TIME PREFERENCE AND THE INTERTEMPORAL SUBSTITUTION OF LABOUR: BÖHM-BAWERK RECONSIDERED

Abstract:
This paper shows that the introduction of the intertemporal substitution of labour to the Böhm-Bawerkian system may reinforce the first reason for interest. However, its operation is conditioned upon the second reason. Since people may underestimate (discount) satisfaction not only from future consumption goods but also from future leisure, they may allocate more work to the future. This generates an increasing profile in their real income stream, even if the real wage rate is constant over time. The first reason and the second reason might be closely interconnected; with the second reason being the underlying determinant and the first cause having a subsidiary effect. This paper also shows that the intertemporal substitution in labour may generate a concave “investment opportunity curve”, which is usually associated with the third reason of interest and the productivity element in the Böhm-Bawerk theory. Thus, the underestimation of future wants supported by the intertemporal substitution of labour could be the primary source of interest—all curves in the Fisherian diagram may be based on these two phenomena, i.e. on utility.

Keywords:
intertemporal substitution of labour, time preference, Böhm-Bawerk, interest rate

JEL Classification: B13, B53, E21