Testimony of Michael J. Brown

before the

Subcommittee on Domestic and International Monetary Policy, Trade, and Technology

on the

Coin Modernization and Taxpayer Savings Act of 2008

March 11, 2007

Thank you for the invitation to testify today. It was my pleasure to work with the former *Subcommittee on Consumer Affairs and Coinage* from 1981 to 1989 when I served as Special Assistant to Mint Director Donna Pope and as the first Press Secretary for the Mint. I worked closely with then Chairman Frank Annunzio (D-IL) and his staff on issues affecting coinage, including the successful conversion of the copper-cent to a copper-plated zinc-cent. While at the Mint I worked with the staff of Representative Ron Paul's (R-TX) to enact the legislation creating the American Eagle Gold Bullion Coin as recommended by the *Gold Commission*.

I am here today at the request of the committee as a private citizen. I have been involved with coinage since coming to Washington in 1981. In the interest of full disclosure, I need to advise you that I am Vice President of Public Affairs for Barrick Gold Corporation of North America and registered under federal lobbying laws. However, Barrick has no interest in this legislation or any other coinage matters before the Congress. In 1990 I did some work for the zinc industry through a coalition then known as "Americans for Common Cents" which responded to legislation proposed by former Representative Kolbe (R-AZ) to abolish the one-cent coin. Last year Majority Leader Reid nominated me to serve on the Treasury's Citizens Coinage Advisory Committee. I am a huge fan of Director Moy and the technological revolution he has brought to the production of the nation's coinage.

Today we are experiencing what is being called a "Super Surge" in demand for metals. The rapid industrialization of economies in China and India have fueled a demand for metals, precious and base metals, the likes of which we have not seen since the Industrial Revolutions of the United States and the United Kingdom.

Prices for metals are at record highs. Recycling rates for metals are at record levels. I regularly see reports of copper thefts from construction sites. In Las Vegas there have been instances of thieves take copper circuits from energized electrical lines. We are observing the Chinese and Russian governments going to extraordinary lengths to secure supplies of base metals for their burgeoning manufacturing sectors. No one knows when, or even if, this surge will subside. A consequence of that surge is the effect we are seeing on our domestic coinage, especially with the one-cent coin. A coin that Chairman Annunzio often called the "Kleenex of Coins" because he noted it was disposable and "when you need it, nothing else will do."

This is not the first time Congress has had to consider the effect of rising commodity prices on the coinage system. The Mint and Congress have a terrific track record of working together on these matters.

Until the mid-1960s the dollar, half-dollar, quarter-dollar and dime were made of silver. Much of the silver for those coins came from mines in Nevada. In fact it was a tradition for many decades that Mint Directors came from "silver states." However, rising demand for silver in electronic and photographic applications elevated silver prices to levels that resulted in the massive withdrawal and melting of silver coins. The resulting coin shortages forced the government to look for alternatives metals to silver. This was a significant public debate involving the Executive and Legislative branches plus the Federal Reserve Bank. Congress held five separate hearings and eventually created a *Joint Commission on Coinage* with members appointed by President Johnson. During this debate the Treasury contracted with the *Battelle Memorial Institute* of Ohio to prepare

and issue A Study of Alloys Suitable for Use as United States Coinage [1] This report was instrumental in helping Congress approve the *Coinage Act of 1965*, a measure that authorized replacing silver coins with the copper-nickel clad coins we use today.

It should be noted that Nevada Senator Allan Bible (D-NV) made a valiant political effort to retain silver in coins.

Sensitive to the silver experience, and facing a need to construct a costly new Mint in Denver (never built), the Treasury, Mint and Federal Reserve produced a report in 1973 on Alternative Materials for One Cent Coinage. That report resulted in a brief consideration of an aluminum cent. However, for a variety of reasons the idea of an aluminum cent was shelved.

In 1974 the nation did experience a short of one-cent coins as copper prices rose in response to surge of inflation brought on by the Oil Embargo. This caused the Mint to take a much larger step and they contracted with *Research Triangle Institute* to conduct a comprehensive analysis of U.S. coinage requirements to 1990. The purpose of the report was to review and recommend changes in Mint facilities and in coinage forecasting, production planning and distribution systems for the present U.S. coins and for possible alternatives. The impacts of various alternatives on public and private interests were assessed to develop coinage system recommendations to 1990. The report came about "as a part of the Mint's continuing effort to provide the United States with the best possible coinage system." [2] The Mint intended for the research to help it develop an "ideal" coinage system.[3]

This was a bold step for the Mint. In that era the hiring of independent contractors by a government agency for this type of research was exceptional. Clearly the Mint was trying to get ahead of the curve and avoid a crisis like it experienced in the 1960s. The

[1] 1964 Annual Report of the Director, Pages 2 to 4.
[2] 1976 Report of the Director of the Mint, Page 6
[3] 1975 Report of the Director of the Mint, Page 4

Research Triangle Institute report is an extraordinary document. Many of its recommendations still stand the test of time and are relevant today.

In response to the 1974 shortage, the Congress granted to the Mint a measure of discretion to adjust the copper content of the one-cent coin if necessary to avoid shortages. However, it was well understood that Congress expected to be consulted should that come to pass.

After *Research Triangle* issued its report, Dr. Alan Goldman, the Deputy Director of Mint and Assistant Director of Technology, started to test alternative materials for the one-cent coin. Dr. Goldman was a brilliant government executive, an individual always searching for continuous improvement. By November of 1980 his work was complete and the Mint finalized a recommendation for the conversion of the one-cent coin from copper to copper-plated zinc. The Mint took that report to Congress and consulted with the six Members of Congress then responsible for coinage. While names of the members are lost to history, I believe they were the leaders of the banking and appropriations committees. However, with the outcome of the 1980 election, the Carter Administration deferred making any final decision.

That decision fell to the new Treasurer of the United States, Angela "Bay" Buchanan. The youngest person ever appointed U.S. Treasurer, Bay Buchanan was given policy authority over the Bureau of Engraving and Printing and the United States Mint, then known as the Bureau of the Mint.

Treasurer Buchanan took the matter directly to Chairman Annunzio and a hearing was held in March of 1981. The committee responded favorably to the proposal and work commenced at the Mint to implement the conversion. My boss, Director Donna Pope, was responsible for implementing this conversion. That was a major undertaking. At the time the Mint was funded by an appropriation and we were under substantial pressure to reduce spending under the *Gramm-Latta Budget Reconciliation Bill of 1981*. Not exactly the best time to try something new. In 1982 the Mint had to implement a 16 percent

across the board budget reduction. Yet the Mint's talented technical and manufacturing personnel rallied to the challenge. We made a deliberate decision to limit publicity of the change as not to stimulate hoarding of copper cents.

However, as in any decision there are detractors. Just as the silver miners fought the removal of silver from coinage, the *Copper and Brass Fabricators Council* challenged the Mint's authority to study and implement a change in the one-cent coin. In fact, they appealed, unsuccessfully, all the way to the Supreme Court. For many months we worked knowing full well that the court could step in and stop us from implementing the conversion.

In additional to their legal challenge, the Fabricators levied the following criticisms against the copper-plated zinc cent:

- *The conversion from copper to zinc would lead to a withdrawal of up to 40 billion copper cents.* That did not occur.

- *The zinc cents would corrode because of imperfect plating.* That did not occur.

- *The zinc cents would render useless many coin-counting machines.* That did not materialize in any meaningful way.

- *The zinc cents would leave us vulnerable to disturbances in international trade and boost and worsen the balance of trade.* That did not occur.

- *The zinc cents would cause the Mint to endure many production hardships.* Again, no such problems materialized.

- *The zinc cents would lead to job losses in the brass milling business.* No job losses were ever reported. In fact, the Mint's decision to close its costly and energy inefficient coinage strip foundry in the Philadelphia Mint created new opportunities in the private sector.

After clearing court challenges by the Fabricators, production began in mid-1982. It should be noted that 1982 is the only year that the Mint produced a blend of copper cents and copper-plated zinc cents. The new copper-plated zinc cent went largely unnoticed by the public, but fulfilled all of the expectations of the Mint, the Congress, Treasury and the Federal Reserve. Over the years, Chairman Annunzio cited the introduction of the copper-plated zinc cent as one of the major achievements in American coinage.

Now we find ourselves again in the situation where rising metal prices compel the Congress, and the Mint to look again for new alternatives. As is evidenced by past experience, this can best be achieved through a collaborative process.

I would be please to answer any questions.