



## Michael S. (Mickey) Fulp M.Sc., C.P.G.

MercenaryGeologist.com  
contact@mercenarygeologist.com

### The Life Cycle of Money

A Monday Morning Musing from Mickey the Mercenary Geologist

[Contact@MercenaryGeologist.com](mailto:contact@mercenarygeologist.com)

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In the aftermath of the global economic crisis of 2008-2009, governments throughout the world have fostered a tenuous recovery predicated on massive increases in money supplies and debasement of currencies.

Note however, that monetary debasement is not a recent phenomenon; it is simply the natural life cycle of money.

There are six well-defined stages in the life cycle of money. This progression has occurred in every dominant civilization over the 5000 years of recorded human history:

#### Six Stages in the Life Cycle of Money



### **Stage 1: A Barter Market Begins.**

Societies organize and begin to function with a basic barter system for trading goods. Incipient barter is a direct exchange of goods for goods. Goods are defined as wealth and wealth is produced when humans apply labor and knowledge to extract natural resources from the earth. As the civilization progresses, services become of value and are also bartered. A citizen produces and barter his goods and/or services; their perceived value to the community is equal to his individual and/or familial wealth.

### **Stage 2: Free Market Money Emerges.**

After a barter economy is well-established, a society progresses to the concept of free market money and a currency system emerges. Having a recognizable, reliable, and uniform unit of monetary exchange facilitates business, commerce, and trade within and between citizens, communities, and societies.

For 5000 years the currencies of choice have been gold and sometimes silver. Many civilizations have selected these precious metals as money based on trial and error and often independently of each other.

Aristotle proposed four critical attributes for money nearly 2500 years ago: He wrote that money must be durable, portable, divisible, and intrinsically valuable. Gold has been repeatedly determined to be the best store of value because it does not tarnish or corrode; it is easily stored and convenient to transport great distances; it can be minted in small and uniform pieces; and it is scarce. Although not as ideally suited as gold, silver has often served as a primary monetary instrument for trade and exchange.

### **Stage 3: Government Regulates the Market.**

Communal order is required in a functional society and therefore, a government is formed. Sometime later, government becomes involved in regulation of the marketplace. Its size and power grow and it begins to control more and more aspects of business, commerce, and trade.

Laws, rules, and regulations are instituted to regulate and control trade through tariffs, taxes, quotas, and penalties. Taxes are imposed as a means to limit the wealth of ordinary citizens, preserve the power of the rulers, and support the growing government agenda. The economic system is increasingly divorced from a free market and forced to operate in a regulatory regime where government controls the money supply.

### **Stage 4: Government Monopolizes the Money.**

The government takes absolute control of the money supply and sets up a currency system to issue official coinage from a central mint. It controls the size, design, weight, and purity of the coinage. Later, the government issues paper promissory notes redeemable in coinage and decrees that these notes are money, i.e., a fiat currency exchangeable for goods or services. Backed by its own laws, the government institutes a monopoly of the monetary system and forbids local governments, banks, and citizens to compete by issuing public or private currencies.

### **Stage 5: Government Debases the Money.**

Government must increase taxes to sustain its continuing growth, and citizens protest the seizure of their hard-earned wealth thru onerous taxation. In order to fund its growing obligations and to lessen dissent from higher taxes, the government begins to debase the value of its money. Historically, governments

have shaved off pieces of coins, issued smaller coins, or made coins with less gold and/or silver content. The next step occurs when the government removes all precious metals from its coinage. Eventually, it declares that its promissory notes are no longer redeemable in precious metals. At this point, there is no basis to the monetary system other than the government's promise to pay.

The issuance of currency without backing by precious metals allows the government to create "money" at will for its own purposes. The government creates more and more money and, because the currency in circulation increases while the availability of goods and services remains the same, prices increase.

The increase in money supply is known as inflation and the consistently rising prices for goods and services are a by-product of that inflation. Inflation robs citizens of wealth and savings by decreasing the purchasing power of their money.

### **Stage 6: No Confidence and Collapse of the Money.**

Inflation, indebtedness, and government deficits increase and citizens realize that the fiat currency representing their lifelong labors, savings, and wealth is continually losing value. Poor money management by government results in a stagnant economy, rising prices, shortages of food and goods, and increasing public and personal debt.

The ongoing devaluation of fiat currency leads to a lack of confidence by the citizens with resulting runs on banks and collapse of the banking system. Civil and political unrest accelerates. Ultimately, the government defaults on its promises to pay and economic and societal chaos ensues.

Thus, the life cycle of money is complete.

### **Re-Emergence of Free Market Money.**

Citizens desire a return to a monetary system that is stable, secure, and non-inflationary. They realize that gold is a safe haven for preservation of wealth and is the only insurance policy against oppressive government and constant currency debasement. Demand for gold and silver rise.

If collapse of the previous civilization was complete, new societies eventually emerge with barter economies followed by evolution to free market money.

Those citizens with financial acumen have accumulated precious metals as a key component of their overall assets and survive the economic collapse with significant wealth. They become the financial leaders of a new free market money system based on gold, the citizens as a whole prosper and flourish, and widespread wealth grows again.

### **Conclusions:**

It literally *pays* to understand the history of money in societies, city-states, countries, and empires. By recognizing the six stages in the life cycle of money and the position of present-day governments within this cycle, citizens can make better informed monetary decisions. They can partition their assets to maximize wealth and mitigate the effects of currency debasement and the chaos of economic collapse.

Governments have universally debased their currencies without the backing of gold for 45 years. Central banks in both the world's developed and undeveloped countries have repeatedly failed or have been bailed out by their governments by the issuance of more and more fiat currency.

The net results are increasingly high leverage, negative interest rates, extraordinary indebtedness, currency devaluations, serial defaults, and economic collapse of countries throughout the world. Monetary crises, food and supply shortages, rioting and rebellion, civil wars, and overthrow of oppressive regimes have become commonplace.

We have now entered stage 6 of The Life Cycle of Money with widespread lack of confidence in an entire basket of increasingly worthless fiat currencies. The \$64,000 question is when will the inevitable global economic collapse occur?

I will flatly tell you that no macroeconomist, maven, medium, self-appointed prophet, pundit, talking head, or wizard can or will predict the exact timing.

That said, savvy citizens currently have the opportunity to acquire physical gold at a +30% discount to its historic high. We can still protect our wealth from the unholy shenanigans of corrupt and unstable governments led by politicians and rulers whose only concern is to preserve their power over the ordinary masses.

For these reasons, I urge you to make physical gold an integral part of your wealth. And I strongly suggest you do this sooner than later.

Folks, please recall The Golden Rule: He who owns the gold, makes the rules.

Ciao for now,

Mickey Fulp  
Mercenary Geologist



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The [Mercenary Geologist Michael S. "Mickey" Fulp](http://MercenaryGeologist.com) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-

altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

Contact: [Contact@MercenaryGeologist.com](mailto:Contact@MercenaryGeologist.com)

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