



Pitch the Penny
By Andrew Brod
Greensboro News & Record, July 9, 2006

In 1982, the U.S. made a dramatic change in the composition of the one-cent coin, informally known as the penny. Pennies had always been primarily copper, except for 1943 when they were made of steel due to copper's strategic importance during the war. But by the early 1980s, the price of copper had risen so much that the copper in a penny was worth more than a penny.

The government's response was to replace most of the copper with zinc, a less valuable metal. Prior to 1982, pennies were 95 percent copper and 5 percent zinc; now they are 97.6 percent zinc and 2.4 percent copper.

The situation now is even more striking than in 1982. The United States Mint recently announced that for the first time in history, the costs of manufacturing *both* pennies and nickels exceed the face value of the coins. The Mint's costs of producing the two coins this year (including manufacturing and distribution) will average 1.23 cents and 5.73 cents, respectively. Given the likelihood that metal prices will remain high, Congress may again mandate a change in the composition of these coins. But for the penny, I have a different solution: get rid of it!

Why is the value of the metals in our coins important? One reason is that if the metal price is high enough, coins would be taken out of circulation to be melted down so the metal could be resold. The scrap value of the zinc in a penny is just under one cent, so it's not yet worthwhile to do this. For now at least, you're still better off storing your pennies and cashing them in from time to time. On the other hand, the scrap value of the copper in pre-1982 pennies is over 2 cents, which means that it might be profitable to melt them down (if you can find them).

The other reason involves the net revenue the government generates for itself by minting coins. The Mint sells coins at face value to the Federal Reserve, which distributes them. The difference between the face value of a coin and the cost of minting it is called "seigniorage." Last year the Mint made \$730 million in seigniorage, which isn't very large when compared to the entire federal budget, but it does reduce the need for revenues from taxes (or if you want to be a monetary purist, revenues from *other* taxes).

This year seigniorage from pennies and nickels will be negative. The government projects that it will lose about \$20 million on the production of pennies and \$12 million on the production of nickels. Dimes and quarters are still profitable, but the government's "profit margin" for them is also shrinking due to rising metal prices. Therefore, every penny the government mints increases the federal deficit by a small amount. And there's a penny for your thoughts.

Perhaps the coins of the future will be made from space-age polymers that will be as durable as metal but will cost far less than face value to produce. That sounds great for dimes and quarters and maybe even nickels. But it's time to get rid of the penny. Rising metal prices have made the penny a complicated proposition for the government, but for most of us the reasons to eliminate the coin are simple.

The penny is essentially worthless: The penny didn't buy much in 1982, but it's lost over half its value since then. Pennies do little but sit in glass jars waiting to be cashed in and in little dishes on store counters waiting to be grabbed by whoever needs one. What do you call a commodity that's left out for anyone to take? Free! And free means without value. All we use pennies for is to make cash transactions come out exactly right. This lone use becomes even less valuable as more and more of us use debit and credit cards to make small purchases.

The penny is inconvenient: Pennies aren't accepted by vending machines or toll booths. When was the last time your eyes brightened when you got pennies in your change? Mine generally darken, as I look to toss them into the little dish on the counter. A group called Citizens for Retiring the Penny claims that the additional time spent handling pennies in retail transactions costs the economy \$15 billion per year in wasted time. I'm not sure how important that number is, because most of us waste a lot more than a few seconds here and there. But the point is that we get next to nothing in return for involving the penny in all those transactions. If I waste time in front of the television, at least I get to laugh at George Costanza.

The penny doesn't prevent inflation: Some argue that eliminating the penny will lead to inflation, as retailers round prices upward. But it's hard to believe that strong inflationary forces in the economy are being held in check by the mighty penny. If the cash register were to ring up \$2.36, would a retailer try to charge \$2.40 in cash? Perhaps. But energetic competition at retail means that most stores are looking for ways to lower prices. Besides, the consumer would see the cash register and know that she owes only \$2.35 in cash.

Most stores have already lowered prices by a few cents in order to advertise odd prices like \$1.99 and \$4.49. Who knows what gimmicks they'll come up with if the penny is eliminated? I can imagine Wal-Mart pledging *never* to round up.

Economist Robert Whaples of Wake Forest University made some calculations recently to assess the claim that because so many prices end in "9" and would hence be rounded up, the net effect of retiring the penny would be to raise prices. He looked at nearly 200,000 transactions over the course of a week at 20 locations of a gas-and-convenience-store chain. Whaples found that price increases and decreases canceled each other out (there was actually a tiny price decrease on average!), which really shouldn't surprise us.

Other countries round up and down with few problems. For example, Norway's smallest coin is worth about eight cents. Prices are expressed precisely on cash registers but are rounded up or down for the actual exchange of cash.

Moreover, we've been through this before. The U.S. retired the half-penny in 1857, and history records no economic calamities brought on by that event. We've been rounding prices to the nearest half-cent for nearly 150 years, and it's worked out pretty well.

Support for the penny may be weak: Long-standing opponents of retiring the penny, in particular the mining industry, might not fight hard against it now because of high prices around the world. Thanks to industrialization in China and elsewhere (why is it always China?), the demand for basic commodities is strong. The mining industry doesn't need pennies to make a buck.

As if to emphasize this point, the most prominent legislative effort to eliminate the penny comes from a major mining state. Congressman Jim Kolbe of Arizona introduced a bill in 2002 that would stop production of pennies, and he has talked of reintroducing the bill this year.

Create room for dollar coins: The Federal Reserve has estimated that because metal is much more durable than paper, switching from paper dollars to dollar coins would save the government \$500 million per year. I'm not sure I want to carry dollar coins around in my pocket, but that's an impressive figure any way you slice it. And without pennies, their slots in change drawers could be used for dollar coins.

So let us honor the venerable penny. It has served us well but its time has come. It needs to join the half-penny and the mill (worth a tenth of a penny and issued in the past by some state and local governments) in that giant coin purse in the sky.

Andrew Brod is the Director of UNCG's Office of Business and Economic Research. You can reach him at 336-334-4867 or AndrewBrod@uncg.edu. An archive of Dr. Brod's columns is available at www.uncg.edu/bae/ober.

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