FEDERAL RESERVE BANK
OF NEW YORK

(Circular No. 3765)
(September 28, 1951)

COIN SHORTAGE

To all Banking Institutions
in the Second Federal Reserve District:

On the inside pages of this circular is reproduced a feature article from THE NEW YORK TIMES of September 24, 1951 on the current serious shortage of coins. This article explains in some detail why no easy solution to the coin shortage is to be expected in the near future. It points out that demand for already scarce coins will in all probability continue to increase during the fall and winter shopping season, and outlines the difficulties which the Mint has had and is having in securing sufficient appropriations and adequate supplies of copper and nickel.

We hope that you will find the article useful in explaining to your customers that the coin shortage is general and that neither your bank nor the Federal Reserve Bank is at fault. We shall be glad to supply additional copies upon request for lobby display, for newspaper editors, and for similar purposes.

It is certainly to the best interest of all of us to do all we can to ease the present coin shortage. We should use every possible means to encourage depositors and others to bring coin savings into our banks, either for deposit or for exchange into paper currency. Banks will be performing a valuable public service if they arrange to accept all loose and uncounted coin brought to their windows in response to public appeals. It is true that accepting and counting loose coin adds to the normal volume of work. A ready acceptance of unwrapped coin not only builds good customer relations, however, but also upholds the high standards of service which have come to be associated with the banking system.

ALLAN SPROUL,
President.

The New York Ti

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U.S. Becoming Penny-Poor; Mint Lacks Metal and Funds

MAKING MONEY: An employe feeding blanks to penny coinage press at the Mint in Philadelphia.

By GEORGE A. MOONEY

The United States, like so many of its individual citizens, is running out of money.

Now, when the Government is spending at the greatest rate in its history, with the daily pay-out averaging two hundred million dollars, the United States is suffering from a shortage of small coins, especially the lowly penny.

The man on the street may not have noticed the shortage, but it is so acute that the United States Treasury's Bureau of the Mint is operating double shifts to increase production, while in New York the Federal Reserve Bank is rationing its supplies of pennies, nickels and quarters.

The shortage, first observed after the outbreak of hostilities in Korea last year, arises from the later inflationary developments throughout the United States. Money in circulation, which amounted to $27,026,000,000 in June, 1950, now totals $28,140,000,000. Retail sales are up and prices are higher. Odd-penny prices, reflecting cost increases, sales taxes and the increased use of parking meters and vending machines, whose cash boxes immobilize coins, all are factors in the situation.

Metal shortages and the copper strike have intensified the problem. Largely because of the strike, not one pound of the Mint's September copper has yet been delivered. To meet this situation, the Mint has been stretching its August supply by cutting production of pennies and nickels, which really contain 75 per cent copper. Only a small alloy of copper is required in the manufacture of dimes, quarters and half-dollars, and the bulk of the Mint's production is now concentrated in these pieces.

Nevertheless, even the silver coins are becoming increasingly scarce, and last week the Federal Reserve Bank of New York began restricting the requests of banks for quarters to 50 per cent of their 1950 requirements. Silver, of course, presents no supply problem and the Government, which buys every ounce of silver mined in the continental United States and Alaska, now has about 2,000,000,000 ounces. Of this total, about 160,000,000 ounces or nearly $150,000,000 of the metal is so-called "free" silver and is available for coinage.

Nor is there any shortage of currency. The Bureau of Engraving, which turns out dollar bills and other "folding money" for the Treasury, reports adequate inventories on hand. Recent simplifications in engraving methods, it says, have eliminated any possibility of its failure to satisfy the national requirements.

The lack of small change, however, is becoming increasingly acute, as the nation's fall and winter shopping season gets under way. Normally, during the slack summer months, there is a heavy return flow of coin into the Federal Reserve Banks, which is then fed back into circulation as the Christmas trade reaches its peak. This year there has been no such flow. The Federal Reserve Bank of New York's average daily receipts in pennies last year at this time amounted to $28,000. This year the average is only $2,000.

Shortage Grows Worse

Although the shortage was first noticed after the Korean outbreak last year, and now is worsening, Congress thus far has done nothing about it. Despite its apparent recognition that "the Mint makes money making money," and shows a tremendous profit on its operations, Congress has seen fit to reduce the Mint's appropriations. Thus, unless emergency funds are granted soon, the Mint will be required to curtail its operations—even assuming that it can obtain the necessary copper.

In the fiscal year ended June 30, 1950, the Mint, with an appropriation of $1,417,000, issued coins with a face value of $31,261,000, while in the fiscal year ended in June, 1951, the appropriation was $1,873,000 and the coins issued were worth $32,170,000. During the first six months of last year, the post-war return flow of coin was largely completed, demand for new coins was at the lowest level in a decade, and the Mint cut back its production. In the second half, however, the Korean outbreak, panic buying and inflation renewed the demand for coin.

Mint Seeks More Funds

In February of this year, while the Mint was attempting to meet this unexpected development, it asked Congress for a deficiency appropriation of $330,000. It was not until June, when the fiscal year was almost ended, that Congress granted $130,000, and of this total $50,000 had to be used for automatic salary increases. In this year's budget the Mint requested $5,190,000 for its operations to produce 1,700,000,000 coins. Instead it received an appropriation of $4,600,000, which, it is estimated, will permit production of 1,400,000,000 coins. Again, however, the appropriation was delayed until Aug. 13, and the authorities at the Mint were unable to schedule the necessary production until the financial means were at hand.

Now the Mint, stripped of its inventories, is going all out within the limits imposed by the smaller appropriation, and the shortage of copper and nickel. It has the plant and productive capacity to make all the coins needed and has produced as many as 4,000,000,000 coins in a year, as it did in 1945. Normally it uses part of its excess capacity to make coins for foreign countries.

Of the nation's three minting offices that actually make coins, one in Philadelphia has been operating on a sixty-hour week, but, because of the stretch-out policy, this has been cut to fifty hours. The Denver Mint has been running two shifts on a fifty-hour week, while the mint in San Francisco was holding to a forty-hour week schedule because the high cost of coin shipments confined its production to West Coast use.

Despite the emergency, and the special efforts being made, the Mint even now is operating at less than 50 per cent of its capacity. Under the General Appropriations Act of 1951, Government agencies are required to apportion their funds equally over the year, unless unequal apportionment will not involve the need for a deficiency appropriation. But, obviously there is no way for the Mint to know how long the present demand for coins will continue. And even if it is granted emergency funds, the material shortage remains.

For its September production, the Mint asked for 1,000,000 pounds of copper. The National Production Authority cut this request 30 per cent, and agreed to a total of 700,000 pounds. And as yet, not a pound of this has been delivered. Meanwhile, the Mint anticipates that its future allocations, not only of copper but of nickel, will be below average needs.

U. S. Becoming Penny-Poor; Mint Lacks Metal and Funds

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U. S. Is Rapidly Becoming Penny-Poor; Demand for Small Change Tops Supply

The nation's history has been marked by periods when lack of sufficient coins has caused serious difficulties. Prior to 1853, when the silver content of coins was reduced whenever the bullion value became equal to face value, the public would melt the coins for their metal content, and trade suffered.

In the Civil War there was a time when coins were not in circulation and to meet the need so-called paper "shinplasters" were issued and circulated in amounts as low as 3, 5, 10 and 15 cents. Use of postage stamps to make change was also authorized by Congress in order to ease the situation. During the last war, when for a time metals were unavailable, several cities that were short of coins issued certificates and tokens as substitutes for coins.

Under the coin-rationing program now in effect here, the Federal Reserve Bank of New York has been limiting supplies of pennies since Oct. 16, 1950. At that time, the bank imposed a 70 per cent quota on demands for coin, and the rate has since been adjusted in accordance with the changing supply picture. At present banks are being limited to 25 per cent of their penny requirements of a year ago, while nickels and quarters are being rationed at a 50 per cent rate. In other areas, the regional Federal Reserve Banks have similar rationing policies.

Appeals Ignored

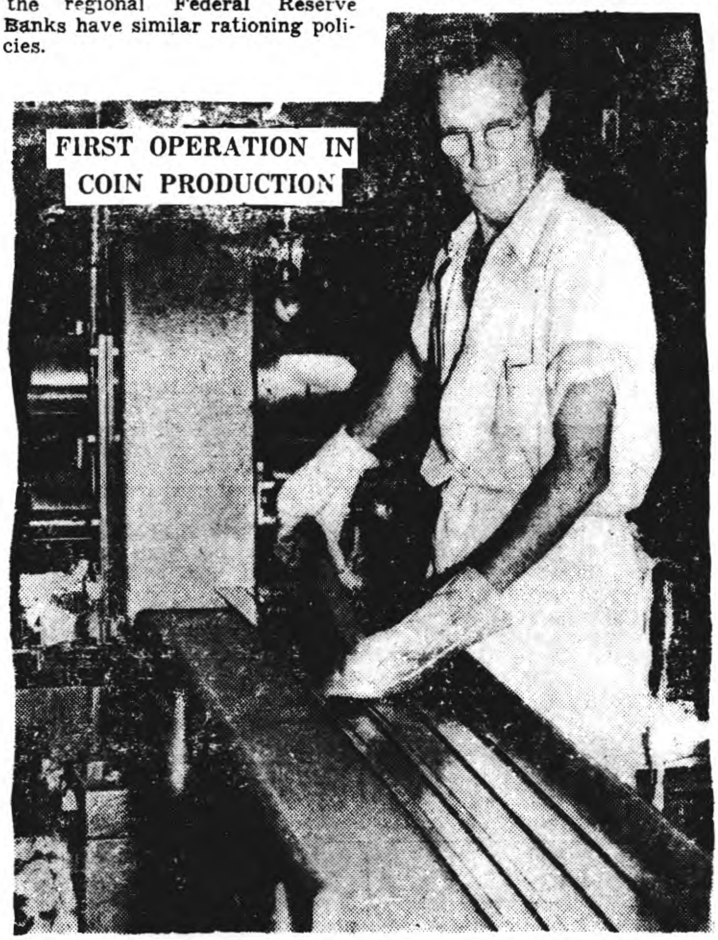
Everywhere, the authorities concerned have asked local banks and merchants to limit their own needs to an absolute minimum and to urge their patrons to empty their cookie jars, piggy banks and other household savings repositories so that the situation will be eased. Instead, it appears that as in other cases of shortage, these appeals have some times tended to increase hoarding, thereby intensifying the problem.

According to some informed observers, the situation verges on the absurd. The need is great and the requirements are small. Plant capacity exists to supply the full demand for coin. The Mint's consumption of copper and nickel is insignificant by comparison with other industries and it is the major customer for the silver, which the Government, under the law, must buy from domestic producers. Finally, it is one of the most profitable of Government agencies.

The following table shows the Mint's recent consumption of metal for coins:

	Fiscal 1949 tons	Fiscal 1950 tons	Fiscal 1951 tons
Silver	967	370	1,061
Copper	2,269	1,484	3,100
Nickel	215	98	56
*Zinc and tin.	85	63	148

*Small quantites are used in manufacture of pennies and nickets.



Silver strips coming from a rolling machine being placed on a conveyor by a worker at mint in Washington.

Appropriations granted for the Mint cover only manufacturing costs and do not include payments for metal. This charge is covered by a revolving Treasury fund, and expenditures for metal purchases are not shown in the Mint's budget. The 1,061 tons of silver used in the last fiscal year equaled 30,954,984 fine ounces, worth about $45,000,000 in coins. Government purchases of newly mined domestic silver in the same period totaled 40,559,730 ounces, for which the Treasury paid the statutory price of 90.5 cents an ounce.

Until recently, when the Mexican Government undertook a new sales policy, the market price of silver was about 80 cents an ounce. Now the price is 90.4 cents, just under the 91 cents level, at which the United States Treasury's nonmonetized silver could be sold to the public. In recent years, virtually none of this silver supply has been sold. Thus, the Mint has been the only major customer for the silver, which the Government has had to buy and hold in accordance with the law.

But the profit which accrues to the Government through the minting process arises from the production of all types of coins. According to data presented in April of this year, in hearings before the subcommittee of the Senate Committee on Appropriations, the manufacturing cost of 1,000 pennies, worth $10, amounts to $1.32, while the cost of metal was $1.34. The following table, submitted at that time, shows the breakdown for all types of small coins:

Denomination	face value of 1,000 pieces	Cost of metal in 1,000 pieces	Seigniorage per 1,000 pieces	Manufacturing cost paid from appropriated funds per 1,000 pieces	Profit to the Treasury per 1,000 pieces
1 cent	$10.00	$1.34	$8.66	$1.32	$7.34
5 cents	50.00	2.81	47.19	3.37	43.82
10 cents	100.00	33.75	66.25	2.33	63.92
25 cents	250.00	84.39	165.61	5.40	160.21
50 cents	500.00	168.79	331.21	8.70	322.51
Total	$910.00	$291.08	$618.92	$21.12	$597.80

Seigniorage is the difference between the circulating value of a coin and the cost of bullion and the minting (brassage). Brassage is the charge levied to cover the cost of coinage.

Mint's Plans for 1951

At the beginning of the fiscal year 1951, the Mint had 416,000,000 coins on hand, and planned to produce 650,000,000 in the twelve-month period, Mrs. Nellie Tayloe Ross, the Mint's director, told the House Subcommittee on Appropriations in February.

"We have already in the first six months produced 655,000,000," she continued. "This production and the reserves we had on hand have gone into circulation totaling 1,050,000,000 coins. As you will see this was a very unexpected development.

"That being true, and in view of the conditions of the moment, the large program of defense on which the Government has embarked, it is perfectly clear that we cannot expect in the next year, 1952, that we are going to be able to get by with a production of 675,000,000 coins, which is just about what we have already sent out in the first six months of this year."

It was on that occasion that she asked for a supplemental appropriation of $330,000. She got $130,000.

At the Senate hearings in April, which considered the 1952 appropriation, Mrs. Ross pointed out that last year, prior to the Korean outbreak, demand for coin was at a low point, and the Mint had been enabled to cut its staff 25 per cent, and return $1,000,000 of its appropriation.

"Ordinarily, there is a sharp decline in coin demand after Christmas; practically none are requisitioned by the banks for a period of two months or more," Mrs. Ross explained in asking for an appropriation of $5,190,000. "This year, however, an active demand has continued in the three months since Christmas. We have, in fact sent out in January, February and March, fourteen times as much coin as we did in the same period last year.

"Unless the full amount of appropriation we request is granted—that is to say, unless you restore the cut that was made by the House—it is our opinion that we shall be unable to meet the call of the country for coin."

Mrs. Ross' Plea Futile

Senator Carl Hayden, Democrat of Arizona, commented that he could not "understand why an operation that will pay at a handsome profit should be cut down." Nevertheless, Mrs. Ross got only $4,600,000.

And the demand for coins continues unabated. As banks and merchants began to realize that a shortage was developing, many started ordering extra stocks "just in case." Meanwhile, as the post-Korean inflation continued, odd penny prices have become more common, and sales taxes requiring payment of additional small change are placing an additional strain on available supplies of coins.

Parking meters, now slated for operation here, and especially automatic vending machines, which sometimes tie up coins for long periods, are another growing problem in the situation. Also, cash payrolls, with the various deductions for social security, workmen's compensation, etc., these days rarely permit even-dollar payments.

Now Christmas and the holiday season, which bring a peak demand for coin, are approaching, with no relief of the shortage in sight. Clearly, the nation, despite its income of almost $1,000,000,000 a day, has become penny-poor.