

Jay Johnson Testimony on H.R. 5512 to allow Mint and Treasury to change the metal composition of U.S. coins.

When I was Mint Director in 2000 and 2001, it still cost less than a penny to make a penny, but even then, the margins were slim and we knew that inevitably, the costs of minting one-cent coins would result in negative seignorage. It hasn't taken long for the costs of metals, materials and manufacturing to overtake the actual value of the one cent and five cent coins, so that it makes good sense to give the Department of the Treasury and the U.S. Mint the power to make appropriate coin composition changes so that the Mint will not continue to lose making by minting our smallest coins.

In fact, this has happened many times before. In the 1960s, the Mint acted very quickly, within a few months, as it saw the rising price of silver, to change the metal composition of coins to eliminate the costly silver from the current circulating coinage and replace it with the so-called 'sandwich' metal composition we have in use today. Congress passed a bill on September 5, 1962 which gave authority for the 95 percent copper and 5 percent zinc coins, eliminating the tin from the makeup of the coin.

And in terms of the one cent coins, I quote a recent book, "History of the United States Mint and Its Coinage" by David Lange who writes of a period in the 1970s: "Inflation continued to plague the lowly cent, as its metallic value periodically approached its face value. Thought the cost of recovering this copper negated any potential profit; the threat of rising copper prices prompted Congress to grant the Mint permission to change the cent's composition whenever needed to avert a crisis." At that time, it was just a resolution of Congress passed December 7th, 1973 which gave the Treasury Secretary the power to change the composition of the one cent alloy. While this was still being discussed in 1973, Mint workers tested several coin metal compositions, including aluminum. And Coin World magazine reported that it found examples of 1974 dates Lincoln cents which were struck on bronze-clad steel blanks...though it was not reported until 20 years later. **History shows that changes in coin composition can be made easily and quickly when the need and the desire to make the change are deemed important.**

Since I left the Mint and the government, I have remained in the coin and numismatic business and note the interest among coin collectors as to the future of the penny and nickel. Their concern is the same as most citizens...that the government is 'losing money' by continuing to make one cent and five cents coins at nearly double their face value to manufacture them. They also have a numismatic interest in that any change in coinage...whether it be in the obverse or reverse design or the metallic make-up of the coin, it creates a new variety or type of the coin and thus, another numismatic change which, though perhaps not noticeable by the public, will become another turning-point in the history of the one-cent and the five-cent coins. In fact, while we will mark next year the 100th anniversary of Lincoln's image on the obverse of the one cent coin, the internal make-up or metal content of this coin has changed many times...all this is of interest to collectors because each change, even slight ones, create a new type or subset of the penny, which continues to look essentially the same to the average consumer. As one collector told me, **all of the changes in coinage**...be they design changes or metal composition changes...enhance the collectability of that coin. And that's good for the

numismatic industry. One thing they might not like, he told me, is a metallic change which will change the appearance too much, since collectors appreciate tradition. They also will NOT like a metallic composition which will not wear well or will tarnish easily or not even look or feel like the 'traditional' penny. All changes in coinage, said another numismatist, are just 'intriguing' to the collector, another reason for saving them.

It is this changing history of the penny...whether it's the so-called Indian-head penny or the 'wheat-ears' penny...or indeed the metal composition of the penny...which just adds to the numismatic history of this coinage. Most numismatists and many people who lived through World War II are aware that we had a 'steel penny' or 'steelie' in 1943 because the penny was made of steel with a thin zinc coating. And, in keeping up with it's part in the War Effort to save and preserve needed metals for guns and ammo, the Mint in 1942 experimented with various substitutes for copper...even testing out the use of glass, plastic and leather. During a time of war, the Mint had the power and used it to find the most economical and feasible ways to save money by making coins of different materials. Again the Mint, acting on the wishes of Congress moved quickly. Congress approved the steel cent on December 18, 1942. Production of the new steel cent began less than 3 months later, February 27, 1943. In 1944, because many one cent coins were still in use for parking meters and other coin-operated mechanical devices, the Mint heard the complaints of citizens and owners of coin-operated devices and went back to using a form of brass. The brass cents were regularly seen in circulation as late as the 1970s.

Today, also in a time of war, the Mint and Treasury need the power and authority to make the best use of its own staff and resources, as well as its suppliers, to find the most inexpensive way to continue to make one cent and five cent coins for less than their face value. I have no doubt that the U.S. Mint will do its best work to bring the penny and nickel into positive seignorage, thus justifying this needed legislation.

In 1981, again seeing the rise of copper prices, the Mint changed the metal composition of the one cent coin to 97.5 percent zinc and 2.5 percent copper...introducing the new metal composition in 1982. It is another example of quick action by the Mint to changing metal prices. A question arose about the Mint's ability to change the metal composition in 1982, but a federal judge ruled that the Mint did have the authority, as granted by Congress.

Another war-time need for nickel changed the composition of the five cent coin. Starting in October 1942, all of the nickel in the five cent coin was removed and an alloy of copper, silver and manganese was used thru 1945.

I have also seen other countries struggle with this same 'reverse seignorage' ...even seeing some whole Mints losing money. I am proud that the U.S. Mint has always been on the positive side of revenues...making money by making money...with all profits returned to the U.S. Treasury. In India, for example the Mint was forced to change from a small silver 1 rupee coin to a base metal one rupee coin and it now costs India more than one rupee to make a one rupee coin. Some of their base metals one rupee coins have been smuggled to other countries to be melted and turned into 10 razor blades that sell for 2 rupees each.

Other countries, like Austria, have moved to ‘rounding off’ their smallest coins...while though officially their Mint still makes the small coins, it makes fewer and fewer and will eventually eliminate them.

While I doubt that the U.S. will officially move to a ‘rounding’ system anytime in the near future, you can see it unofficially just about any day when using cash and there is a small tray for pennies used to ‘round’ off a transaction. For example, on a \$1.26 purchase, the merchant is just happy if you have a dollar and a quarter...”forget the penny”, they will often say.

But since we are about to enter a special anniversary year for the penny next year, I don’t think it will be a good time to just ‘forget it.’ Instead, we should still mint a penny...though for as close to less than a penny as we can get.