a real match-up problem between individual preferences and possibilities of choice, due to the lack of Sen’s “substantial freedom” that prevents some individuals from expressing their desires.

The author especially refers to the lack of freedom due to non-democratic regimes (Sen 1982). Our analysis shall focus on the lack of agency due to extreme poverty.

Agency freedom cannot be subtracted to the sphere of individual action, regardless of economic needs, just like “minimum” rights of civil and political freedom.

The moral consideration on the unfairness of radical inequalities, which result in extreme poverty in wealthy societies, finds theoretical evidence also in terms of efficiency. This refers to the second type of criticism, since the collective choice derived from Paretian principle may not respect all real individual preferences.

Two conclusions can be drawn: firstly, more preventive information on individual preferences regardless of initial resource allocation is needed in order to talk about allocation efficiency.

Secondly, the so-called Paretian efficiency is based on an idea of efficiency that is not compared with substantial individual agency.

The interpretation of agency poses a problem between different doctrines and becomes the real fulcrum of debate on the possibility of integrating or opposing choice models.

The social choice that emanates from economic rationality “limited” by utilitarianism show some incongruities, which were appropriately summarized by Sen as the “the impossibility of a Paretian Liberal” (Sen 1970).

Sen demonstrates that the efficiency of the Paretian principle, which is the base of the welfare theory of social choices, cannot be conciliated with right-founded liberalism.

The incorporation of this concept of freedom in the social choice theory would allow for passing from “bounded” rationality to “liberated” rationality.

The fulfillment of this objective inevitably requires the intervention of a “visible” hand to overcome two problems: first of all, to eliminate the constraints to individual capabilities caused by extreme resource scarcity due to very unequal allocations. This would allow for re-establishing the match-up between endogenous preferences and individual economic actions.

Consequently, the approach centered on preferences and well-being would be conciliated with the approach based on rights and freedom.

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<sup>6</sup> Other weak points of the neoclassic system, such as perfect information and bounded rationality, are not discussed here, being misleading for our work.

<sup>7</sup> This theorem affirms that any Paretian-efficient allocation may be realized by means of the perfect competition market. As discussed in chapter 3, in “extreme” allocation conditions (with particular reference to scarcity) we see a shift in the match up between rational choice capabilities of individuals and preferences with respect to the objects of the choice and individual real interests (represented by metapreferences). This is due to the conditioning of the resource entity on these trends of preferences. Hence the importance of an external intervention to redress the balance.

Before examining how aggregation can be carried out through the construction of metapreferences, we shall try to understand the reason why it is believed that the current theoretical tool box of economic rationality does not permit to conciliate utilitarianism with rights in the social choice function.

As mentioned earlier, in some cases (such as tyranny, extreme poverty) individuals cannot choose what they want because their range of opportunities is too limited to “encounter” their own preferences (see Fig. 2 chapter 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 behavior codes that go beyond the pursuing of individual interests.

In the first case, however, the attitude can be integrated in the utilitarian scheme, since individual utility can increase also by means of good deeds (for the satisfaction due to self-gratification from generosity). In the second case, the decision to follow a behavioral rule derives from a moral obligation, not from willingness. Obligation “leaves a track between personal choice and personal well-being” (ibid. page ...). In this case, individual choice becomes a social deed, which can be hardly understood by using analytical utilitarian instruments.

Although “commitment” can be integrated in the traditional utilitarian scheme, interesting aspects emerge to confute the theory of “homo economicus” merely interested in pursuing his own personal advantage in all situations.

A series of simulations demonstrated that the non-egoistic attitude is often chosen in situations similar to the “prisoner’s dilemma” (Lave 1962). More recently, experiments proved that, on average, individuals are motivated by reciprocity and ready to sacrifice part of individual preferences for collective well-being, if the others behave in the same way, thus avoiding the free riding risk (Charness G., Rabin M. 2002).

These studies seem to show that the result of individual choice derives from a series of elements, among which individual utility, right protection and ethics have a basically equal importance.

Either we trace desires to the “ultimate” objective of personal well-being, or we consider different motivations to action as not integrated in a single set of preferences, the need for a more sophisticated analytical instrument than the simple order of individual preferences emerges in order to explain decisional mechanisms.

The concept of metapreferences, that is to say “ultimate” desires set by each individual as final objectives for his actions (not only economic actions), allows for representing these high-level objectives within the choice theory. The objectives can be reached for conditions other than Paretian optimum, for example by means of choices that are apparently in conflict with the final objective<sup>8</sup>.

The possibility of ordering metapreferences would also allow for expressing moral judgements and take back the issue of obligations, rights and elements other than personal interest of rights that affect individual choice mechanisms to the analytical frame of preference-centered rationality, releasing it from utilitarianism and passing through rights.

Does this solve the opposition between the central role played by preferences and rights, between well-being and substantial freedom, between Mr. Well-being and Mr. Agency? It does not.

Our approach leads to a consideration that shall be discussed in chapter 4: the relation between individual interests and choice to achieve social well-being raises the question of strategic interaction of individual actions, especially in the long run, as analyzed by the game theory.

The lack of complete information on preferences and limitations on action as illustrated above foresee the failure of individual rationality in the presence of moral norms.

It is therefore necessary to coordinate individual actions with institutional instruments capable of correcting the invisible hand<sup>9</sup>, in order to orientate 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 force individual choice within the obligation far away from personal utilitarian interest require the presence of a communitarian institution with coercive powers.

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<sup>8</sup> The prisoner’s dilemma is an emblematic case; similar examples can be also found in cases with no coordination with another individual. For instance, the story by Ulrich Beck of the happy peasant who, in order to maximize his individual interest, decides not to become a capitalist, in spite of the possibility of significant earnings, in order not to take the risk to find himself again in the initial condition, with just little more money, after hard work and loss of serenity (Beck 1982).

<sup>9</sup> For an analysis of the role played by social institutions to facilitate the achievement of advantageous results for the community see Schotter A. (1981).

In our case, the external intervention to re-allocate resources in case of extreme inequality should not only be interpreted as a means to guarantee higher equity, but also as a means to guarantee the efficiency of individual actions oriented to economic rationality.

The instrument of fiscal taxation with re-distributive finalities, for instance, is a classical example of a collective action that guarantees higher social well-being, also in a Paretian sense, for different reasons: first of all, the elimination of extreme poverty results in social and ethical advantages that can also affect individual utilities.

Secondly, the elimination of strong inequalities can be advantageous from the productive viewpoint and stimulate the demand for goods. Most of all, the elimination of strong inequalities provides the poor with substantial agency, thus guaranteeing an increase of systemic efficiency. If poverty prevents from overcoming a minimum resource allocation, the Paretian principle is not applicable, since individuals are not in a position to evaluate real preferences.

Finally, it is a guarantee for all individuals who might one day find themselves in this condition.

We still have to understand the normative base for the aggregation of individual preferences. Which type of social judgement and collective interest is chosen to solve the failure or “limited” individual rationalities? Social choice can take place on the base of different judgements of value: collective well-being can be considered based on the variation of well-being units of individuals (utilitarianism) rather than levels (Rawls) or substantial freedoms (Sen’s capabilities).

Which is the metaorder<sup>10</sup> used to weigh metapreferences? The expression of a judgement of value is considered as an operation by attributing a priority and value intensity scale to “ultimate” action objectives.

Individual well-being and substantial freedom, however, are not sufficient to derive the different models of normative theories.

The two concepts can have different interpretations: we have analyzed, for instance, the different causes of individual actions, from satisfaction of individual interests to maximization of economic resources, to respect of rights and moral obligations.

By using the different meanings of well-being and agency as reference variables, we can identify different models of justice theories.

<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

We have already illustrated the theoretical hypotheses of the *utilitarian* theory; as regards normative foundations, the maximization of individual well-being can have different forms that represent the different “informative bases” of utility (Sen 1991).

Bentham’s contribution generically interpreted it as a mental state of happiness; this interpretation was replaced by utilitarian studies centered on satisfaction of desires (Hare), income and finally on representation of choices (Robbins). The latter interpretation derives from Lionel Robbins’ criticism to Bentham’s

<sup>10</sup> This term is used to refer to a metapreference order.

approach, who accused it of vanishing the interpersonal utility comparison not connected to concrete choices<sup>11</sup>.

According to utilitarianism, choices must be judged only on the base of results (consequentialism) and judgements on different states exclusively depend on their utility (welfarism), regardless of the way it is achieved. The agency freedom level is not part of value judgements.

Finally, the maximization of social well-being is obtained by summing personal utilities (summed utility principle).

Although it takes into account the results of individual well-being, this theory of justice has evident limitations, such as the amoral indifference for initial resource allocation and non-utilitarian values, such as freedom.

However, the defect of utilitarianism mostly affecting a perspective that investigates the real freedom of preference representation for individuals with resource scarcity, also in terms of effects of rational choices on system efficiency, refers to the fact that the indifference for initial distribution and substantial freedom is reflected in a lack of information on real individual preferences.

The mental condition that determines utility may be affected by adaptation to deprivation: using the famous metaphor by Elster, the fox that cannot reach grapes adapts her preferences not to appreciate this 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 affirmed by Sen, the indifference for individual substantial freedom creates a distortion in interpersonal utility comparisons: two individuals may act in a similar way, without enjoying the same utility from their choice. A famous example tells the story of the rich ascetic and the poor, whose abstinence from food is choice and a need, respectively<sup>12</sup>.

Apart from the specific case of individuals living in extreme poverty conditions, some perplexities exist on the identification of utility with a mental state of happiness: as a matter of fact, individuals may be happy and not live in a state that corresponds to their original desires.

Let us consider, for example, the case of an individual longing for state A who makes efforts to reach it, but fails and ends up in state B, finding the same or even higher happiness in state B than he expected in state A. Is the relation between welfarism and consequentialism collapsing? The problem refers to another assumption not considered by utilitarianism, that is to say the impossibility to have 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. Heterogeneous contributions may be identified with the common name of *liberalism*, although with great internal differences.

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 real possibility *of* agency. Other definitions, instead, concentrate on the formal or “procedural” aspect, since attention is primarily addressed to processes “that allow for free actions and decisions” (Sen 1999,23), that is to say 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 between authors with the same approach.

Nozick, for instance, attributes total priority to libertarian rights, without considering that the intransigent emphasis placed on procedural aspects of freedom may cause “secondary” effects on needs (Sen 1999), violating the substantial aspect of freedom.

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<sup>11</sup> An attempt to overcome the comparison between utility exclusively based on choices used as proxy of individual utilities has been made by Harsanyi through the theories of hypothetical choices, in which individual A imagines to be individual B to compare the utility of the two states A and B (Harsanyi J. “Cardinal Welfare, Individualistic Ethics, and Interpersonal Comparison of Utility”, *Journal of Political Economy*, 63, 1955). As Sen says, utility cannot be the object of value since it is a mental reaction and its achievement is relative to cultural and social aspects. Wealth-focused approaches are characterized by higher concreteness and objectivity (Sen 1991).

<sup>12</sup> The heterogeneity of individuals justifies the different well-being 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.

Rights are interpreted as a insurmountable frontier, a constraint for social choice. It does not matter how these “titles” are unequally assigned at birth depending on the country or family of origin: they represent resources owned by individuals without the possibility of discussing them.

As mentioned in the first chapter, the extreme libertarian approach excludes all forms of taxation as protection requirement of property rights, thus excluding all possibilities of re-distribution with respect to original allocations.

Two negative comments are possible: the exclusive concentration on procedural, not substantial, aspects of freedom results in the impossibility to solve some cases of asymmetry of rights. How should we act when the rights of some individuals prevent or impair the rights of other individuals?

Especially in cases when individuals are not physically or mentally capable of exercising his/her rights, the hyper-libertarian position denies the right itself. We simply need to think about the supreme right, that is to say the right to life, which is denied by the extreme procedural freedom to those who don't have enough resources to survive.

Herbert Hart was the first one to note in 1973 how the economic need, from which life may depend, must not be postponed to other rights.

This criticism gives rise to a second, softer interpretation of liberalism: John Rawls states that a series of primary needs must be guaranteed for everybody, through the access to “primary goods”, such as minimal levels of “rights and liberties, powers and opportunities, wealth and income ... and the foundations of self-respect” (Rawls 1971).

Rawls combines the approach of liberties with some utilitarian contributions: primary goods, among them income, represent the guarantee to access minimum well-being.

Nevertheless, the permeation between well-being and liberty is not total, since Rawls does not formulate a concept of full, substantial “positive” freedom that allows for achieving objectives leading to personal self-realization.

Attention is shifted from a passive practice of rights to their active exercise: primary goods guarantee participation to community life and functions, without “exclusion” feelings.

According to Rawls, fundamental rights include the right not to live in deprivation or, as we say today, in “absolute poverty” condition, extending the meaning of this term to include not only income for survival, but also enjoyment of some needs that are crucial for community life<sup>13</sup> (Whelan, Nolan et al 2001,2002; UNDP 1997<sup>14</sup>).

By extending Rawls' theory of justice, Amartya Sen's *capabilities* theory focuses the attention on those elements that regulate the conversion of primary goods into capabilities to achieve individual desires. The author takes into account both the achievement of well-being as self-realization and the concept of freedom as capability of substantial actions.

At macro level it is assumed that the increase in substantial individual freedom indicates an increase in social well-being.

The opposition between well-being and agency appears to be solved by the capabilities approach. Capabilities represent the possibilities to realize functionings, a concept similar to primary needs that all individuals may desire.

The theory is related to a concept of freedom connected to individual realization capacities.

However, the theory ignores that the conversion elements of primary goods into desires include aspects related to the social structure, first of all social capital, both in terms of trust in the community and strength of relational networks.

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<sup>13</sup> It is quite interesting that an apparently modern concept, such as the balance of material well-being and participating freedom, has been derived by Rawls from works originated a few centuries ago. The enjoyment of minimum wealth as a base to fulfill the true objectives of man derives from Aristotle's *Etica Nicomachea*. In “The Wealth of Nations” Adam Smith, who has been considered, probably erroneously, the ideological father of the invisible hand as exaltation of individualism libertarianism, considered the access to some “necessary goods” as necessary for self-respect, meaning “by necessities..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)

<sup>14</sup> The 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.

The context of individual actions either nourishes or depresses substantial freedom. In the analysis of poor excluded subjects, social policies may play a crucial role in stimulating the capability to stand on one's own two feet.

The use of a policy should express the social choice made by the community and its analysis may allow for better understanding the level of freedom in exercising individual rights that is guaranteed by the community to its members.

In conclusion, Sen's approach overcomes the aspects ignored by other theories of justice: by only considering the result of achievements, utilitarianism does not consider the possibilities of coercion to achieve them. Other different forms of liberalism concentrate on negative freedom and procedural aspects and are not concerned about possible social iniquities or personal well-being.

The capability theory uses positive freedom as analytical variable, combining the consequential aspect of achievements and procedural elements of right title.

The concept of substantial freedom has a double meaning with respect to material resources: it guarantees their free use, giving full title of rights (*liberty to*), and at the same time indicates liberty *from* resources, meaning that it avoids the instauration of material dependence processes, through their minimal presence.

With this interpretation, the right to freedom also ensures the elimination of misery.

Finally, we have mentioned that capabilities may also be solicited by policies and vice versa. The participating capacity of a community affects results of policies and their implementation, especially in the case of policies providing for an active answer from citizens in order to produce efficacious results (Sen 1999).

How can we measure capabilities?

According to Sen's definition, they represent alternatives of functionings for the exercise of choice functions (Sen 1999), but this is not very helpful from the empirical side.

Paradoxically, it is easier to evaluate the capabilities of those who live in extreme poverty conditions, "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 don't eat because of extreme poverty are not acting because of a personal choice.

We shall now concentrate on the effects that the theory of capabilities may have on the rational choice of individuals in scarcity conditions.

### ***3. Resource scarcity and limited rationality: the hunger constraint***

The introduction of micro-economic manuals usually refers to the classic theory of the rational actor choosing between two goods, based on the possession of resources expressed through the budget constraint and on the individual utility function represented by his indifference curve.

Let us give an example to explain the viewpoint of choice in scarcity conditions: Hugo has 3 € to buy fruit, choosing between 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. His choice, however, leads him to buy 6 apples and 6 peaches: the preference for peaches is such that he renounces to have one fruit more for every two products purchased.

This model of individual choice behavior has been the object of great criticism.

We shall use some critical comments to prove how individuals in scarcity conditions make their choice in lack of substantial freedom and to show that the capabilities of achieving certain functionings are significantly limited.

For analytical convenience critical remarks shall be divided between criticism on the object of the choice and criticism on the conditions of the choice.

The first group includes considerations about the goods chosen, whose characteristics affect individual behavior, unlike the example above may suggest.

The utility originated by some goods (or services), for instance, is not "*divisible*" with respect to the units of value expressed by price. If Hugo spent his money for a movie theatre show, receiving a utility equal to 10 peaches, it could not be simply deduced that, given the marginal substitution rate between the two goods, the total utility would not vary if Hugo bought 5 peaches and half movie show<sup>15</sup>!

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<sup>15</sup> 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.

For other types of goods, like *public* or *merit goods*, it has been proved that traditional mechanisms of individual rationality do not work when making a choice (Franzini, Messori 1991). In particular, for the merit goods the gaps of the choice process centered on the maximization of individual interests are more evident in terms of expression of substantial freedom.

These goods are in fact characterized by lack of direct information on consumption-related utility. The utility of school education, medical care, or other goods, such as car safety belts, is not immediately perceived, if not as a negative aspect. Their absence may involve disutility: based on the hypothesis that consumers do not identify the primary utility of these goods, literature considers that an external action (public supply or coercion in the case of safety belts) is necessary to orientate individual choice (Schotter 1981).

Poor information directly affects the freedom of individual choice, especially for those who live in scarcity conditions.

Even in other cases, the model of choice related to utilities that are directly enjoyable from the goods (peaches and apples in the example above) becomes complicated. Individual preferences are especially affected by aspects that establish a *relation* between initial goods and other goods, and, in general terms, a wider range of preferences and needs.

An individual who is especially sensitive to exploitation of labor may for example include this element in his set of preferences, if he is informed that exploitation of labor is more diffused in apple than peach harvesting. However, the opening of preferences to additional characteristics beyond the most immediate ones, such as taste, establish a relation between the initial goods with other goods, characteristics and choices. In this case the context of choice is related and dependant on other contexts. The initial preference for peaches achieved “acontextually” may fade into the background, if evaluation includes elements such as nutritional values rather than ethic aspects.

We have referred to the need to place a meta-order before the preference order with respect to a variable (for example “taste for fruit”) to establish the priorities determined by individuals when making a choice.

When purchasing fruit, the metapreference order of an individual may be different from another individual. Going back to the example, Hugo may decide to choose according to a metapreference order with taste and price as a priority, while nutritional and ethic aspects may be more important for his friend Karl.

The simplification operated by the neoclassical model is based on the hypothesis that relative preferences are built according to the relation between characteristics and price of goods. The idea we are suggesting is that in some instances this relation becomes less important than other relations, for example the relation between two characteristics of the goods, or, in special cases such as the extreme condition of “hunger”<sup>16</sup>, the relation between the price of the less expensive article and its nutritional contents.

The simplification operated by the micro-economic theory to describe the behavioral 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.

This is one of the reasons why it has been accused of poor adherence with reality. Obviously, models need to make simplifications to maintain a general descriptive capacity. However, it is true that an “extreme” economic phenomenon, such as resource scarcity, calls for different analytical instruments.

This is especially true if we want to observe poverty from a new perspective.

If the objective shifts from maximization of general utility to elimination of hunger, the characteristics of the goods 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.

Our work is based on the fact that indifference curves reflect the metapreference (for example, the central role of taste compared to price) used to make a choice.

The idea, however, does not still explain the reason, meaning and objective of metapreference: maximization of utility, nourishment, taste or all of the above?

This happens because all properties are taken into consideration when building the preference order.

However, as shown in Fig. 2 below, the descriptive model becomes extremely weak when resource scarcity cannot justify the stability of the preference order as foundation for the choice process.

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<sup>16</sup> A chart (fig.2) will show Hugo’s choices in case of a resource variation beyond the minimum scarcity threshold, bringing him to discard the “taste” variable from his metaorder. This shows the shift of the considered metapreference (from taste-price to hunger-price) on three Cartesian axes.

We shall attempt to divide the different properties of the good, which may represent the base for new metapreferences (i.e. relation between nutritional capacity and price). The indifference relation between the goods may now change.

In a chart with quantity and prices as variables, indifference curves may differ according to the properties of the goods considered according to price, or in a mutual relation, that is to say according to the chosen metapreference (Fig. 1).

In spite of this complication, the result is a better understanding of the choice mechanism in extreme cases. By adding a third variable for “hunger” to quantity and price, we shall obtain a single interpretation with indifference curves reflecting the three variables (Fig. 2).

The model of rational choice that considers the selection mechanism as a bi-modal scheme is now showing its limits.

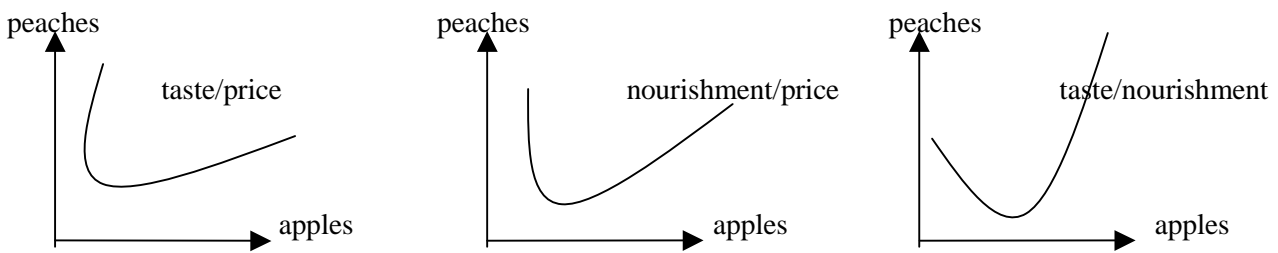


FIG. 1: Effects of metapreference variation considered on indifference curves between two goods<sup>17</sup>

Of course, the phenomenon is more evident for some types of goods. Consumption may sometimes become the symbol of a life style and in that case the choice involves the evident characteristics of the good only in a small part.

In the case of symbolic and “relational”<sup>18</sup> goods in general, poor information and limited preference structure are a significant penalization to orientate the process of choice towards aware, free evaluation.

The other aspects that prove the limits of the traditional utilitarian model of choice refer to context and conditions of the evaluation process.

In the classical model Hugo ceases to exist as decisional subject at  $t_0$ . The fact that his preferences may also be related to *future choices* is not considered. In such a case, the decisional process would be significantly complicated from the cognitive viewpoint by a series of factors that can be hardly calculated and may limit his rational capabilities.

For example, the hypothesis to check the opportunity cost of the money that can be saved once he has satisfied his hunger or, going back to merit goods, the fact that the “purchase” of school or work education determines utility not only on consumption, but can also bring competitive advantages on the work market at  $t_1$ .

Obviously, models of rational choice use hypotheses and simplifications because they aim at exemplifying a behavioral model, and not describing Hugo’s day or life.

However, the inclusion of this model in a social context and its use to evaluate descriptive limits in scarcity conditions, as well as possible normative effects, involves a complication and modification in order to attribute additional finalities to it. We shall return on this aspect.

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

The theory of games has analyzed these aspects in depth. The prisoner’s dilemma is a typical example of failure of individual rationality, showing that in some cases the pursuing of individual interests leads to a result which is worse than the result achieved through co-operation with other individuals.

This aspect, however, affects our analysis on resource scarcity in a secondary way.

The most relevant criticism to this interpretation is that Hugo’s preferences may *depend on his resources*.

<sup>17</sup> The shape and inclination of curves is merely indicative.

<sup>18</sup> The term is used to indicate the property of relating different characteristics and goods.

This issue has been studied from different analytical perspectives, from Elster's "Sour grapes" (1983) to the theory of endogenous preferences<sup>19</sup>. It is the most interesting aspect for an analysis of choice behaviour in scarcity conditions founded on a perspective based on the free formation of preferences.

Let us go back to the criticisms we have discussed so far and let us try to image their effects on the formation of preference in poor individuals and on their free choice modes to prove the weakness points of the traditional rational choice theory.

The imperfect "divisibility" of some goods, for example, represents an important constraint for the realization of individual preferences in scarcity condition. If resources are so scarce that they do not allow for buying one unit of the indivisible goods, the formation process of consumption choices cannot be defined as totally free.

Likewise, the presence of merit goods that may affect personal utility only in the long term and in an indirect or "negative" mode, such as in the case of health care or school education, shows the limits of the mono-period and acontextual interpretation of the neoclassical approach.

Again, only by introducing a new metapreference that orientates individual action in the model, i.e. interest for health or (future) work position<sup>20</sup> with respect to time, the scheme of utility comparisons deriving from the resource-preference interpretation may continue on working.

Otherwise, if these goods are not supplied by the State, individuals in scarcity conditions operate their choice based on the intrinsic utility that is perceived immediately, and not on latent characteristics with related or indirect utility. The poor are unlikely to choose to "purchase" high school education versus employment after compulsory education, or private medical care versus other necessities.

The implementation of this theoretical choice model increases the risk of poverty and social exclusion reproduction for those categories that are most traditionally exposed to poverty and social exclusion since they belong to the lowest income distribution levels.

An evidence of the vicious effects of these choice processes can be found in those countries in which social policies are exclusively entrusted to the market, with no health or social security protection provided by a public subject.

The analysis of the choice process of poor individuals centered on the capabilities theory cannot avoid investigating the relation between preferences and opportunities in more depth with respect to utilitarianism.

The hypothesis of independence made by economists – according to which, regardless of resources, individuals choose between two goods only according to their marginal substitution rate – creates a series of problems in "marginal" conditions, that is to say conditions in which the constraint of individual balance is either very limited or very high.

The behaviour deviating from the traditional model that we have defined as "satisfaction or hunger" (Busilacchi 2001) can be easily perceived.

Let us concentrate on the second condition, that is to say "hunger"<sup>21</sup>, not only to understand the limits of the traditional approach to choice in poverty conditions, but also to extend the scope of the concept of poverty.

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

Four cases are possible.

In the first case the individual enjoys a good level of information on the characteristics of the goods<sup>22</sup>, since he has already chosen them in the past or has had indirect experiences 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 based on information acquired in the past.

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<sup>19</sup> For a review of this aspect see Busilacchi 2001.

<sup>20</sup> Based on the assumption that working positions are positively related to education level.

<sup>21</sup> Just like scarcity conditions affects choice and formation of individual preferences, the same is true for abundance conditions. If Hugo had €30 a day to buy fruit, abundance would bring him to neglect the indifference relation between apples and peaches and exclusively buy peaches. Could we affirm in this case that his choice was not rational, or the taste-price metapreference was replaced by another metapreference (for example taste-vitamin contents), leaving aside the aspect of economic convenience related to the price ratio of the fruit?

<sup>22</sup> The choice is exclusively made based on the original metapreferences, that is to say the relation between taste and price.

Hugo knows that he prefers peaches to apples because he has tasted both, but he has €0.20 and can only buy one apple. A person knows that he would like to be a doctor, because he has received information about this job through his friends' experience, but he cannot afford university studies.

Beyond a certain limit of scarce resources, the constraint of budget no longer exists<sup>23</sup> as a set of combinations between goods and the indifference curve that indicates the utility determined by the combination of two goods is converted into simple dots that show forced choices.

The persistence of such a condition in time may lead to a second deprivation state, in which the awareness of the impossibility to buy the "peaches" leads Hugo to modify his own preferences in favor of apples. Let us 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<sup>24</sup>.

By adapting Elster's position in the sour grapes story to the theoretical platform of rational consumption choice, the prolonged awareness of limited resources causes a distortion of individual indifference curves.

An investigation on the transformation of preferences according to past consumption has been carried out by theorists of endogenous preferences through habit forming models (Gilboa-Schmeidler 1995; for the relation between repeated choice and rationality refer to Lindenberg 1983).

Scarcity becomes chronic in the third deprivation state and causes a lack of substantial freedom in choice. Individuals in extreme poverty condition act in such a severe need that the mechanism of rational choice between two different goods based on characteristics and prices becomes meaningless.

The information level is reduced because of a shift of important information, that is to say information about time, because the "haze" from hunger prevents long-term evaluation and concentrates on immediate condition, and also because information on the original metapreference (taste/price) is replaced with other information.

Let us imagine that Hugo has not been eating for several days ( $t_0, t_1, t_2$ ) and has an income of €0.60 at  $t_3$ . His taste preference very unlikely will lead him to buy 2 peaches instead of 3 apples, since in this case the 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 reachable
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	Not existing	Forced choice (only one)

The use of meta-order plays a central role in analyzing the choice based on substantial freedom of individuals in scarcity conditions.

<sup>23</sup> The limit depends both on resources and goods divisibility. If resources are not sufficient to buy one unit of the most expensive goods, the budget constraint and 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).

<sup>24</sup> Even if the possibility of saving some money exists, in view of the indifference relation between apples and peaches, it is not given for granted that Hugo chooses 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 can 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 if he prefers to choose freely according to his taste or 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. The consideration is further discussed in the third case.

Substantial freedom is eliminated in the fourth deprivation state: individuals have always lived without the possibility of choosing and therefore a veil of ignorance on the characteristics of the other states prevents them from forming any preference<sup>25</sup>.

Let us imagine that Hugo does not know how peaches taste, since he has never tasted them, or that he is not aware of their existence, just like for any other fruit, except for apples.

This condition is partially out of the semantic field of poverty according to the Western definition and is included in the semantic field of misery or extreme poverty. On the contrary, this is a quite common situation for many individuals in underdeveloped countries, whose destiny exclusively depends on their social conditions of birth.

The four deprivation levels provide important hints in two different directions: they redefine the concept of poverty, highlighting different levels of intensity on one hand; they identify implications from the viewpoint of the theory of individual choice on the other hand, verifying a sort of segmentation of rational behavior along the Cartesian axes. We shall deal with the first issue in the next chapter.

As regards the second aspect, the analysis of the choice behavior in scarcity conditions has shown that the opening 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, most of all, third case, has required the introduction of the metapreference concept in the analytical frame to understand the constraints to individual choice.

If we want to maintain the perspective of the rational actor, the behaviour of those who are at the margins of the Cartesian space would not be otherwise understandable.

The segmentation of individual behaviour can be interpreted as a modification of metapreferences: they 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 metapreferences<sup>26</sup>.

In extreme abundance price becomes almost insignificant and the taste/price metapreference loses part of its importance, since the relation leads to total prevalence of taste (it tends to infinity). However, we are concerned here about 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”<sup>27</sup> 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.

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<sup>25</sup> From a theoretical viewpoint the condition of choice in this stage may be assimilated to the lack of freedom identified by Sen in dictatorial regimes (Sen, 1982).

<sup>26</sup> Or rather by a meta-order in which metapreferences (taste/price, nourishment/price, taste/nourishment, etc.) are distributed according to a different priority scale.

<sup>27</sup> We 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 reasons. 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 of using 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”.

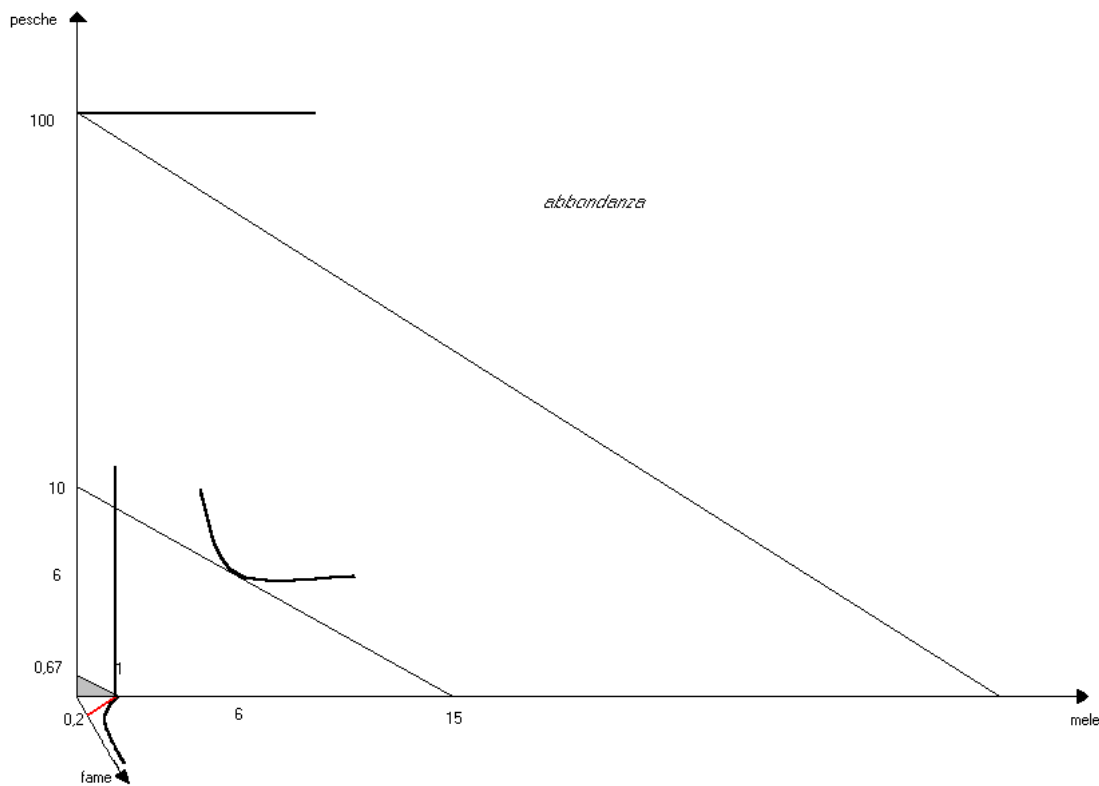


FIG 2: Consequences of metapreference modification in a space with a third variable<sup>28</sup>

The advantage of considering severe scarcity as a variable, and not as a static situation on which preferences for goods (considered as given) insist, is to highlight the restriction of agency under a certain resource limit. 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 limit of minimum resources appears visible.

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 a high inclination and lead to an angular solution<sup>29</sup>. The real individual preferences between peaches and apples that are typical of standard conditions cannot be achieved in this case and forced choice occurs.

The scheme, however, does not explain the reason for the great transformation of 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<sup>30</sup>.

His behaviour is segmented in different moments, in which the contraction of the well-being state is accompanied by a reduction of agency capability: moments in which a metapreference mechanism in “standard” conditions operates; moments in which partial scarcity (or abundance) leads to preference distortion with angular solutions, and moments in which other metapreferences are pursued.

The model complication has undoubtedly numerous limits. However, it allows for avoiding the opposition between well-being and freedom, by considering both aspects as central factors in the choice process.

<sup>28</sup> We shall limit here to introducing the idea of a complication of the choice model in scarcity conditions, without addressing every single consequence for the microeconomic theory in analytical detail.

<sup>29</sup> Likewise, peaches are always chosen in extreme abundance conditions.

<sup>30</sup> States 2 and 4 are not illustrated in the scheme, since they foresee a multi-period model.

It is an alternative model starting 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 in different poverty condition levels. This is due to various reasons related to the indivisibility of goods and their specific characteristics (merit goods) in the lightest deprivation cases, up to the reduction or negation of substantial freedom in choice or preference formation in the worst cases.

More generally, a theory on poverty can be built from the analysis of rational choice in scarcity conditions: the combination of these two types of analysis, apparently very distant, allows for bringing Mr. Agency and Mr. Well Being close.

#### ***4. Poverty of what?***

The concept of poverty has been thus far addressed in an indirect, marginal way in two different contexts. Some aspects of the theory of social choice have been illustrated in the second chapter, showing the opposition between well-being as maximization of personal utilities and freedom as protection of fundamental rights.

The considerations made at theoretical level have brought us to consider choices made in lack 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 consideration has also been considered for equity, both in Rawls’ theory of primary goods by Rawls and in Sen’s capabilities theory.

The considerations have been confirmed in the third chapter, where we tried to apply the conclusions of Sen’s approach to a model of rational consumption choice of individuals in scarcity condition. The focus on this specific situation has clarified the relation between well-being and agency: the necessity conditions of extreme poverty are a strong constraint for individual behavior, causing a distortion in the relation between information, preference formation and their satisfaction.

In the third chapter the discussion on the limitations encountered by a model of rational choice in extreme resource scarcity has led to a classification of four poverty conditions.

Let us set aside the general aspects of the theory of choice and the 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 the notion of poverty does not elude this hypothesis.

We have therefore an additional interpretation to verify the differences between different definitions of poverty: the choice of an analytical perspective for the observation of poverty cannot be considered independent from other theoretical and prescriptive elements that guide a certain approach.

The discussion on poverty offers wide possibilities for borderline interpretation: the failures of “integralist” approaches from a disciplinary viewpoint have been demonstrated above. And in this field of studies more than in other, the adoption of a socioeconomic perspective allows for balancing the weight of the actor with the weight of social structure and breaking the correlation between individual rationality and utilitarianism, between refusal of rationality and protection of rights.

Conciliation is possible if we dedicate an analytical space to the debate on poverty, without concentrating merely on income.

The choice of the analytical “space” is a core element: it indicates, first of all, a normative choice, the set of variables that affect deprivation (income, capital, health state, etc.), and it also influences the formulation of policies to make up for disadvantaged situations.

The first choice to be made is to understand whether we are debating on mere monetary poverty, or we are considering the modes used to convert income into functionings.

The link with normative aspects is very strong and a relation with the theoretical aspects of the theory of choice becomes visible if we consider the analytical variable chosen to define the semantic space of poverty (income, freedom of agency, etc.) as a metapreference. Let us go back to the descriptive aspects.

The title of this chapter evokes a famous study in which Amartya Sen<sup>31</sup> affirms how equality in some “spaces” (income for example) may involve inequality from other viewpoints, such as the capability of converting the same amount of money into well-being.

Economists usually prefer to choose the income (or consumption) “space” in the evaluation of inequality and poverty for calculation convenience reasons. This choice, however, involves the judgement of value to identify the utility procured by income with well-being.

With the theoretical task of refusing this model, Sen opposes the notion of “ethic” inequality that takes into account other aspects related to the achievement of well-being, such as freedom, health, enjoyment, etc., to the definition of “descriptive” inequality exclusively based on income (Sen 1982; Sen 1992).

The step from the limits of descriptive inequality to the limits of descriptive poverty is a short one.

First of all, 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 population below certain requisites in relation to average life in a specific country<sup>32</sup>.

Secondly, because measurements of relative poverty use pro capita income (or consumption) to indicate threshold requisites.

A definition of poverty exclusively based on income-related aspects has the same inconveniences as the ones indicated by Sen for the definition of inequality. The importance of the need intensity is neglected, the number of individuals in real penalization condition<sup>33</sup> is not certain and attention is not paid to original deprivation conditions.

A fourth element of criticism refers to the fact that, by exclusively concentrating on income, the conversion modes of income into functionings are not taken into consideration.

Sen uses this argument in the debate on inequality. In our view, this is even truer for poverty, since, unlike inequality, poverty is not a concept of differential nature.

In spite of any relativization in the definition of poverty with respect to an historical era or territorial context, the aspects related to deprivation states must emerge in order to distinguish poverty from inequality.

Let us imagine that the 100 wealthiest men of the world live in a country characterized by a very high level of general well-being. If we measure economic inequality in such a rich country, it will probably be higher than a sub-Saharan country characterized by “equally” distributed poverty. In spite of any relativization of poverty to the reference context, it would be absurd to consider an individual from the first country below 50% of pro capita income as poor, and not a person from the second country above such a threshold.

While the concept of poverty would not be mentioned in the study of the first country, the concept of inequality could prove useful to measure income distribution or living conditions, although they have not much to do with deprivation conditions, in which probably all individuals achieve the functionings necessary for respectable life in their community<sup>34</sup>.

The relation between relative poverty and social exclusion does not invest the concept of economic inequality, in all cases.

The use of the income criterion seems more justifiable to measure the “distance” expressed by economic inequality than to measure such an articulated concept like poverty.

On the contrary, the relation between monetary resources and purchase of goods to satisfy primary needs is not sufficient to describe the various passages between income and poverty. If we consider income, two individuals with the same income beyond the poverty threshold are not considered as poor. But human diversities (sex, age, physical disabilities, etc.) do not guarantee the conversion of income equality into realization of functionalities of purchasable goods (that is to say equality of functionings).

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<sup>31</sup> “Equality of What?”, in Tanner Lectures on Human Values, I, a cura di McMurrin S., Cambridge, Cambridge University Press, 1980; Italian translation in 1986 “Scelta, benessere, equità”, Il Mulino, Bologna.

<sup>32</sup> This index defines a family of two individuals with income lower than the pro capita income in the country as poor. Leaving aside the slight corrections involved by the application of equivalence scales, it is like saying that a person is poor if his/her income is lower than half of the average income of the population. This formulation is closer to inequality than absolute poverty.

<sup>33</sup> The use of other two measures of poverty – poverty intensity and absolute poverty incidence – next to relative poverty incidence recently introduced by the National Statistical Institutes in almost every country has lead to a partial solution of the first two problems.

<sup>34</sup> No matter how “demanding” the life style of a community is to create a sense of belonging for its members, a sort of integralist “relativism” risks to create conceptual confusion. If relative poverty must be considered by the concept of social exclusion, the risk exists of considering a citizen from the Arab Emirates as excluded because he doesn’t own a yacht.

A sick person, for example, may have a much higher income than a healthy person, although he may be forced to spend such a great amount of money for medicine to find himself in poverty conditions.

The considerations on the importance of the conversion of income into well-being are extremely suitable for the debate on poverty, which indicates a condition in which the conversion process is not ensured for different reasons. And scarce income is only one of the possible causes.

The exclusive consideration of income to indicate poverty may involve dangerous consequences in terms of policy. It can create the illusion that poverty can be eliminated by bringing the income of poor individuals above, or close to the threshold value. This ignores the task of eroding the real causes of poverty and, in case of scarce public resources, the dangerous utilitarian argument (diffused in public policies through the distinction between deserving and undeserving poor) to guarantee resources only to those who are more likely to abandon this condition (because they are young and healthy, suitable for any job, etc.) for a more efficient management of public money may apply.

Assuming that any definition of poverty implies a judgement of value, the objective should be to choose the widest semantic space to include the suggestive evocation of a condition of “obvious want and squalor” coined by Rowntree in his contribution to 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 show a causal relation between privations of single analytical variables (those who have a low income are more exposed to illness, those who cannot read 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.

The author uses functionings as “basic” elements that enable us to live a “valuable life” (Ruggeri Laderchi 2001). This widens the debate on poverty, without referring it exclusively to income and at the same time without 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; among them, income does not play a primary role, being the relation between low income and low capabilities a “parametrically variable” relation (Ruggeri Laderchi 2001).

The incidence of this relation depends on other conditions and aspects related to different communities and families of origin. In his definition of poverty, Sen seems to dedicate the same attention to the aspects related to what is elsewhere defined as social capital and to income.

Three comments to this interesting innovative approach are worth mentioning: first, Sen’s definition of poverty mingles and brims over the definition of social exclusion<sup>35</sup>.

It is true that flexible definitions allow for not isolating the two concepts and discussing their space of action. However, 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 only refers to one aspect of social exclusion, that is to say scarcity<sup>36</sup>.

Another note originates from the fact that Sen seems to believe that the semantic space of poverty can be widened to include other approaches (as the one based on income) by using the space of capabilities, and not, for example, the space of well-being. We shall not discuss this issue, since it would take us too far and we prefer to concentrate on the third aspect – probably the most important one – that may weaken the theory of poverty as incapability.

The disadvantage of this approach is to make it difficult to convert into synthetic indicators. Being understood that such an articulated concept, like poverty, is unlikely to be fully captured with a single indicator<sup>37</sup>, a choice must be made between higher descriptive capacity with multiple indexes, and higher practicality of a single measure.

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<sup>35</sup> It must be noticed that Sen’s first contributions to the study of poverty through the capabilities approach precede the debate on the concept of social exclusion.

<sup>36</sup> This should be true regardless of the object of scarcity, being it income, capabilities or well-being. This does not mean to include poverty in social exclusion, it simply means to limit its semantic extension: excluded individuals who are not poor and even poor that are not excluded may exist.

<sup>37</sup> Being aware of this limit, Sen affirmed 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).

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 to indicate at least the extension of poverty.

The recent debate on “new poverty” or “specific poverty”, such as poverty related to housing, work, health, etc. (Spanò 1999) indicates the need to use other instruments in addition to figures on income for a full understanding of specific deprivation phenomena.

We should use instead a single indicator if we consider poverty as a global phenomenon, in which single deprivations of specific needs are added up together. It appears evident that, also for measurement, the choice of a value and normative choice directly affects the choice of the most suitable indicators.

When using the general idea of poverty, the income variable proves inadequate to describe the phenomenon in its complexity and, in spite of recent authoritative efforts, also the inclusion of other specific dimensions appears difficult (Atkinson et al. 2002).

In our opinion the solution proposed by Sen (1994) is simple and suitable to represent an approach based on agency freedom: an income that is “inadequate” to reach basic functionings, rather than a relative threshold with respect 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 appears evident that the income-related component plays an important role in the formation of capabilities that also depend on social culture. Still within global poverty, deprivation phenomena can be investigated as failures of social integration mechanisms.

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

In conclusion, results that can be expressed in terms of well-being are determined by the possibilities of individuals in terms of agency, also in the form of free expression, education, and social capital.

Sen mentions, for instance, that in some societies machismo may affect the capability of women to convert income into functionings (Sen 1994). These factors allow for a strong connection between the concept of global poverty in the sense of freedom and the concept of vulnerability and social exclusion.

At the same time some 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 “ethic” 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, elements related to the community where the individual lives become equally important.

In spite of the ambiguity risk with similar concepts, such as social exclusion, the advantage is the strict connection between the theoretical conceptual aspects of poverty and its policy implications, being this relation not too direct and visible in the other approach.

If poverty is seen as a mechanism that hinders freedom of individual choice and prevents the access to an income “inadequate” to reach certain functionings, the justification for a policy action becomes different and mandatory.

We are not talking about interrogating the ethic element of social equity to justify the need for a minimum income for those in higher need. Supporting these individuals to abandon their poverty state may be seen as a system to ensure higher freedom of choice and guarantee higher system efficiency.

If we assume the theory illustrated in chapter 3, we may support the need of a policy against poverty capable of freeing all individuals from the “hunger” mechanism.

The need for a greater effort in poverty-fighting policies can be therefore supported even with liberal arguments. If the only objective is to optimize system efficiency through perfect operation of individual choice mechanisms, all obstacles to the mechanism must be removed. Severe scarcity conditions may dramatically jeopardize the process of free choice, and consequently hinder free market processes.

A free market principle affirms that the choice of each actor must be perfectly flexible with respect to price. This shall not be true if personal survival is at risk (Esping Andersen 1999).

The failure of the market in excluding high-risk individuals needs an answer from the state in social policies (Barr 1993).

We have supported this approach with an interpretation centered on individual agency freedom as a right to develop “capabilities”: poverty has been defined here as the lack of such a condition.

This is not the venue to discuss the fascinating relation between liberalism, rights and state intervention.

As Marshall noted, political freedom needs fundamental social rights as foundation. The need for state intervention to protect the most vulnerable part of the population has been reformulated by the most enlightened liberals.

Higher efficiency goes together with social equity: social policies must be seen as a need for a social security network, capable of tolerating a risk condition that would be intolerable for individuals alone.

The Welfare State may be useful to convert risk condition from the negative connotation related to social vulnerability to a positive connotation related to new social opportunities and possibility of agency.

This justification of state intervention in economy is rather new: traditional microeconomy includes other cases in which the failure of the market provides for the intervention of a state authority as efficient rational social choice for the supply of goods or in other special cases (public goods, negative externalities, etc.).

The intervention of an "ethic" state that decides for individual "good" based on the evaluation that in some cases individuals cannot protect their real interests, has been limited to a very few cases, such as merit goods. The justification given by the traditional theory to justify the coercive intervention by the state is in this case based on the incapability of individuals to convert properties of specific goods (such as school education) in utilities<sup>38</sup>.

The explanation seems not to be sufficient: it implicitly assumes the existence of a sort of coercion of what is good and what is evil and the fact that the state must guarantee the achievement of general good for the community.

This would be an imposition in detriment to individual freedom. As Franzini and Messori say (1991), why should be the state to decide which preferences to follow?

The explanation should include the idea that there are situations in which individuals cannot evaluate the most suitable choice for their interests, regardless of their contents, or in which they know the choice, but cannot achieve it and are forced to modify their own preferences.

In these cases the market cannot be the best coordination system of economy.

As regards scarcity, we have seen the distortion of preferences that no longer coincide with original individual interests. The situation must be balanced to allow Paretian efficiency to be effective again. And the problem can only be solved with an external intervention.

## **Conclusions**

These pages contain a brief discussion of two theoretical issues that have great interest for social sciences: social choice and poverty.

We intended to demonstrate the need to consider the two issues together in order to allow for a new interpretation of poverty through a meditation on social choice.

As Simon said 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"<sup>39</sup>.

We started from the assumption that the first operation to redefine the concept of poverty beyond a notion exclusively based on lack of income is to understand the behavior of individuals in resource scarcity conditions.

In the second chapter we discussed the existence of a very strong gap between the utilitarian interpretation centered on rational choices of individuals and results in terms of personal well-being, and a vision focused on the importance of rights and freedom.

Economic sociology has an important task as borderline discipline: it must integrate the two approaches and overcome current incompatibilities between the two models to increase our knowledge of choice conditions in deprived individuals.

We chose the theoretical frame of economic rationality refusing at the same time a vision exclusively based on well-being. According to Sen's capabilities theory, we used a substantial definition of freedom to integrate emphasis on rights and agency, with freedom as condition for personal self-realization.

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<sup>38</sup> See Franzini Messori, p 21 with special reference to note 17.

<sup>39</sup> Simon H. (1985) *Human Nature in Politics: the Dialogue of Psychology with Political Science*, "American Political Science Review", 79, 293-304, cit. p.303.

The main hypothesis for our discussion was to give a normative judgment of poverty as lack of agency capabilities and not only lack of resources, affirming that the lack of minimum resources leads individuals to choose without real agency freedom.

As an evidence to this, we tried to describe the behavior of a rational actor in extreme scarcity conditions following the neoclassical economic approach.

With respect to that model, we used the concept of metapreference, the theoretical instrument defined by Etzioni that considers the ultimate objectives that guide individual actions within a model of rational choice between two goods.

We affirmed that metapreferences change and modify the model of individual choice beyond a determined level of a minimum resource level

This helps to an interpretation of poverty as “incapability”: in the third chapter we identified four incapability states due to resource scarcity.

As Etzioni says, metapreferences allow the “homo socioeconomicus” to adapt attitudes to economic interest on one side and social structure on the other side. This approach to the study of poverty allows for establishing a concept of economic deprivation that is also “embedded” in the society.

We repeatedly mentioned that incapacibilities are not only the result of individual poverty conditions: they can be stimulated or on the contrary depressed by the social and political context of individuals.

The presence of community aids, trust and solidaristic relations, social and cultural capital, and the presence of a political system characterized by a democratic regime and economic regulative mechanisms capable of reallocating unequally distributed resources may intervene in individual “capability” paths.

We briefly mentioned that policies against poverty may stimulate the capabilities of individual activation and eradicate impoverishment paths, guaranteeing higher social equity as well as higher efficiency.

Our definition of poverty links the defeat of poverty to the improvement of individual choice processes, freed from the obstacles that constrain its full realization. Market processes can operate with higher efficacy in these conditions.

This interpretation of poverty provides therefore some indications on policies: there is a need for an external intervention, a “visible” hand capable of balancing evident distortions that prevent a condition of substantial freedom for some individuals, to guarantee higher economic efficiency and higher social equity.

Policy makers, however, must be aware that poverty is not a mere condition of income scarcity that may be eliminated with subsidies to the poor. The poor must be offered the opportunity to overcome the original causes of impoverishment: we must support “capabilities”, not only income.

The frontier of these policies is basic income, a right to life ensured to all citizens, which would allow a full freedom of agency in terms of professional choice, management of leisure time and freedom from the economic constraint defined here as “hunger”. Some perplexities remain on the relation between public finance needs and cultural acceptance of such an innovative instrument. Active instruments for income protection have become quite popular in Europe in the last few years. These instruments provide for money transfer together with social and professional activation of beneficiaries, without passive participation or welfare dependence.

Theoretically, this sort of policy seems to be the “average way” to the growth of capabilities for all individuals: doubts, errors and amendments are basically related to possible implementations.

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