M E M O R A N D U M

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: June 6, 2014

Subject: June 11, 2014, Subcommittee on Monetary Policy and Trade Hearing Entitled "The Production and Circulation of Coins and Currency"

The Subcommittee on Monetary Policy and Trade will hold a hearing entitled "The Production and Circulation of Coins and Currency" at 11:30 a.m. on Wednesday, June 11, 2014, in room 2128 of the Rayburn House Office Building. This will be a one-panel hearing and will include the following witnesses:

- Larry R. Felix, Director, Bureau of Engraving and Printing, Department of Treasury
- Richard A. Peterson, Deputy Director, United States Mint, Department of Treasury
- Lorelei St. James, Senior Executive and Director of Physical Infrastructure issues, Government Accountability Office
- Andrew Mills, Director of Circulating Coin, The Royal Mint, United Kingdom

Background

The Federal Reserve (Fed) issues and circulates the nation's banknotes and circulates the nation's coins. Banknotes are printed for the Fed by the Treasury Department's Bureau of Engraving and Printing (BEP) at a cost negotiated between the two entities; coins are produced by Treasury's United States Mint (Mint) and sold to the Fed at face value, and then circulated by the Fed. The reason for the difference is a byproduct of the history of US-issued money.

The circulation of coins and currency now is centralized in the Fed's Cash Product Office (CPO), which is charged with supplying adequate amounts of coin and currency. The CPO acts through district Reserve banks, which in turn contract with armored car carriers to distribute and store coins and currency. The CPO's cash services division is responsible for ensuring continued confidence in US currency, which is does through programs to remove worn or otherwise unfit bills from circulation and by updating the design and security features of higher-value notes (except for the $1) on a regular basis to foil counterfeiters.

In an extensive study of the Fed's practices for handling and circulating coins published last fall, the Government Accountability Office (GAO) found that the Fed's CPO manages coin and currency inventory between broad ranges that are aimed more at ensuring adequacy of supply than at pure efficiency. In the same study, GAO suggested a number of methods the Fed could take to improve its management of the inventory and its predictive capability.

As part of the study, the GAO said the Fed's believes that the supply of cash in the economy continues to grow in spite of the increasing diversity of payment methods (credit and debit cards and online payments) and probably will not decrease much in the near term even as new forms of payment technology mature and penetrate the market. This hearing will examine that study.

This hearing will also examine how, since at least 2006, the rising costs of commodity metals have made it significantly more expensive for the U.S. Mint to produce its coins; this cost is most noticeable in the cost to produce one-cent and five-cent coins. The U.S. Mint has reported that at points it cost about 2.4 cents to produce each penny and 11.2 cents to produce each nickel, although those costs have receded somewhat, to about 1.8 and 9.5 cents in the Mint's most recent annual report due to production efficiencies. To address these rising costs, Rep. Stivers introduced a pair of bills in the 112th Congress that would have changed the metallic content of one-cent and five-cent coins from the current blank's content—copper-plated zinc blanks for the penny and a monolithic copper-nickel blank for the nickel—to steel blanks plated to resemble the current coins. In the 113th Congress, he combined the two into HR 1719, the "Cents and Sensibility Act," which mandates that all US circulating coins be made of plated steel.

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