

The Fiat Standard – Lecture 7 (Fiat Life) • Study Notes

*When money is corrupted, life is corrupted. Fiat's most profound effect on society is through its impact on **time preference**. By making saving harder, fiat raises time preference, shortens horizons, erodes civilization, and reshapes family, culture, and institutions.*

1) Transition in the Book

- **Part I (Chs. 1–6):** Technical mechanics of fiat — its origins, operation, and incentives.
 - **Part II (Chs. 7–12):** Social and civilizational consequences of using fiat.
 - Chapter 7 focuses on **time preference**, the bridge between monetary distortion and societal outcomes.
-

2) Why Time Preference Matters

- **Definition:** Trade-off between present vs. future satisfaction.
 - **Every decision** is a deal between *current self* and *future self*.
 - **Low time preference:** Future-oriented; savings, planning, capital accumulation.
 - **High time preference:** Present-oriented; consumption, short-term fixes.
 - **Money = main vehicle** to trade with your future self through saving.
-

3) Hard Money and Declining Time Preference

- Humans first saved durable goods → but limited by spoilage, coincidence of wants.
 - Money emerged as the universal savings technology.
 - **Harder money = better savings = lower time preference.**
 - Civilization advanced as money hardened (shells → metals → gold).
 - **Empirical support:**
 - Homer & Sylla's *History of Interest Rates* shows a **5,000-year trend of declining interest rates** (proxy for falling time preference).
 - By late 19th c., global gold standard → lowest rates in history (~2% for UK bonds).
-

4) Fiat and the Reversal

- Fiat shifted money growth from **~2% (gold)** to **~14% average** (1960–2020).
 - Savings became unreliable → individuals reverted to primitive, hand-to-mouth existence.
 - **Hyperinflation = high time preference on steroids:**
 - Saving unthinkable; spend immediately.
 - Capital goods liquidated for survival.
 - Example: cutting fruit trees for firewood; eating seed corn.
 - Normal fiat inflation is **slow-motion hyperinflation**: same tendencies at lower speed.
-

5) Social and Cultural Consequences

a) Capital and Quality Decline

- Hard money incentivizes **long-term investment and durability.**
- Fiat raises discount rates → favors **cheap, short-lived goods.**

- Example:
- Boston Public Library **McKim Building (1895, gold standard)**: still functional, minimal renovation.
- **Johnson Building (1971, fiat era)**: ugly, required \$78m renovation after 42 years.
- “Architecture sucks today” not because we can’t build, but because fiat society doesn’t care about 30+ years ahead.

b) Families and Welfare State

- Historically: family = insurance system (childhood + old age).
- Fiat gives state control of savings → expands welfare state → **displaces family roles**.
- Parents less central; children less dutiful; family ties weakened.
- Individuals under-invest in family, over-invest in present consumption.

c) Crime and Social Decay

- Higher time preference → weaker self-control, civility, and cooperation.
- Hyperinflation shows: crime rises, manners collapse, survival overrides morality.
- “Fiat man” discounts the future so heavily that **long-term norms disintegrate**.

d) Environment

- High discounting = overuse of natural resources.
- Why care for healthy soil 20 years ahead when profits today are pressing?
- Encourages **soil depletion, deforestation, and short-term exploitation**.

6) The Business Cycle Connection

- Fiat inflation encourages malinvestment by **artificially lowering interest rates**.
- Projects that destroy capital get financed because money is expected to lose value anyway.
- Savers forced into bad investments.
- **Boom-bust cycle**: expansion of credit → resource misallocation → inevitable contraction.

7) Civilization in Reverse

- Gold standard → lowered time preference → secure future → compounding progress.
 - Fiat → raises time preference → insecure future → decivilizing spiral.
 - **Fiat man:**
 - Consumes capital.
 - Discounts traditions, institutions, and the future.
 - Stumbles from one short-term fix to another.
 - Slides toward barbarism, despite inherited advanced technology.
-

8) Study Prompts

1. Define **time preference** and explain its link to money hardness.
 2. How does fiat inflation act as a “future tax”?
 3. Contrast the **Boston Public Library buildings** as a case study of time preference in architecture.
 4. Why does fiat undermine family structures while strengthening the state?
 5. How does the Austrian business cycle theory connect to fiat’s manipulation of savings and investment?
 6. In what ways does fiat-driven high time preference contribute to **environmental destruction**?
-

9) Quotable Ideas

“When money is devalued, the future becomes hazy, and the incentive to save disappears.”

“Normal fiat inflation is just hyperinflation in slow motion.”

“Architecture today sucks because fiat people don’t care about what happens in 30 years.”

“The family was once man’s hedge against the uncertainty of life. Fiat money handed that role to the state.”

“Fiat man consumes his capital, discounts his traditions, and stumbles back toward barbarism.”