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Limited Public Demand For New Dollar Coin or Elimination of Penny

Statement of
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Subcommittee on Consumer Affairs and Coinage
Committee on Banking, Finance, and Urban Affairs
House of Representatives

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LIMITED PUBLIC DEMAND FOR NEW DOLLAR COIN OR ELIMINATION OF PENNY

SUMMARY OF STATEMENT BY
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Australia, Canada, Japan, and the countries of western Europe all now use a coin for retail transactions at the level for which Americans use a paper dollar. While most of these countries have substituted a coin for their paper dollar equivalents in the past 20 years, the U.S. attempt to put the Susan B. Anthony dollar into circulation in 1979 was a failure. In considering legislative proposals to mandate a new dollar coin, and to phase out the penny and half dollar, the House Banking Subcommittee on Consumer Affairs and Coinage asked GAO to evaluate the costs and benefits of the currency revision proposals to the government in light of the Susan B. Anthony dollar and other countries' experiences.

Although the production cost of a dollar coin would be about 6 cents each, more than twice the 2.6 cent production cost of a dollar note, the coin would last about 30 years compared to an average life of 1.4 years for the note. GAO estimates that the government could realize a net annual budgetary savings of $318 million (in present value terms) if it replaced the dollar bill with a more durable dollar coin, and if the coin were widely accepted and used. The savings would result from reducing production and processing costs as well as reducing the need to borrow to finance the debt.

However, based on the Susan B. Anthony experience, lessons learned from foreign governments, and the results of public surveys, GAO believes that widespread acceptance and use of the coin will not be achieved unless Congress and the Administration jointly resolve not only to eliminate the dollar note, but also are firm in their resolve to make the change and be prepared to handle public resistance.

GAO found no comparable economic argument for eliminating either the penny or the half dollar. Both are profitable to the government in that their value exceeds their production and distribution costs. Demand for the penny remains high, and the public is skeptical about the effects, particularly on the poor, of rounding retail cash transactions to the nearest five cents.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the results of our review, requested by this Subcommittee, of the feasibility, expected acceptance, and potential effects on the government of proposed legislation that would significantly change the currency and coins used in our economy.

Three bills have been introduced in Congress--H.R. 1068, H.R. 3761, and S. 814-- which collectively call for

--replacing the 1-dollar note with a new dollar coin, which would be the same size as the Susan B. Anthony coin, but gold in color with a design symbolizing Christopher Columbus;

--phasing out the penny and rounding off cash sales, but not sales paid by check or credit card, to the nearest five cents; and

--phasing out the half dollar coin.

These proposals have earned the support of certain metal production interests, and have attracted interest both because of the prospect of budgetary savings and because Australia, Canada, Japan and the major countries of western Europe have all converted their low denomination currency to coins. My statement today will be brief and will summarize our report that we delivered to the Subcommittee today. We concluded that the government could save over $300 million annually if it replaced the dollar bill with a coin but only if the coin was widely accepted and used. Based on the Susan B. Anthony experience, on lessons learned from foreign governments that have made equivalent conversions, and on public surveys, we think these savings are unlikely to occur unless Congress and the Administration jointly resolve not only to eliminate the dollar note but also stand up to a negative public reaction that should be fully anticipated. We found no compelling reason to eliminate either the penny or half dollar.

My comments today and our report are based on work we began in January and just completed. Our work centered on four areas: potential government savings from the proposed legislation, expected acceptability of the proposals to the private sector and public, reasons the Anthony coin failed, and experiences of foreign governments with similar currency changes.

We adapted a computer model used by the Federal Reserve System to estimate savings, incorporating our own assumptions and data on various economic and cost factors. To evaluate public and private sector acceptability, we interviewed numerous trade and public interest associations, held 12 focus group discussions with the general public and individuals who handle cash as a part of their jobs, and interviewed selected state sales tax officials, Mint contractors, a major cash register manufacturer, various vending machine operators and manufacturers, and several armored car carriers. We contracted with a national survey research firm to assist us in conducting the focus groups.

To obtain information on foreign experiences with similar conversions, we interviewed monetary officials in Canada, France, the Netherlands, the United Kingdom, and West Germany. Additionally, we interviewed embassy officials of Norway, Spain, and Switzerland.

We discussed all four areas of interest with Treasury, Mint, Bureau of Engraving and Printing, and Federal Reserve System officials, and obtained and reviewed pertinent data they had on the subjects.

BACKGROUND

Two units of the Department of the Treasury produce American currency and coins in quantities driven by public demand for the various denominations as conveyed by the banking system. Treasury's Bureau of Engraving and Printing produces paper currency as demanded by the Federal Reserve System. About 45 percent of the 7 billion notes printed this year will be 1-dollar notes. A dollar note costs about 2.6 cents to produce and lasts about 1.4 years in circulation before it has to be replaced.

The U.S. Mint produces coins, which are more durable than paper currency and last about 30 years in circulation. The penny is the highest volume coin produced, accounting for 12.8 billion (or 71 percent) of the 18 billion coins the Mint will produce this year. Only 41 million half dollars will be produced this year, primarily for use in casinos.

According to the Treasury and Mint, the total amount of currency and coin in circulation on December 31, 1989, was $261.4 billion--including 4.9 billion 1-dollar notes and 136.7 billion pennies.

SIGNIFICANT SAVINGS ARE POSSIBLE WITH A DOLLAR COIN

We estimated that over a 30-year period, annual budgetary savings from issuing a dollar coin would be $318 million in present value terms. This figure nets two major savings components offset by certain additional costs.

First, we estimated that the government would reduce its currency production and processing costs by $41.4 million annually, primarily due to the coin's longer life and more convenient processing by the Federal Reserve system. A second major savings component would be the interest avoided from reduced borrowing to finance the Nation's debt that would result from the seigniorage earned with a dollar coin. Seigniorage, or the difference between a coin's face value and its production cost, would be 94 cents for each dollar coin produced, and result in an average interest cost avoidance of $461.1 million annually. It is important to bear in mind that seigniorage, while it does not reduce the size of the current deficit, does reduce the amount of borrowing needed to finance the deficit. Therefore, the reduced borrowing resulting from seigniorage in the current year would reduce deficits in future years.

The total $502.5 million annual savings in coin production and processing and interest avoided from seigniorage would, however, be partially offset by three other components. First, we estimated that initial outlays for additional Mint equipment, a coin research and development program, and a public awareness campaign would average $593,000 a year over our 30-year analysis period. Second, we estimated that the Mint would need an additional $6.6 million of appropriations annually for increased coin production costs. Finally, we estimated that the Federal Reserve would lose an average of $177.1 million annually from interest now earned on Treasury securities held as a result of issuing 1-dollar notes. (Generally, the difference between the face value of notes and the cost of printing them and an allocation of the Fed's operating costs is used to purchase Treasury securities. The interest earned on such securities is credited back to Treasury.) The net effect of subtracting these three additional estimated costs, averaging $184.3 million annually, from the estimated $502.5 million in gross savings, would be an estimated overall annual net budgetary savings to the government of $318.2 million.

MAJOR OBSTACLES TO A DOLLAR COIN

These savings to the government, however, would be dependent on wide acceptance of the dollar coin and substitution of it for the dollar note. Our interviews with trade and public interest associations and focus groups with the general public and people who handle cash as part of their jobs indicated that public reaction would be skeptical. Some, such as armored car carriers and the banking industry, thought that some of the government savings would come at the expense of additional costs being borne by the private sector, particularly coin processing and transportation costs. A universal belief among those we interviewed was that if a dollar coin and a dollar note were both available, people would choose to use the note.

A dollar coin could be imposed on the American public, but this would require that the Congress and the Administration reach and sustain an agreement to eliminate the dollar bill. We think this is unlikely in view of what happened with the Anthony coin and Treasury's lack of enthusiasm to champion another dollar coin that receives its primary support from special interests. We also note that a Gallup Survey last month showed that only 15 percent of the American population would favor abolishing the dollar bill and replacing it with a coin. This is consistent with the results of our focus groups, although these results cannot be quantified nor can they be generalized to a larger universe.

Less formidable obstacles include possible difficulties of producing a coin readily distinguishable from a quarter but still acceptable to the vending industry, the Mint's ability to produce sufficient dollar coins to meet demand over a reasonably short transition period, and obtaining funding for a sophisticated public awareness campaign.

AMERICANS DID NOT ACCEPT THE ANTHONY DOLLAR, BUT ITS INTRODUCTION WAS POORLY MANAGED

Even though Treasury, Mint, and Federal Reserve officials believed the Anthony dollar coin would not successfully co-circulate with the dollar note, no one came forth initially to advocate that the note be eliminated, knowing that such a proposal would not be popular with the public. In 1979, when Treasury let its intention of eliminating the note be known, the then Chairman of this Subcommittee introduced a bill--along with 96 cosponsors--to prevent the elimination of the 1-dollar note. Treasury heeded this message.

In addition, the Susan B. Anthony coin failed because it looked too much like a quarter and lacked an effective promotion campaign.

We concluded that the Susan B. Anthony experience is not conclusive proof that a dollar coin cannot be successful but does show a dollar coin will not succeed if its introduction is not properly managed. Elements that we consider essential include:

--the dollar note must be eliminated and Congress and the Administration alike have to be firm in their resolve to make the change and be prepared to handle public resistance;

--a reasonably short transition period must be allowed;

--the coin must be clearly distinguishable from other coins and acceptable to the vending industry; and

--a sophisticated public awareness program is needed to lessen public resistance to change.

OTHER COUNTRIES HAVE HAD SUCCESSFUL CONVERSIONS

Australia, Canada, Japan, and the major western countries in Europe now use a coin for cash transactions at the level for which Americans use the paper dollar. We contacted six of these countries. Officials from all six said their conversion had faced public opposition and noted that elimination of the paper equivalent was essential. They said that the government must expect public resistance and be strong in its determination to convert. However, these countries differ from the United States in that they characteristically have parliamentary forms of government, making it easier to impose unpopular changes; have central banking systems which gives the government more control over the banks; and produce currency and coins on a smaller scale than the United States. Treasury, Mint, and Bureau officials agreed that because of these differences, it would be much harder for the United States to successfully substitute a dollar coin for the note.

NO COMPELLING REASON TO ELIMINATE PENNY OR HALF DOLLAR

Although the penny has fallen to about one seventh of its original 1792 value due to inflation and is considered by some to be a nuisance, demand for it is strong. Consumers believe that rounding to the nearest five cents would cause merchants to raise prices and would disadvantage consumers, particularly the poor, who are most dependent on small cash transactions. The possible benefits claimed from rounding, such as faster cash transactions and lower handling charges for banks and merchants, have to be weighed against its disadvantages, such as bookkeeping problems, the cost of reprogramming automatic cash registers, and a loss of donations to charities. Further, because pennies cost about seven-tenths of a cent to produce and so many are minted each year, their production reduces Treasury's need to borrow by almost $4 million annually.

Countries we contacted that did eliminate their low denomination coins did so when unit production costs exceeded the coins' face values. Other countries chose to continue production of low denomination coins costing more than their face value, believing the public would not approve of eliminating the coins.

Although demand for the half dollar is relatively much lower and public feelings about it are muted, its production reduces Treasury's need to borrow by almost $2 million annually.

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Mr. Chairman, that concludes my prepared remarks. My colleagues and I would be pleased to respond to questions.