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Highlights

Highlights of GAO-13-164T, a testimony before the Subcommittee on Domestic Monetary Policy and Technology, Committee on Financial Services, House of Representatives

November 29, 2012

U.S. COINS

Benefits and Considerations for Replacing the $1 Note with a $1 Coin

Why GAO Did This Study

Since coins are more durable than notes and do not need replacement as often, many countries have replaced lower-denomination notes with coins to obtain a financial benefit, among other reasons. Six times over the past 22 years, GAO has reported that replacing the $1 note with a $1 coin would provide a net benefit to the federal government of hundreds of millions of dollars annually.

This testimony provides information on what GAO's most recent work in 2011 and 2012 found regarding (1) the net benefit to the government of replacing the $1 note with a $1 coin, (2) stakeholder views on considerations for the private sector and the public in making such a replacement, and (3) the experiences of other countries in replacing small-denomination notes with coins. This testimony is based on previous GAO reports. To perform that work, GAO constructed an economic model to assess the net benefit to the government. GAO also interviewed officials from the Federal Reserve and Treasury Department, currency experts, officials from Canada and the United Kingdom, and representatives of U.S. industries that could be affected by currency changes.

What GAO Recommends

GAO has recommended in prior work that Congress replace the $1 note with a $1 coin. GAO continues to believe that replacing the $1 note with a coin is likely to provide a financial benefit to the federal government if the note is eliminated and negative public reaction is effectively managed through stakeholder outreach and public education.

View GAO-13-164T. For more information, contact Lorelei St.James at (202) 512-2834 or stjamesl@gao.gov.

What GAO Found

GAO reported in February 2012 that replacing $1 notes with $1 coins could potentially provide $4.4 billion in net benefits to the federal government over 30 years. The overall net benefit was due solely to increased *seigniorage* and not to reduced production costs. *Seigniorage* is the difference between the cost of producing coins or notes and their face value; it reduces government borrowing and interest costs, resulting in a financial benefit to the government. GAO's estimate takes into account processing and production changes that occurred in 2011, including the Federal Reserve's use of new equipment to determine the quality and authenticity of notes, which has increased the expected life of the note thereby reducing the costs of circulating a note over 30 years. (The $1 note is expected to last 4.7 years and the $1 coin 30 years.) Like all estimates, there are uncertainties surrounding GAO's estimate, especially since the costs of the replacement occur in the first several years and can be estimated with more certainty than the benefits, which are less certain because they occur further in the future. Moreover, changes to the inputs and assumptions GAO used in the estimate could significantly increase or decrease the results. For example, if the public relies more heavily on electronic payments in the future, the demand for cash could be lower than GAO estimated and, as a result, the net benefit would be lower.

In March 2011, GAO identified potential shorter- and longer-term costs to the private sector that could result from the replacement of the $1 note with a $1 coin. Industry stakeholders indicated that they would initially incur costs to modify equipment and add storage and that later their costs to process and transport coins would increase. However, others, such as some transit agencies, have already made the transition to accept $1 coins and would not incur such costs. In addition, for such a replacement to be successful, the $1 coin would have to be widely accepted and used by the public. Nationwide opinion polls over the last decade have indicated lack of public acceptance of the $1 coin. Efforts to increase the circulation and public acceptance of the $1 coins have not succeeded, in part, because the $1 note has remained in circulation.

Over the last 48 years, many countries, including Canada and the United Kingdom, have replaced low denomination notes with coins because of expected cost savings, among other reasons. The Canadian government, for example, saved $450 million (Canadian) over 5 years by converting to the $1 coin. Canada and the United Kingdom found that stopping production of the note combined with stakeholder outreach and public education were important to overcome public resistance, which dissipated within a few years after transitioning to the low denomination coins.