

Britain's Deplorable Coinage – Not Fit for Purpose

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Figure 1 Brodies Coffee Company Menu. Britain's highest denomination coin will barely cover the cost of an Espresso - and that's if they still took coins as payment, which they don't.

The deplorable state of Britain's coinage is a topic which attracts far too little attention from the public – and almost none at all from the people who should perhaps care the most – numismatists.

As a nation, we have sleep-walked into a situation where our coinage has been utterly debased. Worse than that, it is now being rendered useless. Our highest value circulation coin – the £2 piece – is not even enough to now buy a copy of the Sunday Times (£2.90) or a latte in a coffee shop (also £2.90). Furthermore, many shops don't want the bother of bagging up and banking bulky and near worthless physical currency. Far easier – Like Brodies Coffee Co in Cardiff City centre – to only take electronic payment (Figure 1). This particular trend has been accelerated by COVID-19 as the public understandably frets about viral contamination of physical currency.

At least a £2 coin is still somewhat useful. Spare a thought though for the smaller denominations which have little discernible function and are irrelevant to most people. According to the Treasury six out of every ten "coppers" minted are used just once before being consigned to a jam jar on the mantelpiece. That can't make sense for anybody.

Origins of the Problem

The blame for the decline in Britain's coinage can be laid at the feet of our generally expansionary macro-economic policy. The problem began at the outbreak of World War One when the Government needed "hard currency" for the war effort. David Lloyd George, the wartime Chancellor of the Exchequer, understood the importance of gold, and believed that possession of bullion was likely to be a key factor in maintaining the ability to purchase war supplies. He summed it up very well; *"Anyone who, from selfish motives of greed or from excessive caution or cowardice, goes out of his way to attempt to withdraw sums of gold and appropriate them to his own use – let it be clearly understood that he is assisting the enemies of his native land, and he is assisting them more effectively probably than if he were to take up arms."*

Within days of the outbreak of war, the Government launched two banknotes – the pound note and the ten shillings note, to replace sovereigns and half sovereigns in people's pockets. The Government also issued war loan (Figure 2). This was all aimed at taking gold from private hands and transferring it to a Government stockpile – all in exchange for pieces of coloured paper. By the summer of 1915, gold had become a rare sight, and by the end of the war almost all the gold that had been circulating in Britain – 732 tonnes – had been withdrawn (about £35bn

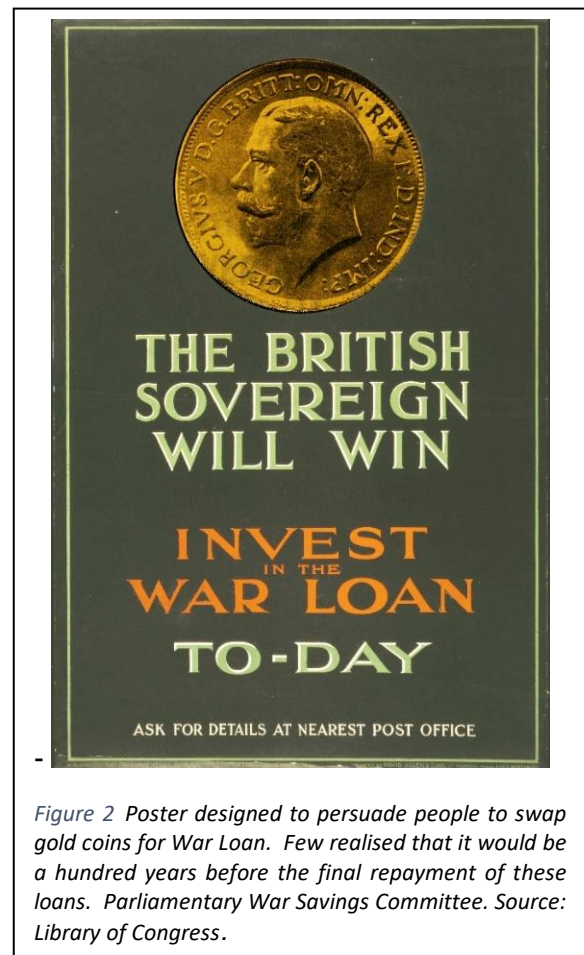


Figure 2 Poster designed to persuade people to swap gold coins for War Loan. Few realised that it would be a hundred years before the final repayment of these loans. Parliamentary War Savings Committee. Source: Library of Congress.

in today's money). Although the Government attempted to go back onto the "gold standard" after the war, the effort failed, and gold has never reappeared in our circulation coins.

Swapping sovereigns for banknotes may have been the right decision from a patriotic standpoint but it was a poor one economically. Over the century since gold disappeared from our pockets there has been a huge reduction in the spending power of the pound. Back in 1920 a pound was worth the same as a sovereign – today you need four hundred pounds to acquire a sovereign. That's a drop of 99.75% in the capital value of a pound versus gold - not far short of a total wipe-out.

Sterling is such a poor investment because unlike gold (which is a finite resource), there is no particular limit on the quantity that circulates. We are seeing the impact of this right now. In the first eight months of 2020 the COVID-19 crisis has forced Britain to issue a record £385 billion of new treasury bonds. Britain's 2020 net new borrowing is set to exceed £400 billion and the figure could be much higher than this if COVID-19 develops a second wave.

Britain's media seems to be shying away from asking the tough questions about this giant quantity of money – preferring instead to fixate about trivia such as the antics of Dominic Cummings. It seems that most of the public is just grateful that swift and decisive action has been taken by Rishi Sunak – and few want to dwell on what the likely long-term consequences will be and how it will all be paid for. The uncomfortable truth is that we have already begun to pay – through a significant dilution in the underlying value of our currency and this process is ongoing, which helps to explain why the gold price in pounds has recently made a new high.

When asked – the government tells the public that the money for the COVID-19 economic stimulus has been "borrowed". While this is technically true it is nonetheless a deceit. There are simply not enough real investors willing to buy British Government bonds at zero interest rates with all the associated uncertainty of COVID and a looming BREXIT fiasco. Ultimately it is only the Bank of England who will buy the bonds in the quantities needed – and it has bought £300 billion so far this year. The snag though is that the money the Bank uses to buy the bonds has been "magicked" into existence through expansion of the Bank's balance sheet. Given that the Bank of England is wholly owned by the British Government, it is easy to see that, in effect, the Treasury is borrowing money from itself.

There is no limit to how much money can be conjured up in this way and it is hugely attractive to politicians that the process continues. The alternative prudent approach would be to raise taxes and cut spending once the pandemic is over - but the economy is too weak for this and in any case, it would be political suicide for Boris Johnson. It is therefore most unlikely that Dominic Cummings will be proposing a new austerity programme to the Cabinet. Provided that inflation stays low, it must seem to Boris that current monetary policy is a "free lunch". But is it really that easy?

The real answer is that creating money from thin air (rather than earning it through trade) is bad in the long term for its spending power. That's why a sovereign today costs 400 times what it did a century ago. Even over shorter periods the effect is clear – in the period since "decimalisation" of our coins inflation has been a cumulative 1,300%. This means that it would take £6.50 of cash to buy the same goods as 50 pence bought when those coins were first minted. Small wonder that the 50 pence piece (the successor coin to the half sovereign) is now so devalued that it has become a kids lunch money "collectable" with designs featuring characters such as Peter Rabbit.

Given the mind-boggling scale of the Rishi Sunak/Bank of England's money creation programme it seems inevitable that the decline in Sterling's purchasing power is set to accelerate. Where does that leave our coinage? Has debasement gone as far as it can go, or will we soon see aluminium or plastic pennies in our small change?

Major Reform of Coinage Needed.

The erosion of spending power of our coinage is so dire that drastic action needs to be taken and coinage reform looks very overdue. So why is nothing much happening? Perhaps it is the growth of “electronic money” that is taking the pressure off reform. Contactless payment is a quicker and easier method of settling a small bill than coins. Electronic money is the only way of buying goods on the internet. So, as more shops put up signs saying “electronic payments only” then less and less people will carry cash. The demise of coins then becomes self-fulfilling.

Furthermore, the Royal Mint’s 100% owner – the Treasury – is doubtless delighted with the move away from cash. Transactions that take place electronically within the banking system can be tracked with ease and make it much more difficult for traders to evade VAT and other taxes.

For the Royal Mint, the demise of the coinage is something of an existential crisis. Its most recent accounts show that manufacture of circulation coins is loss-making and there seems little chance of any upturn in this area. So, the strategy seems to be one of “managed decline” in this most traditional activity. Instead the Mint is pursuing the production of bullion coins and commemorative/collector coins (often sold at a premium). The deluge of commemorative and collectible coins pouring out of the Mint is breath-taking and its extremely hard for even the most avid collector to keep up. Almost none of these coins have any genuine numismatic value and some (i.e. Gruffalo, Dinosaurs, Snowman or Alphabet coins) would make designers of the past turn in their graves. Very wisely, Spink have separated out these modern issues from the main volume of the Standard Catalogue.



What Could the Royal Mint Do?

Perhaps the first thing that the Royal Mint needs to do is to take a step back from its current strategy of marketing ephemera and remember what it is really there for – making circulation coinage for the use of the British people. Coins still have a valuable role to play and it is much easier for most people to keep track of everyday spending with cash than contactless. Coins are especially useful for the young (who are learning to count and save) and the old who perhaps struggle with PINs and the like.

The second thing that the Mint needs to do is to deliver a coinage range that reflects the needs of the people and addresses the accumulated inflation that we have all suffered. This means axing all the small denominations and introducing some new much higher value coins. The 20 pence piece should perhaps be the lowest value coin in a reformed range.

The third area the Royal Mint might look at is the restoration of a “savings role” for coinage. It could do this by re-introducing some intrinsic value into our physical coins. The Mint is very good at manufacturing precious metals coins of the highest quality - but currently restricts them to investors and collectors. Why not bring some gold and silver back into real circulation coins – perhaps a sovereign with a face value of £500? The Mint would be achieving something not done for a century – turning coins back into a savings product. I have some theories about how this could be done at no cost to the Treasury - but that is perhaps the topic for another blog in the future.

*Readers of this blog who want to explore these themes a bit more might care to seek out my new book – just published by Spink; **The Metal in Britain's Coins; Where did it Come From and How did it Get here?***

