

Why Keep The Penny?

By Mike Fuljenz -

Americans have a love-hate relationship with pennies.

Hardly anyone uses them anymore. Many won't even bend to pick them up, as Andy Rooney noted on a "60 Minutes" segment some years ago. People who get them in change during the day often dump them in mayonnaise jars, sugar bowls or drawers when they empty their pockets at night.

Despite all this, surveys consistently show that most Americans don't want pennies discontinued. One 2012 survey found that more than two-thirds of the respondents wanted Uncle Sam to keep making them. The group that conducted that survey – Americans for Common Cents – advocates retention of pennies, but impartial polls have come up with similar results.



At a time when federal spending is under intense scrutiny, this strong public support seems somewhat surprising, for analysts say it now costs the U.S. Mint two cents – double face value – to make a single penny. And since the Mint produces billions of pennies a year, the government loses millions of dollars annually in the process. The Mint made nearly 6 billion pennies in 2012 and lost a cent on every single one of them. In all, it lost \$58 million – and the Mint, keep in mind, is a federal agency that traditionally makes money in more ways than one.

Faced with a similar sea of red ink, Canada stopped making cents in May 2012. That will save Canadian taxpayers \$11 million a year, our northern neighbor's government reports.

Beyond the excess millions the U.S. Mint spends to crank them out, pennies also take up the lion's share of the Mint's production capacity. One-cent pieces account for nearly three-fourths of the coins now being made by the federal government – and critics maintain that the Mint's facilities and workforce could be used to better advantage, and much more profitably, by devoting them instead to higher-value coins that yield substantial profits. Those profits result from "seigniorage," a positive cash flow that occurs when coins' face value exceeds the cost of minting them, rather than the other way around.

Considering all these factors, dispassionate observers might wonder why the powers-that-be in Washington have been dragging their feet for years on killing the cent, especially now that Canada has acted decisively – and, it appears, successfully – to carry out a similar execution.

To begin with, the Mint itself can't impose such a death penalty. Authority to discontinue pennies rests with Congress – and so far, that august body has been gripped by indecision as it ponders conflicting arguments by lobbying groups on both sides of the issue.

For obvious reasons, pressure to keep the cent has been applied persistently by providers of zinc and copper, the two component metals in the coin, who would lose contracts worth tens of millions of dollars every year if pennies were abolished.

Most Americans probably don't even realize that for more than 30 years, their pennies have been 97.5 percent zinc, with a thin copper plating to give them the illusion of being "red cents" with high copper content. The change from brass, the previous composition, took place in 1982 as a cost-cutting measure because zinc was much cheaper than copper. But since then, the cost of zinc has risen dramatically – and that's a big reason the cost of making cents is

now over the top.

Millions of consumers also oppose the cent's elimination on economic grounds. Without pennies to make exact change, prices would have to be rounded up or down to the nearest nickel – and skeptical Americans fear that most of the rounding would be up, increasing the cost of much of what they buy.

For all its current problems, the penny has a long and proud tradition dating back to 1793, when one-cent pieces were the very first coins produced by the fledgling U.S. Mint. The cent has served the nation well since then, and many Americans view it with affection – a sentiment that has grown even stronger since the coin began featuring the likeness of Abraham Lincoln in 1909. To the average American, this is a perfect match: the common man's President on the common man's coin.

The nation's earliest one-cent pieces – aptly called “large cents” by collectors – were big, bulky pure copper coins roughly the same size and weight as half dollars. Americans were wary of underweight coins at that time, so the government decreed that all U.S. coins – even copper coins – must contain enough metal to be worth very nearly as much intrinsically as their monetary face value.

Large cents bearing portraits of Miss Liberty were minted for 64 years – a long lifespan during the nation's first century. But, by the 1850s, the government faced much the same dilemma as today: The price of copper had risen, making cents too costly to produce. The problem was resolved by reducing the size of the cent and changing its composition from copper to an alloy of copper and nickel. The new penny, first issued in 1857 with a “Flying Eagle” design, was about one-third smaller in diameter than the large cent and less than half the weight. Unlike its hefty predecessor, it had much less value as metal than as money. Treasury officials reasoned – correctly, it turned out – that by then, Americans had developed enough confidence in their government to accept base-metal coins, quite literally, at face value despite their reduced intrinsic value.

After only two years, the Flying Eagle cent gave way to the now fondly remembered Indian Head cent. And just five years after that, in 1864, the government changed the coin's content again – this time to bronze, an alloy of copper, tin and zinc – and slenderized it further to 3.11 grams, a weight that remained unchanged until 1982.

The Indian Head cent endured for half a century before its design was replaced by the Lincoln portrait in 1909, the 100th anniversary of the 16th President's birth. Since then, the U.S. Mint has issued several hundred billion Lincoln pennies, making this the most heavily produced coin in human history. In fact, it has been struck in greater numbers than all other coins combined – including not just U.S. coins but the coins of all other countries throughout recorded history.

The Lincoln cent, now more than 100 years old, is by far the longest-running coin in U.S. history. Aside from its Lincoln portrait, though, it has undergone a number of major changes in design and composition.

In 1943, the Mint produced cents made of zinc-coated steel in order to conserve copper, a metal vitally needed for military uses during that pivotal year at the height of World War II. In 1962, it removed tin from the alloy, changing it from bronze to brass. And in 1982, it virtually reversed the percentages of zinc and copper, in the process reducing the weight of the coin to its present 2.5 grams.

For the first 50 years, the Lincoln cent's reverse displayed two sheafs of wheat framing the statement of value. In 1959, the 150th anniversary of Lincoln's birth, this “wheat-ears” reverse gave way to a likeness of the Lincoln Memorial. In 2009, four different cents were issued with images representing key segments of Lincoln's life. And in 2010, the Mint introduced a permanent new reverse depicting a Civil War-era Union shield.

It remains to be seen how “permanent” the new reverse will be, with the fiscal sword of Damocles hanging ominously over the penny's future. At the direction of Congress, the Mint has been studying potential new compositions that

would make the coin cheaper to produce and save the denomination from the scrap heap. Steel and aluminum are two alternative metals that have been mentioned. And aluminum cents wouldn't be entirely new. Four decades ago, the Mint made more than 1.5 million prototype aluminum cents during a similar crisis, with every expectation they would soon see use in circulation. But the price of copper receded, and plans for the change were dropped.

Will today's cent get the same kind of reprieve? Will a suitable substitute be found? Or will the Law of Supply and Demand keep putting upward pressure on metal prices and make it impractical to keep producing cents of any kind?

A penny for your thoughts.