

The President's Letter

By Chris Pilliod

This is my 51st letter as president and it could be subtitled "What the heck am I going to do with all those pennies?" The title could be an old Casey Stengel saying, "it's déjà vu all over again." If you are a sports fan and ever need some comic relief, just google "Casey Stengel." Not only did he win a ton of World Series rings as a Yankees manager, but he was quick-witted and wildly popular amongst sportswriters. In his playing days he was mediocre at best, slow and a weak hitter. One particular colorful game after he made a throwing error to let a run score, the hometown fans were relentless against him. Every time he ran out to take his position, the crowd roared with boos. At some point later in the game he caught a bird that had made itself a nest inside the dugout. When the time came for him to take his position in right field he stood attentive in ready position pounding his mitt. When the crowd rained down another chorus of boos, he slowly tipped his hat and out flew the bird. The crowd erupted in laughter and he would soon enough become a fan favorite. As a manager, one of the favorite lines he would use during an especially bad slump was "it's déjà vu all over again."

And remarkably, that slogan actually has some pertinence to today's and yesterday's United States one-cent piece. We are quickly becoming a nation in a minority still employing a coin with such little value. Our closest ally Canada has dispensed with it, as well as many other leading nations around the globe.

Having worked with the Mint on evaluating new alloys for coinage the past four years, it has been enlightening to listen to the discussion of the coinage issues at hand and gain insight into the mechanics of governmental inner workings, at least as it pertains to the coinage laws. As a personal observation over the past four years of the life of the project, I have come away impressed with the Mint's mature and insightful thinking through the pros and cons. At times, they have wasted unnecessary time, money and resources on avenues that for a seasoned metallurgist and numismatist I felt would have little or no downstream fruit to bear. Usually, there ends up being no fruit to bear, but hey, it's not my money to spend... well, Ok a little bit of it is.

Unlike the other denominations, the Mint purchases cent planchets ready-to-strike. Truckloads of enormous tubs of cents so heavy they can only be moved by forklifts arrive daily in Philadelphia and Denver. They are secured into inventory and by the time the planchets are struck into cents, the cost is 2.4c per issue, or a loss of 1.4c per strike. Doesn't seem too bad does it? Well, it's not too bad... unless you make 7 billion every year. Then you lose \$100 million every year. Think of it this way, the government could quit producing the cent and, with the money saved, write a check for \$1 million to two people in each state every year.

One obstacle to eliminating the cent is intense lobbying from the manufacturers of the planchets to maintain their grip on the business. Beyond this, our Congress has studied the impact this change in detail and its impact on loss of jobs, inflationary concerns with rounding transactions to the nearest 5c increment, as well as general commerce. If we were in times of deflation, this would be a palatable measure, but not when the Federal Reserve is content with current inflation levels.

The percent negative seigniorage is worse on the cent than the 5-cent piece. In other words, even though it costs a lot less to make a cent than a nickel, 2.4c to make a cent versus 10-cents to make a nickel, the Mint loses a greater percentage making cents than nickels. The other denominations are still all moneymakers. So not

surprisingly with guidance from Congress, the Mint embarked on an initiative to explore reducing the cost of making our golden cent as well as the 5-cent piece.

When it comes time to make a change to the cent, several paradigms become evident that the layman does not realize, and suddenly significant obstacles

arise when finding alternative materials. By law, any new candidate material must be metallic, so plastic, Bakelite, cardboard and so on is deemed not acceptable. Regardless, there are no shortage of potential candidates in the form of metals. But each carries attributes that either partially or completely negate their utility. Below is a summary:

1) Aluminum. Aluminum has a twofold advantage over many metals. Firstly, it is relatively cheap, about one-third the cost of copper per pound. Secondly, it is very light, over three times as many coins can be stamped out of one pound of aluminum as one pound of copper just because of density. But that is also aluminum's major setback, as no one wants to hold a handful of "play money" or "funny money" in their hand. Additionally, aluminum oxidizes quickly and attains a dark tarnish in normal environments.

2) Iron. Iron, or carbon steel, is one of the cheapest of all common metals. It can be obtained in scrap form for 15c per pound, versus \$2.60 per pound for copper and \$6.50 per pound for nickel. And one pound of iron can strike 10% more coins than a pound of copper because of density. But iron is magnetic, corrodes quickly and can be cheaply counterfeited as a coining metal.

3) Zinc. Zinc is also cheap and is currently the base metal of the cent. Like aluminum, it is lower in density than copper or iron so more cents can be stamped per pound. However, zinc also oxidizes into an ugly black color quickly.

Perhaps the largest hurdle to making a cent out of these metals is not any of the above but the color of the metal. Historically, a distinguishing factor between the cent and the dime was not weight, density or cost -- but color.

Years before, the chant of ridding us of the penny, there were chants for eliminating paper money whose lifespan is 6 months. Heck, a coin can last 80 years!!! I still get 1964 nickels in change and when I do, I always make a point of grading them. Many are VF, some even XF (once, I even received an AU that I am sure would have gotten a CAC sticker!). Well, the Ike dollar was too big... five of those suckers in your pocket felt like an anchor.

So the government made the Ike smaller. Remember the issues with the Susan B. Anthony dollar and how often they were confused with a quarter? The real issue with reducing the cost of the cent by replacing it with aluminum, zinc or tin is the same issue that killed the Susan B Anthony dollar; instead of quarters and dollars getting confused in commerce, the white cent would be confused with the dime. Their diameters and thicknesses are nearly identical, and now both being similar color would cause mix-ups, especially in the over-60 crowd (not that I'm anywhere near that).



The bottom line is we Americans think differently... the dollar bill is not going away, and neither is the cent for now. It will remain brown in color. Only two brownish metals are in existence; all metals other than copper and gold are white, gray or silver in their pure state. And even the government knows that it would not be financially prudent to recommend gold for the replacement alloy of the cent. The cheapest method of producing brown colored cent with sufficient weight is to copper-plate a zinc-based planchet. That's the end of the research on the cent.

While our love affair with paper money is greater than our love of the cent, there is resistance to eliminating it. But it will not be the Mint's decision. It will be congressionally mandated, and I believe it is here for the short-term. The Mint's job is to explore alternative methods and alloys to reduce costs, not determine if the cent is needed.

Or maybe, just maybe, another possibility exists... which has precedent with the Indian Cent. The socioeconomic times of the nation in the last half of the 19th Century is as fascinating as any other in our long history. When the Large cents were discontinued as their cost approached one cent to produce, the Mint coined huge quantities of Flying Eagle cents to exchange for the Large cents and Spanish bits still in circulation. The new nickel alloy cent needed to be minted in large numbers and within a few years there were too many in circulation. James Snowden wrote in his 1860 report to Congress about the glut of cents.

During the Civil War fear and uncertainty replaced confidence and drove many to hoard their coinage, mostly silver but even the increasingly popular copper-nickel cents of the era. Silver stopped being used at face value for commercial transactions making the appeal of the cent widespread. While mintages for silver issues were almost nonexistent, the Mint continued to pump out copper-nickel cents during the war to try answer the demand. In some East Coast cities a premium of 20% was being paid for cents. Paper money, derisively called "shinplasters" and Civil War tokens were creative ideas that helped overcome the coin shortages. On March 2nd, 1864 Mint Director James Pollock noted that demand for cents was at an all-time high.

After the war ended, with the Union reunited, and with a resurgence in public confidence, the hoarded cents returned to commerce in huge waves. Large quantities of 2-cent and 3-cent pieces also entered commerce. With supply at a historical high, the demand for additional cents almost disappeared, resulting in steep declines in mintages from 1866 through the early 1870's. While a boon for today's collectors, merchants of the time were being bogged down with cents and nowhere to go with them.

To remedy the situation, Congress passed a Redemption Bill in 1871 allowing financial institutions to return cents and small denominational coins in quantities of \$20 or more in exchange for more popular silver coinage. The Mint quickly learned after three years that rather than melt the redeemed cents to produce a fresh feedstock of planchets, simply inspecting and re-issuing the cents was all that was necessary. In essence, the Mint acted as a bank for minor coinage, taking in unwanted hoards from banking institutions and then re-issuing the same coins upon demand from other banks. As a result, the cent mintages of 1871 and 1872 fell even further, while the more popular silver coinage saw significant increases in production.

To exacerbate the issue, the Great Recession of 1873 prolonged the weak demand for cents through 1879. It would go down in history as one of the worst financial crisis in history, second only

to the Great Depression. So the Mint wasn't dealing with the "Perfect Storm" during these times of managing demand with production levels, but more like "Whack-a-Mole."

From 1871 through 1877 a staggering percentage of the cents "produced" by the Mint were redeemed issues; approximately half of the issuance of cents were redemption, the other half were freshly struck. 1877 was the most extreme year—10 million cents were "issued" by the Mint but less than 1 million were newly minted dated 1877 Indian cents. This would be the last year of re-issuance of cents.



So all of this begs the question, "what does this have to do with the penny today???" This is me simply conjecturing, but are we not in a similar situation, except the quantities are up by an order of magnitude or two? So I indeed wonder if it may be "déjà vu all over again." With the current cent costing 2.5c to manufacture, with no alternative cheaper method available to produce a brown-colored coin, and with a Congress loathe to eliminate the denomination, perhaps the best potential solution would be a bank redemption program.

What would happen if banks were required by law to redeem a minimum amount of cents at say a 10% premium on face, maybe 25% premium. Instead of a \$20 minimum perhaps a minimum quantity of \$500 would be in order. Redeem \$500 of cents and receive \$600 credit. Cottage businesses would sprout up everywhere, offering to buy cents at a premium and then turning them in for their own profit. Conversely, you would have to limit how many you could purchase in a day to prevent inundation of customers trying to cash in on a get-rich-quick scheme... like my son.

The savings for the Mint could be astounding. If it has any effect like the 1870's, if 2 billion strikes is all that is needed annually to make up the gap, the savings is \$70 million. Then 70 Americans every year could win \$1 million.

To be honest I have no idea if this concept is under any serious consideration but it just seems that with the vast hoards of cents collecting dust around the country and the reluctance of Congress to eliminate the cent, this may be a worthwhile first initiative.