

Theoretical and Practical Research in Economic Fields

Biannually

Volume X

Issue 2(20)

Winter 2019

ISSN 2068 – 7710

Journal DOI

<https://doi.org/10.14505/tpref>

ASERS
Publishing



Theoretical and Practical Research in Economic Fields



ASERS Publishing is an advanced e-publisher struggling to bring further worldwide learning, knowledge and research. This transformative mission is realized through our commitment to innovation and enterprise, placing us at the cutting-edge of electronic delivery in a world that increasingly considers the dominance of digital content and networked access not only to books and journals but to a whole range of other pedagogic services.

In both books and journals, ASERS Publishing is a hallmark of the finest scholarly publishing and cutting-edge research, maintained by our commitment to rigorous peer-review process.

Using pioneer developing technologies, ASERS Publishing keeps pace with the rapid changes in the e-publishing market.

ASERS Publishing is committed to providing customers with the information they want, when they want and how they want it. To serve this purpose, ASERS publishing offers digital Higher Education materials from its journals, courses and scientific books, in a proven way in order to engage the academic society from the entire world.

Editor in Chief

PhD Laura UNGUREANU

Spiru Haret University, Romania

Editor

PhD Ivan KITOV

Russian Academy of Sciences, Russia

Editorial Advisory Board

Monal Abdel-Baki

American University in Cairo, Egypt

Mădălina Constantinescu

SpiruHaret University, Romania

Jean-Paul Gaertner

Ecole de Management de Strasbourg,
France

Piotr Misztal

The Jan Kochanowski University in Kielce,
Faculty of Management and Administration,
Poland

Russell Pittman

International Technical Assistance
Economic Analysis Group Antitrust Division,
USA

Rachel Price-Kreitz

Ecole de Management de Strasbourg,
France

Rena Ravinder

Politechnic of Namibia, Namibia

Andy Ștefănescu

University of Craiova, Romania

Laura Gavrilă (formerly Ștefănescu)

Spiru Haret University, Romania

Hans-Jürgen Weißbach

University of Applied Sciences - Frankfurt
am Main, Germany

Aleksandar Vasilev

University of Lincoln, UK

ASERS Publishing

<http://www.asers.eu/asers-publishing>

ISSN 2068 – 7710

Journal's Issue DOI:

[https://doi.org/10.14505/tpref.v10.2\(20\).00](https://doi.org/10.14505/tpref.v10.2(20).00)

Table of Contents:

1	Where is Kenya Being Headed to? Empirical Evidence from the Box-Jenkins Arima Approach Thabani NYONI	87
2	William Nassau Senior and the Relationship between Abstinence, Capital and Interest Alessandro MORSELLI	96
3	Trade Openness and Industrial Output Growth in Nigeria: Empirical Lessons for Diversification Peter N. MBA, Anthony ORJI, Donald CHUKWUMAEZE, Onyinye ANTHONY-ORJI	105
4	Taxation and Welfare: Measuring the Effect of Bulgaria's 2007-08 Corporate-Personal Income Tax Reforms Aleksandar VASILEV	113
5	Offline Advertising versus Online Advertising Cristina Mihaela BARBU, Ștefan PONEA, Cristiana - Luminita BOGDĂNOIU	118
6	Predicting Disaggregated Tourist Arrivals in Sierra Leone Using ARIMA Model Emerson Abraham JACKSON, Edmund TAMUKE	132
7	Traditionalism or Modern in Romanian Management Accounting? Silvia SIMIONESCU, Elena BICĂ, Cristiana - Luminita BOGDĂNOIU	143
8	Fiscal Deficit and The Growth of Domestic Output in Nigeria Joseph Ibrahim ADAMA, Bright Onoriode OHWOFASA, Victor Ahmed AYODELE	150
9	European Unification and European Integration as a Philosophical Principle Bogdan GHIDIRMIC, Alexandru MATEI	159

Call for Papers

Volume XI, Issue 1(21), Spring 2020

Theoretical and Practical Research in Economic Fields

Many economists today are concerned by the proliferation of journals and the concomitant labyrinth of research to be conquered in order to reach the specific information they require. To combat this tendency, **Theoretical and Practical Research in Economic Fields** has been conceived and designed outside the realm of the traditional economics journal. It consists of concise communications that provide a means of rapid and efficient dissemination of new results, models and methods in all fields of economic research.

Theoretical and Practical Research in Economic Fields publishes original articles in all branches of economics – theoretical and empirical, abstract and applied, providing wide-ranging coverage across the subject area.

Journal promotes research that aim at the unification of the theoretical-quantitative and the empirical-quantitative approach to economic problems and that are penetrated by constructive and rigorous thinking. It explores a unique range of topics from the frontier of theoretical developments in many new and important areas, to research on current and applied economic problems, to methodologically innovative, theoretical and applied studies in economics. The interaction between empirical work and economic policy is an important feature of the journal.

Theoretical and Practical Research in Economic Fields, starting with its first issue, it is indexed in EconLit, RePEC, EBSCO, ProQuest, Cabell Directories and CEEOL databases.

The primary aim of the Journal has been and remains the provision of a forum for the dissemination of a variety of international issues, empirical research and other matters of interest to researchers and practitioners in a diversity of subject areas linked to the broad theme of economic sciences.

All the papers will be first considered by the Editors for general relevance, originality and significance. If accepted for review, papers will then be subject to double blind peer review.

Invited manuscripts will be due till November 10th, 2019, and shall go through the usual, albeit somewhat expedited, refereeing process.

Deadline for submission of proposals: 10th May 2020

Expected publication date: June 2020

Website: <http://journals.aserspublishing.eu/tpref>

E-mail: tpref@aserspublishing.eu

To prepare your paper for submission, please see full author guidelines in the following file: [TPREF Full Paper Template.docx](#), on our site.

WILLIAM NASSAU SENIOR AND THE RELATIONSHIP BETWEEN ABSTINENCE, CAPITAL AND INTEREST

Alessandro MORSELLI
University of Rome Unitelma Sapienza, Italy
alessandro.morselli@tin.it
alessandro.morselli@unitelmasapienza.it

Suggested Citation:

Morselli, A. (2019). William Nassau Senior and the Relationship between Abstinence, Capital and Interest. *Theoretical and Practical Research in Economic Field*, (Volume X, Winter 2019), 2(20): 96-104. DOI: [10.14505/tpref.v10.2\(20\).02](https://doi.org/10.14505/tpref.v10.2(20).02)

Article's History:

Received October 2019; Revised November 2019; Accepted November 2019.
2019. ASERS Publishing. All rights reserved.

Abstract: *This paper highlights Senior's credit for having introduced the analysis of "abstinence" into the economic vocabulary and its importance in the formation of capital; and also, how the latter, with him, undergoes a strong improvement compared to the original formulations. It is reasonable to believe that Senior's influence was truly important, since all the subsequent efforts to extend the analysis of marginal utility to the distribution of resources over time by the concept of temporal rate derive from Senior's theory of abstinence.*

Keywords: abstinence, capital, capitalist, interest, marginal utility, value.

JEL Classification: B12, B13, E14.

Introduction

The original theory of interest related to abstinence (Senior 1836-1965, 58-60; Conard 1959, 26), and for which Senior is famous, has long been recognized as the most comprehensive of "classical" theories (Bowley 1937, 137; Brandford DeLong 1986, 326).

However, as soon as this theory is related to "classical" analyses², it is only considered as a necessary missing link in the cost of production theory of value; this fact has been overlooked because Senior's work has not been understood as an effort to build a system that would hold together Say's and Ricardo's results. It would be reductive, however, if the theory of capital of one of the most eminent representatives of the marginalistic approach had served merely to improve a theory of value³ with which Senior disagreed (Rossitto 1993, 67).

And if this is the case, it would be impossible to explain why the later theories of capital depended in any way on Senior's concept of abstinence. Therefore, it is plausible that there must be some important detail in the theory of abstinence that needs to be highlighted (Senior 1836-1965, 66-67).

Senior (1836-1965, 58-59) introduced the term *abstinence*, corresponding to the sacrifice made by capitalists who invested their profits rather than using them in unnecessary expenses. Abstinence justified profit in the same way that hard work justified wages.

Senior had been able to put into practice the ideas underlying the Ricardian analysis of the time. Capital, for him, is neither labour nor land, nor any particular combination of both, but it is the intermediate product that results from the application of current uses to provide for the future, postponing current consumption. The productivity of capital is explained, at the same time, as originating in the release of current resources in order to

² For an exhaustive criticism of the logical structure of the classical model see Bailey (1825, 1-5).

³ For a subjective interpretation of value, see Whately's work (1832), *Introductory lectures on political economy*. Furthermore, Lloyd (1832) in his analysis distinguishes between total and marginal utility and links his subjective history of value to a principle of decreasing marginal utility.

produce intermediate goods with the same deferral of enjoyment; in short, the application of resources for remote purposes makes it possible to produce through indirect methods (Mill 2006, 581-586).

Thus, Senior justified both the demand for capital and abstinence with the higher physical productivity of the indirect method of production, which can only be used if the future is put before the present enjoyment. In this proposition, perhaps, the real omission rests in the function of capital in making possible adjustments between the marginal utility of income in different time spans. After his analysis of productive and unproductive consumption this was inevitable, although Senior generally defined abstinence to include it (Marx 2006, 14-16; De Marchi 1987). However, his presentation of the conditions concerning the offer of abstinence contains traces of temporal discomfort. He stated that the formation of capital concerns a defined present and a painful sacrifice, namely the abstinence of the current consumption to which people submit only with a view to a future reward. In fact (Senior 1836-1965, 140):

“Profits and Wages differ in almost all respects from Rent. They are each subject to a minimum and a maximum. They are subject to a minimum, because each of them is the result of a sacrifice. It may be difficult to say what is the minimum with respect to profit, but it is clear that every capitalist, as a motive to abstain from the immediate and unproductive enjoyment of his capital, must require some remuneration exceeding the lowest that is conceivable. On the other hand, as the rate of wages depends in a great measure on the number of labourers, and the rate of profit on the amount of capital, both high wages and high profits have a tendency to produce their own diminution”.

The question of why people should prefer present goods to future goods was made less transparent by Senior, except for the part in which he related the inability to understand the future, namely the lack of foresight; a reluctance to abstain (Senior 1836-1965, 59-60):

“To abstain from the enjoyment which is in our power, or to seek distant rather than immediate results, are among the most painful exertions of the human will. It is true that such exertions are made, and indeed are frequent in every state of society, except perhaps in the very lowest, and have been made in the very lowest, for society could not otherwise have improved; but of all the means by which man can be raised in the scale of being, abstinence, as it is perhaps the most effective, is the slowest in its increase, and the least generally diffused. Among nations, those that are the least civilized, and among the different classes of the same nation those which are the worst educated, are always the most improvident, and consequently the least abstinent”.

Thus, Senior's theory of capital and interest (Ricossa 1998, 256) was based on the explanation of the demand for capital due to the peculiar productivity of capital, and the supply of capital in the form of the real cost of saving. The relationship between time and productivity was introduced into Smith's "Wealth of Nations", it was only admitted as capital in formation and considered as an independent source of productivity by Ricardo after an intellectual struggle (Ekelund and Hébert 1975, 103).

These were the foundations on which Senior began to analyze the relationship between capital and other factors and the nature of the real cost that seemed to limit the supply of capital. In identifying this cost by calling it "abstinence," Senior was only able to make explicit the relationship between the supply of capital offer and its price. In fact (Senior 1836-1965, 97-98):

“The term “cost of production” must be familiar to those who are acquainted with the writings of modern Economists; but, like most terms in Political Economy, though currently used, it has never been accurately defined; and it appears to us impossible that it should have been defined without the assistance of the term “abstinence,” or of some equivalent expression. Mr. Ricardo admits that profit also forms a part of the cost of production. Mr. Mill, by a stretch of language, in the convenience of which we cannot concur, includes profit under the term labour. The definitions of Mr. Ricardo and Mr. Mill appear, therefore, to coincide. And that adopted by Mr. Malthus only differs from them in referring, not to the labour that has been employed, but to that which must be employed if the production must be continued. In this respect the language of Mr. Malthus is undoubtedly the most correct. The sacrifices that have been made to produce a given commodity have no effect on its value. All that the purchaser considers is the amount of sacrifice that its production would require at the time of the exchange. And when Mr. Ricardo and Mr. Mill speak of the labour which has been employed on a commodity as affecting its value, they must be understood as implying that the circumstances of production remain unchanged”.

However, this explanation does not mark a regression to the cost of production of the theory of value either of capital or of goods; it puts both profits and wages on an equal footing. The mere mention of real costs does not mean that the value is determined solely by the cost of production. For this reason von Böhm-Bawerk (1907) criticized Senior's theory of abstinence, because of the link between value and cost of production theory.

Except where production takes place under constant cost conditions (Senior took great care in pointing this out) costs are only a part of the determinants of value. Senior denied that the value derived from work or

abstinence or any other cost; it is governed solely by costs. As for the relationship between the cost of abstinence and the present value of abstinence, Senior did not propose that this cost be the only determinant of price. In fact, he spent much more time explaining why abstinence is productive than why it is scarce.

In the absence of direct evidence to the contrary, it is more reasonable to think that Senior's assumption derived the income of all factors from the value of their products rather than from their respective production costs. However, there are passages that support this interpretation in relation to the analysis of rent. In fact, he states (Senior 1836-1965, 128-129):

"We will begin by recurring to a subject to which we have already alluded, the frequent difficulty of deciding whether a given revenue ought or ought not to be called Rent. When an estate has been for some time leased to a careful tenant, it generally receives permanent ameliorations, which enable the owner, at the expiration of the lease, to obtain a higher rent. Is the increase of revenue rent or profit? It arises from an additional fertility, now inseparably attached to the land. It is received by the owner without sacrifice on his part. It is, in fact, undistinguishable from the previous rent. On the other hand, its existence is owing to the abstinence of the farmer, who devoted to a distant object, the amelioration of the land, labour which he might have employed in producing immediate enjoyment for himself. If the owner of the estate had farmed it himself, and had directed labour to be employed on its permanent improvement, the additional produce occasioned by those improvements would clearly have been termed profit. It appears, therefore, most convenient to term it profit when occasioned by the improvements made by a tenant".

It is evident in this passage that Senior derives profit directly from the value of that extra-product made possible by that abstinence. Since rent derived directly from the value of the product, it is clear that if profits are confused with rent in certain circumstances, they must derive from the value of the product of abstinence. This position is made clear by Senior (1836-1965, 128-129) in the following passage:

"For all useful purposes, the distinction of profit from rent ceases as soon as the capital, from which a given revenue arises, has become, whether by gift or by inheritance, the property of a person to whose abstinence and exertions it did not owe its creation. The revenue arising from a dock, or a wharf, or a canal, is profit in the hands of the original constructor. It is the reward of his abstinence in having employed capital for the purposes of production instead of for those of enjoyment. But in the hands of his heir it has all the attributes of rent. It is to him the gift of fortune, not the result of a sacrifice".

In the end, the analysis of this work highlights the scientific progress achieved by Senior through the elaboration of the theory of "abstinence", which contributed, in a significant way, to the improvement of the formation of capital.

1. Abstinence and Capital

After describing the relationships between profit, rent and abstinence, Senior dwells on the importance of abstinence in the formation of capital. In fact, he states (Senior 1847-52, lecture 8):

"To a certain extent it is the gift of nature. Nature gave to man all the globe and all its contents: Scarcely any gift of nature, however, except the sea, is of much service to man until he has fashioned it to his use. And that fashion in general contributes to its utility much more than the mere bounty of nature. The ore out of which an anchor has been made had little value while it was buried in the mine. A second cause therefore of the existence of capital is human industry. All the products of human industry are not capital, or the word capital would be synonymous with the word wealth.⁴ Capital is wealth destined to be employed productively. Something therefore besides nature and industry must concur to produce it, and to that third something, to the cause which occasions a given article of wealth to be used productively I give the name of abstinence. By that term I express the conduct of a person who either abstains from the unproductive use of what he can command or designedly prefers the production of remote to that of immediate results. The union of industry and abstinence I express by the term accumulation".

It is evident that Senior thought of the existence of capital as dependent on people's propensity to allocate current resources to future productions and this function makes it possible to achieve greater production through indirect methods of production (Bowley 1936).

⁴ According to Senior, wealth is everything that is the object of exchange, that is, everything that has value. This is characterised by the coexistence of three elements: 1) transferability; utility; limitation of supply. Transferability is an intrinsic characteristic of the exchange value, whereas utility and limitation of supply indicate the magnitude of the value of an asset that depends not only on utility, *i.e.* the propensity to satisfy a need, but also on the quantity available. Thus, the principle that later on marginalists will call 'decreasing marginal utility' is outlined (Senior 1836-1965, 11).

To make the capital-time relationship clearer, Senior introduced the distinction between thrift and prudence that he considered to be derived from abstinence; thrift was seen as mere refraining from using a commodity and prudence as the use of work to produce distant results (Rossitto 1993, 77).

As for the reasons that influence savings, Senior devoted more attention to the relationship between the return of capital and the supply of it, as well as opportunities for investment. In fact (Senior 1847-52, lecture 9):

“In fact it is in general the average price paid for the purchase or for the hire of durable instruments, and, in particular, the average number of years’ purchase of land, and the average interest of money, which decides, in every particular society, the extent to which a member of that society will carry his providence, or, in other words, what degree of future advantage will induce him to sacrifice for a given time a given amount of the means of present enjoyment. Those people whose providence is less than the average providence of the society in which they live, if they are born poor, remain poor. The average remuneration of abstinence appears to them inadequate. Those on the other hand who are born rich, if deficient in ordinary providence do not remain rich. They can part with the instruments from which their incomes are derived for sums which according to their estimate of the present compared to the future are above their value. Those whose providence exceeds that of the society in which they live become rich. They become purchasers of the productive instruments which the improvident sell. They work up materials affording a return rather more distant or a profit rather smaller than those generally used, and of those instruments they can choose the most certain. With every fall of the ordinary rate of interest the sphere of providence is extended”.

2. Interest and Capital

The theory of capital with Senior underwent a considerable improvement over the original terms, but the theory was not consistent overall. As a matter of fact, he never explained the relationship between interest rate and the maintenance of fixed capital (Rossitto 1993, 78).

Leaving aside his actual credits, it must be admitted, however, that Senior’s concept of abstinence had influenced the evolution of economic theory (Gootzeit 1992).

From 1836 onwards the insufficiency of the cost of production theory, as the foundation of the theory of value, was filled by the simple word ‘abstinence’ and in this respect Mill accepted it by incorporating it into the English theory of capital (Senior 1848). Where the cost of production theory of value was never accepted, as in France and Germany, the usefulness of the term was reduced to a concept necessary to complete cost analysis rather than value analysis. But it is an integral part of the theory that prevailed in the United Kingdom, although the change in the word ‘abstinence’ with ‘expectation’ is due to Marshall’s recognition (Augello and Guidi 2007, 79). As a result, Senior’s direct experience of the development of the English theory of capital was probably greater than others.

Outside England, however, his theory was much criticised by von Böhm-Bawerk (1930) and Fisher (1930). Their main criticism lay in the fact that saving does not imply any particular additional cost compared to what is always included in the choice between rare satisfactions; therefore, abstinence cannot - they claim - be separated from any other form of sacrifice. As a first step, this criticism appears justified, but the problem remains to explain the scarcity of supply of capital. Von Böhm-Bawerk recognized the problem and tried to overcome it with the analysis of the three degrees of the greater value of the present assets compared to the future ones. The technical superiority of the present resources over future ones, the better provision for the future than the present and the psychological underestimation of the future.

Perhaps it is unnecessary to discuss his failure to set the first of these levels as an independent explanation, as this has been extensively demonstrated. However, the last level is important because the presence of discomfort is as much a good explanation for limiting the supply of capital as the sacrifice of saving, or abstinence. It seems clear that if there were no underestimation of the future there would be no particular sacrifice associated with saving apart from that associated with any other choice between poor satisfactions, since there would be no difference between the distribution of income flows between different current expenditures and between present and future expenditures. The act of saving resources would therefore have a three-dimensional value. If, on the other hand, and in general, there is a temporal discomfort, it means that people feel a difficulty and dissatisfaction in having taken into account the future when considering their own expenses. In short, the existence of a temporal reduction was due to sacrifice, that is to the disutility connected to saving or as Senior says: “the pain in practising abstinence”. Fisher’s criticism of his concept of capital income makes this clearer and, at the same time, allows for an explanation of why he criticizes the theory of abstinence. Fisher (1930), in considering the whole problem of capital and interest as one of the balancers of the marginal utility of

income flows over time, deliberately considers in capital all the resources of future income as stocks of consumer goods and durable consumer goods, whoever the owners may be.

Fisher says that capital is global wealth considered over a given period of time; income is the total of services derived from all stocks. In this sense it is understood as a flow over time. Senior strove to avoid this broad concept, using the distinction between productive consumption and unproductive consumption. The effort was almost superfluous with reference to the aspect of abstinence that he was trying to highlight, namely the distinction of scarce resources over time. Given these circumstances, and in the absence of further clarification, Fisher had rather understood the theory of abstinence as a denial of the broad approach that he favored, and as a branch of the cost of production. It is also likely that Fisher's interest in analysing the various factors that influence the expression of individual and temporal discomfort prevented him from fully appreciating the relationship between the existence of general discomfort and the sacrifice related to practising prudence. But this is precisely the fundamental disutility of prudence, which prevents individuals from distributing their income over time in order to maximize the utility of their lives.

If the interpretations of von Böhm-Bawerk's (1930) and Fisher's (1930) criticisms are correct, it is reasonable to believe that Senior's influence was really important. After Longfield (1931, 25-28), considered as the forerunner of the doctrine of marginal utility in post-Ricardian England, all subsequent efforts to extend the analysis of marginal utility to the distribution of resources over time through the concept of "temporal rate" derive, either directly or indirectly, from Senior's theory of abstinence.

3. The Difference Between Abstinence and Rent

Senior had the merit of introducing the analysis of abstinence or savings into the economic vocabulary. He affirms that abstinence does not produce wealth, but it possesses the strength to create it because it pertains to sacrifice (or surrender) in the same way as the labour factor. Until Senior, capital income had been the least justifiable of all forms of income, since only Ricardo had analysed it incidentally, representing it as a residual surplus after paying wages (Rossitto 1993, 81).

The demand for capital was considered as important as land and labour; but is it entitled to justify remuneration, unlike the other two factors? Is it a product and not an original factor of production? And here comes abstinence. According to Senior, as has been noted, the cost of production consists of two elements, namely labour and abstinence. Where competition is imperfect, *i.e.* there is a degree of monopolistic activity between cost of production and (exchange) value, there is an extra-revenue margin for the recipients. This income, according to the definition of labour and abstinence, is independent of any personal sacrifice or effort. Senior defines this remuneration as "rent" and his theory, therefore, is a mere extension of Ricardian theory (Depoortère 2013).

Rent is not only the result of the best placed or most fertile land; it may also originate from the possession of certain natural agents or from the possession of certain personal abilities such as the voice of a tenor or the ability of a surgeon or may simply be the product of social causes or accidental circumstances. Senior shows that rent, far from being an extraordinary phenomenon, is quite common. This type of remuneration is extremely important and absorbs a great deal of global wealth. In fact, Senior goes further, stating that, when, as in the case of death, the capital moves from the people who produced it and earned it to those who inherit it immediately, it becomes a rent. The heirs cannot invoke abstinence: virtue cannot be passed on and they have no reason to rejoice in their own fortune except good fortune (Barro 1974).

This confusion between rent and inherited wealth may create a false problem since the two facts belong to two different categories: rent is an economic fact resulting from the necessary conditions of exchange. It is not due to social organisation or to the institution of private property. On the other hand, inheritance is a legal phenomenon, resulting from private law. Even if, hypothetically, the institution of inheritance were to be abolished, there would probably be no difficulty in assisting and increasing the rent, if it were obtained from the land or any other asset; whereas under the hypothetical system of perfect competition, although rent no longer has to be recognised, inheritance could still continue to exist, together with all its privileges. By the term 'rent' Senior obviously meant any type of income that did not derive from a personal effort.

4. Criticism of Senior's Theory of Abstinence

As was the case with the supporters of the labor-value theory, Marx also considered consumption as the end of production, but it is not the peculiar end of the capitalistic mode of production (Garegnani 1984).

In "Capital", Volume I, Marx (2006, 238-247) states that what characterizes capitalism is not the consumption of use values, but the continuous expansion of exchange values whereby money in itself is not

capital; it becomes capital when it is used to multiply value, *i.e.* when it becomes an instrument to produce surplus value, that is, a surplus that exceeds the means of subsistence of living labour. In other words, money is not capital if it represents only the intermediation of the exchange of goods: this is expressed in the triad C-M-C (Commodity-Money-Commodity). But if the object of the exchange is the increase in the exchange value, money undergoes a metamorphosis into capital, and this is expressed in the formula:

$$M-C-M' \quad (1)$$

where: $M' > M$; $M' - M = \text{profit}$

This triad shows the meaning of capital as a functional value for the increase of the latter, *i.e.* self-increasing value. The capitalist as such does not take into account the values of use of commodities, but only the exchange values, and, by virtue of competition, his aim is to enlarge the entity of his capital, which is an evident component of his being.

Posing the question in psychological terms, Marx (2006, 14-17) observed that the sacrifice implicit in abstinence, in the case of the capitalist, does not occur in the abstinence of consumption, but, rather, in the abstinence from saving. In fact, he states that a part of the surplus value is consumed by the capitalist as income, another is used as capital, that is, accumulated. Given the mass of surplus value, the greater one of these parts is, the smaller the other part will be. Considering all other circumstances always equal, the proportion in which this division occurs determines the magnitude of the accumulation. But this division is carried out by the owner of the surplus value, that is to say the capitalist. Therefore, it is an act of will of the capitalist; as a supporter of the valorisation of value, he encourages human race to produce for production's sake, pushing it towards the development of society's productive forces, and the creation of those material conditions of production which alone can form the real basis of a higher form of society whose fundamental principle is the full and free development of each individual.

The capitalist represents the personification of capital; as such, he shares with the miser an absolute drive towards self-enrichment. But what appears in the miser as the mania of an individual is in the capitalist the effect of a social mechanism in which he is merely a cog. Moreover, the development of capitalist production makes it necessary constantly to increase the amount of capital laid out in a given individual undertaking, and competition subordinates every individual capitalist to the immanent laws of capitalist production, as external and coercive laws. It compels the capitalist to keep extending his capital, so as to preserve it, and he can only extend it by means of progressive accumulation.

With the development of the capitalistic mode of production, of the accumulation of wealth, the capitalist ceases to be a mere embodiment of capital (Morselli 2017, 35). In order to charm out of his bosom the awful conflict between the desire for enjoyment and the chase after riches, Malthus (1836, 319-320), advocated a division of labour, which assigns to the capitalist actually engaged in production, the business of accumulating, and to the other sharers in surplus-value (to the landlords, the place-men, the beneficed clergy, &c.), the business of spending.

This is an unacceptable approach for Marx. He says, referring to Malthus, it is of the highest importance "to separate the passion for spending and the passion for accumulation". The capitalists having long been good livers and men of the world, uttered loud cries. What! exclaimed one of their spokesmen, a disciple of Ricardo, Mr. Malthus preaches high rents, heavy taxes, &c., so that the pressure of the spur may constantly be kept on the industrious by unproductive consumers! By all means, production, production on a constantly increasing scale, runs the shibboleth; but production will, by such a process, be far more curbed in than spurred on. Nor is it quite fair thus to maintain in idleness a number of persons, only to pinch others, who are likely, from their characters, if you can force them to work, to work with success" (Malthus 1821, 67).

Our Ricardian considers it unjust to incite the industrial capitalist to accumulate by skimming the fat from his stock, so it seems necessary to him to limit as far as possible the worker to a minimum wage in order to keep him laborious. And it makes no mystery for a moment that the secret of the genesis of profit is the appropriation of unpaid work:

"The very meaning of an increased demand by them is, a disposition to take less themselves, and leave a larger share for their employers, and if it be said that this, by diminishing consumption, increases glut, I can only answer, that glut then is synonymous with high profits" (Malthus 1821, 59).

The scholarly quarrel as to how to share the worker's spoils, in the most favourable form for accumulation, between industrial capitalist and idle land owner, fell silent with the July revolution. Shortly after, in Lyon the urban proletariat rang the hammerhead bell, and in England the agricultural proletariat flew the red cock. Owenism raged on the European side of the English Channel, Sansimonism and Fourierism raged on the other side. The

time of the common economy had come. Just one year before he discovered in Manchester that the profit (including interest) of capital is the product of the last twelfth unpaid hour of work, Senior (1836, 309) announced another discovery to the world:

“I replace the term ‘capital’, considered as an instrument of production, with the term ‘abstinence”.

Senior (1836, 342) continues:

“When the savage makes bows, he exercises an industry, but he does not practise abstinence. That explains how and why, in the earlier stages of society, the instruments of labour could be made without the practice of capitalist abstinence. “The more society progresses; the more abstinence is demanded” — abstinence demanded from those whose business in life it is to appropriate the fruits of others’ industry (Hupfel 2010). Henceforward, all the conditions of the labour process become transformed into so many acts of abstinence on the part of the capitalist. If the corn is not all eaten, if some of it is reserved for seed, this is because the capitalist is abstinent. If vine is given time to mature, this is because the capitalist abstains”.

Conclusions

Senior marks, in some ways, the watershed between the last defences of the Ricardian positions and the theoretical improvements that later on had to give analytical completeness to a subjective conception of value. He undoubtedly felt the vigour of Ricardian analysis, but also its limitations; influenced by Say (1803), he approached Bailey’s (1825) and Whately’s (1832) essays. And although he did not have Longfield’s conceptual excellence (1834), he can be considered as one of the forerunners of utility in the nineteenth century. But Senior did not aspire to become a representative of the new theoretical approach; he did not aim to present this approach as an alternative to the Ricardian one, on the contrary he tried to carry out a work of mediation and synthesis.

In his most significant work, *an outline of the science of political economy*, published for the first time in 1836, Senior gives a definition of wealth in which the fruits of his intense conceptual work are gathered. Wealth now becomes everything that can be traced back to exchange, or everything that has value. What are the elements that are essential to the validity of this definition? Transferability, limitation of supply and utility. The latter is considered as the attitude of a commodity to offer a certain satisfaction.

In this case utility becomes an element of the concept of value and Senior specifies its characteristics referring, precisely, to the limitation of supply and to the transferability that tends to eliminate the objective criterion of value that was present in Smith’s thought. In this context, we have a fairly explicit notion of the phenomenon of decreasing marginal utility. Senior does not assign utility a prominent task in the exchange model but seeks to consider it in its relationship to cost. Senior’s cost is inclusive of the phenomenon of productivity of capital that is expressed with the term, maybe not completely explicative, of “abstinence”. It appears as that factor distinct both from labour and from work of nature, the compensation of which is necessary for capital, and the relationship of which to profit is the same as labour’s relationship to wages. In this way Senior tries to overcome the contradictions into which the post-Ricardians Orthodox had fallen in their attempts to overcome profit. The production cost would represent for Senior the sum of the labour and the “abstinence” necessary for the production of a certain quantity of goods. He intends to exclude profit as such from the analysis, and to consider “abstinence” as the remuneration of a behaviour that he would like to make look like that explication of energies that is called labour.

Senior also remained partly faithful to Ricardo in the way he deals with the labor market and although he tried to follow Say and Longfield’s approaches to the problem of productivity, he preferred to conduct his reasoning by reworking, first of all, the ancient doctrine of the wage fund. In fact, Senior expresses the proposition that the actual salary, received on average during a year, corresponds to the ratio between the volume of commodities set aside in that period for the maintenance of the working population, and the amount of this population. To proceed beyond analytically, however, it was necessary to be able to determine the fund set aside; Senior did not examine the problem in depth, but provided some criteria for a solution, referring, precisely, to the concept of labour productivity and the relationship between wages and profit (Meoli 1972, 835). In this way he paved the way for linking the theory of wages with that of capital, the profitability of which Senior admits.

Without a doubt, the analytical progress made by Senior contributed to freeing the logical structure of classical economy from many rigidities, from certain excessively simplified causal relations, from that trend pessimism which fatally derived from them and which is easily recognizable in certain Ricardian inferences. Perhaps it was his long experience in public affairs and their specific problems that led Senior to consider the theorist’s work important in his autonomy, in his independent ability to make generalisations. Senior knew very well that solutions of practical importance cannot be derived mechanically from them. He felt the problems of human welfare, but left economists a warning that was interpreted in different ways, because it concerns a field

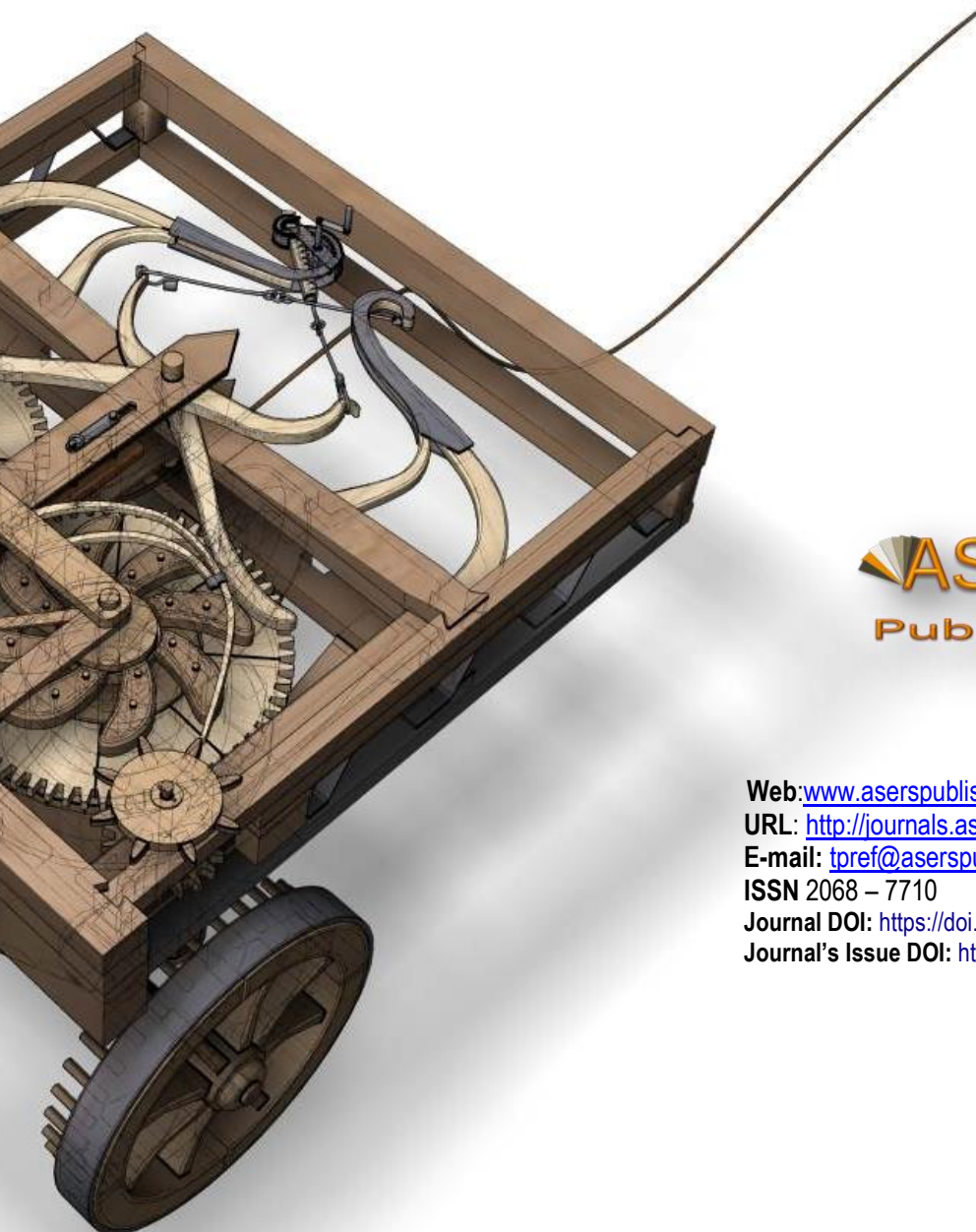
of assessments on which, probably, disagreement will never cease. In fact, Senior stated that economic science and what he defined as the two economic arts that deal respectively with the institutions and the relations between wealth and welfare, are at the same time connected and distinct. Every economist can face the problems of human happiness, but he must be aware that for their solution, if achievable, his considerations as a scientist are not enough, because different ideals participate in them or, even, some which are opposite to those that economic theory, as such, would suggest.

References

- [1] Augello, M.M., Guidi, M.E.L. 2007. *L'economia divulgata. Stili e percorsi italiani, 1840-1922*, Volume 3. Milano, FrancoAngeli. Centro Interuniversitario di documentazione sul Pensiero Economico Italiano. Biblioteca storica degli economisti italiani.
- [2] Bailey, S. 1825. *A critical dissertation on the nature, measure, and causes of value*. London, R. Hunter..
- [3] Barro, R.J. 1974. Are government bonds net wealth? *Journal of Political Economy*, 82(6): 1095-1117.
- [4] Bowley, M. 1936. Nassau Senior's contribution to the methodology of economics. *Economica*, 3(11): 281–305.
- [5] Bowley, M. 1937. *Nassau Senior and classical economics*. London George Allen & Unwin, 358 p.
- [6] Brandford, DeLong, J. 1986. Senior's 'last hour': Suggested explanation of famous blunder. *History of Political Economy*, 18(2): 325-333.
- [7] Conard, J. 1959. *An introduction to the theory of interest*. Berkeley and Los Angeles, University of California Press. Available at: https://archive.org/stream/in.ernet.dli.2015.138005/2015.138005.An-Introduction-To-The-Theory-Of-Interest_djvu.txt
- [8] Depoortère, C. 2013. William Nassau Senior and David Ricardo on the method of political economy. *Journal of the History of Economic Thought*, 35(1): 19-42.
- [9] De Marchi, N. 1987. *Abstinence*, in Eatwell J., Milgate M., Newman P., eds., "The New Palgrave: A Dictionary of Economics", (1): 8–9, London Macmillan.
- [10] Ekelund, R., Hébert, R. 1975. *A history of economic theory and method*. New York, McGraw-Hill. ISBN: 0070191433, 9780070191433, 508 p.
- [11] Fisher, I. 1930. *The theory of interest*. New York, The Macmillan Company. Available at: http://files.libertyfund.org/files/1416/0219_Bk.pdf
- [12] Garegnani, P. 1984. Value and distribution in the classical economists and Marx. *Oxford Economic Papers*, 36(1): 291–325.
- [13] Gootzeit, M.J. 1992. Senior's abstinence theory of the supply of business saving. *Journal of the History of Economic Thought*, 14(2): 244-256.
- [14] Hupfel, S. 2010. The spitalfields acts and the classics: Ricardo, J.S. Mill, Bowring, and Senior on the London silk industry (1823 to 1841). *The European Journal of the History of Economic Thought*, 19(2): 165-195.
- [15] Lloyd, W.F. 1834. *A lecture on the notion of value*. London, Roake and Varby. Available at: <https://archive.org/details/lectureonnotiono00lloy/page/n4>
- [16] Longfield, M. 1834. *Lectures on political economy*. Dublin, Milliken.
- [17] Malthus, T.R. 1821. *An inquiry into those principles respecting the nature of demand and the necessity of consumption*. London, Printed for R. Hunter.
- [18] Malthus, T.R. 1836. *Principles of political economy, considered with a view to their practical applications, Second edition*. London, Pickering. ISBN: 9781851961054, 439 p.
- [19] Marx, K. 2006. *Il Capitale*, libro primo, in *Classici dell'economia*. Milano, Milano Finanza Editori.
- [20] Meoli, U. 1972. *Storia delle idee politiche economiche e sociali*, volume quinto. Torino Utet. 919 p.

- [21] Mill, J.S. 2006. *Principi di economia politica*, in *Classici dell'economia*. Utet, Libreria Torino. ISBN: 978-88-02-07263-0, 1276 p.
- [22] Morselli, A. 2017. *Crisi e ciclo economico. Un richiamo alla teoria malthusiana*. Roma, Aracne. ISBN: 978-8825509304, 100 p.
- [23] Ricossa, S. 1998. *Dizionario di economia*, Torino, Utet. ISBN: 8802052336, 9788802052335, 581 p.
- [24] Rossitto, E. 1993. *La metafora del capitale*. Acireale, Galatea Editrice.
- [25] Say, J.B. 1803. *Traité d'économie politique*. Paris, Deterville. Available at: <https://www.institutcoppet.org/wp-content/uploads/2011/12/Traite-deconomie-politique-Jean-Baptiste-Say.pdf>
- [26] Senior, N.W. 1836. *Principes fondamentaux de l'économie politique : Tires de leçons édites et inédites*. Paris, Librairie Aillaud, 403 p.
- [27] Senior, N.W., Whately, R. 1836. *An outline of the science of political economy*, reprint of economic classics, New York, Augustus M. Kelley, Bookseller, 1965, 249 p. Available at: <http://digamo.free.fr/senior36.pdf>
- [28] Senior, N.W. (1847-52), *Lectures, course II, lecture 9*.
- [29] Senior, N.W. (1847-52), *Lectures, course II, lecture 8*.
- [30] Senior, N.W. 1848. J.S. mill on political economy. *Edinburgh Review*, 88: 293–339.
- [31] Von Böhm-Bawerk, E. 1907. Capital and interest once more. *Quarterly Journal of Economics*, 21: 247–282.
- [32] Von Böhm-Bawerk, E. 1930. *The positive theory of capital*. New York, GE. Stechert & Co, Vol. I, Chapter 1. Available at: <https://mises-media.s3.amazonaws.com/The%20Positive%20Theory%20of%20Capital.pdf>
- [33] Whately, R. 1832. *Introductory lectures on political economy*, 2nd edition. London, J.W. Parker. Available at: <https://oll.libertyfund.org/titles/whately-introductory-lectures-on-political-economy>

ASERS



 **ASERS**
Publishing

Web: www.aserspublishing.eu

URL: <http://journals.aserspublishing.eu/tpref>

E-mail: tpref@aserspublishing.eu

ISSN 2068 – 7710

Journal DOI: <https://doi.org/10.14505/tpref>

Journal's Issue DOI: [https://doi.org/10.14505/tpref.v10.2\(20\).00](https://doi.org/10.14505/tpref.v10.2(20).00)