



STATEMENT OF

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ON THE

“FUTURE OF MONEY: DOLLARS AND SENSE”

BEFORE THE

**HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON
DOMESTIC MONETARY POLICY AND TECHNOLOGY**

UNITED STATES HOUSE OF REPRESENTATIVES

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Mr. Chairman and Members of the Committee, my name is Mark W. Weller and I am Executive Director of Americans for Common Cents. Thank you for inviting our organization to appear at this hearing. I am pleased to submit testimony today concerning the one-cent coin, the use of alternative metals in our coins, and the importance of the penny to America's economy and culture.

Americans for Common Cents (ACC) was established in 1990 to conduct research and provide information to Congress and the Executive Branch on the need to retain the penny. Our organization is broad-based and comprised of, and endorsed by, many of the nation's leading coin and numismatic organizations, charitable organizations that benefit from penny donations, and companies involved in the manufacturing and transport of the penny.

It continues to be prudent to look at ways to make our coins less expensively, and we applaud this subcommittee's work in 2010 directing the Department of Treasury to review the metallic content of our coins. However, in doing so, we need to ensure that Congressional and Mint discussions about alternative metals not become the pretext for an ill-considered decision to remove the penny from circulation. There are three key points I want to share with you today.

1. ACC does not have a position on coin content; our focus is directed solely to the broader fact that consumers benefit with a low denomination coin. The penny is important to the economy. Working families benefit from the penny and America's many charitable organizations thrive on it.

2. Steel is a feasible coin material that has been used successfully in Canada and other countries. We are anxious to see what the Treasury recommends in its report to Congress regarding not just penny composition but also the composition of other circulating coins.

3. A focus on metal content alone ignores the Mint's substantial overhead as well as cost accounting changes made by the Mint that inflate the reported cost of the penny. Metal content is only one component in the rising cost of our circulating coins. In fact, metals actually have become less of a factor as prices have lowered since the 2006 market price highs. Last year, the Mint reallocated costs based on the number of coins produced rather than the traditional accounting of Mint labor costs (based on direct hours). This accounting change unfairly double charges portions of the penny fabrication process since the Mint receives a ready-to-strike blank from the private sector and only a small fraction of the operations on the penny are performed by the Mint.

The findings outlined above, and discussed in more detail below, suggest that Congress certainly is on the right track looking for ways to make our coins less expensively. However, in addition to coin composition, there needs to be some creative thinking about Mint overhead costs and how they are allocated, especially as the volume of circulating coins decreases and overhead associated with discontinued dollar coin production is spread across other circulating coins (even as the dollar coin is not being produced).

CONSUMERS BENEFIT WITH A PENNY, REGARDLESS OF ITS CONTENT

Faith in the strength of the economy and the nation is tied to perceptions about the currency system, and public acceptance is an important criterion for evaluating currency and coinage changes. As ACC has mentioned in previous testimony, the penny has become embroidered into the social and commercial fabric of our society. Any benefits associated with possible cost savings from adoption of alternative metals should not lead to consideration of penny elimination. Our current involvement with the penny has led us to three conclusions about consumer benefits from a low domination coin that I want to share with you.

1. The penny serves as a hedge against inflation. Eliminating the penny will have an impact on inflation, both real and perceived. Even a small increase in inflation mounts to considerable sums since virtually all government outlays (e.g. Social Security, welfare programs, interest on the public debt) and many private sector costs (e.g. wages) are tied, either formally or informally, to the Consumer Price Index.

In 2006, the *Wall Street Journal* editorialized that eliminating the penny would “wave a symbolic white flag before the forces of inflation.” They likened taking the penny out of circulation to actions one usually associates with nations like Argentina, Bolivia, and Mexico that periodically degrade their peso currencies and create hyper inflation.

Under the current fragile economic climate, the last thing Congress should do is increase inflationary pressure.

2. In practice, price rounding cannot be fairly done. Consumers will be hit with a "rounding tax" without the penny. The claim that rounding will have no appreciable effect on the consumer is predicated on the notion that there is an equal 10% probability of purchase prices ending in a particular digit. In fact, evidence suggests that the equal probability assumption is false.

Over three-quarters of Americans (77 percent) are concerned merchants would raise prices without the penny. And they're probably right. Economists agree on one principle: businesses are guided by a desire to maximize profits. There is no obvious incentive for businesses to set prices in a way that will lead to rounding down.

3. Rounding hurts consumers and will disproportionately affect those who can least afford it. Millions of transactions are conducted each day in the U.S. economy, and with 26% of Americans either not having savings or checking accounts or relying on payday lending services, the amount of cash transactions each day is simply not dismissible.

Federal Reserve studies have shown that people with relatively low incomes (particularly the young, elderly, and minorities) use cash more frequently than individuals with higher incomes.

Since only cash transactions will be subject to rounding, any move to eliminate the penny would be regressive and hurt "unbanked" Americans who have no other option and lack the means to make non-cash transactions.

STEEL IS A FEASIBLE COIN MATERIAL

Multi-ply plated steel compositions have been successfully used by the Royal Canadian Mint (RCM) to manufacture circulating coinage for Canada, as well as for more than two dozen nations, for over a decade. In a February 2012 study, Navigant Consulting examined the raw material cost savings the Mint could achieve through substituting the compositions currently in use with the steel coin compositions successfully used in Canada.¹

Key study findings include:

- Adoption of multi-ply plated steel for the five-cent, dime and quarter dollars will reduce the per-unit raw material costs of these coins by 89% (five-cent), 84% (dime) and 86% (quarter dollar), based on recent metals prices.
- Applied to historic Mint production of these denominations, raw material savings alone on an annual basis range from \$183.8 million to \$207.5 million.²

Based on these findings, Congress and the Mint should consider changing the composition of its vended coins to multi-ply plated steel. By changing the composition of the U.S. nickel, dime, and quarter-dollar coins from copper-nickel alloy to multi-ply plated steel, the U.S. Mint would incur significantly lower raw material costs approximating \$200 million per year based on average production levels.

The Navigant study did not examine potential savings from a steel penny. With current Mint overhead calculations, discussed in more detail below, there did not appear to be adequate material cost savings.

MINT ACCOUNTING AND METAL COSTS - TWO SIDES OF THE SAME COIN

Between 1982 and 2006, seigniorage from the penny earned the Treasury almost \$1 billion. Beginning in late 2006, there was a super surge in world wide metals prices caused by market speculation, increased global demand, and supply disruptions that increased penny production costs. Beginning in 2007 and since that time, the price of the primary penny metal, zinc, has dropped by over 50 percent. So while metal prices have stabilized, the reported cost of the penny and nickel has increased dramatically. Why is this so? The Mint has spread costs over a smaller number of circulating coins, and an accounting change by the Mint in 2011 exacerbated the Mint's cost allocation for the penny.

Here's the key point. Metal prices have decreased from their highs of six years ago, and penny production and transport costs have remained relatively constant. But low coin demand, and the allocation of Mint costs across a smaller number of circulating coins, has negatively impacted the penny's reported unit production cost.

¹ Bosco R, Davis K. Potential Benefits To The United States Mint From Changing The Metallic Content Of Its Vended Coins To Multi-Ply Plated Steel. *Navigant Consulting*. 2012. Available at: http://www.pennies.org/images/pdfs/Navigant_Report_-_February_6_2012.pdf

² Detailed cost data for the Mint's current operations is not available and does not permit an evaluation of net cost savings.

The costs of penny metal and per unit fabrication costs have remained relatively constant recently.

The Mint purchases ready-to-strike blanks from an outside supplier. According to a second Navigant Consulting report and testimony shared with this Subcommittee in April 2012, in fiscal year (FY) 2011, the average purchase price paid by the Mint for a ready to strike blank was 1.1 cents.³ Press reports note this number has remained relatively constant in recent years.

The Mint shipped 4.29 billion pennies during FY 2011 at a reported cost of 2.4 cents per coin (1.1 cent per finished coin blank plus 1.3 cent per coin minting cost). Since 2006 when the reported seigniorage for the penny was positive, these Mint costs, apart from the cost of the finished blank, have increased dramatically. Total penny costs were reported at 1.2 cents per coin in 2006; 1.42 cents in 2008, 1.62 in 2009, and 1.79 cents in 2010.

Mint costs have remained constant in spite of the drop in circulating coin demand.

Mint coin production reports show that the total coins produced dropped from 10.1 billion coins in 2008 to 3.5 billion coins in 2009. While production numbers for total coins produced edged up to 6.4 billion coins in calendar 2010 and around 8 billion coins in 2011 and 2012 respectively, current coin production is down 20 percent from four years ago. Consequently, there is a fixed amount of Mint overhead that is being allocated among a smaller number of coins.

Again, the April 2012 Navigant report detailed these Mint costs.

New Mint accounting rules exacerbate the overhead issue.

On July 16, 1996, the GAO testified before the Domestic and International Monetary Policy Subcommittee regarding the penny's cost. In a three page letter to the GAO, then-Mint Director Diehl strongly objected to a GAO accounting "scenario" that spread Mint costs based on the number of coins produced rather than labor cost, calling the GAO methodology "faulty" and incorrect.

Director Diehl was particularly concerned that the GAO incorrectly added almost \$10 million to Mint overhead thereby inflating the cost of the penny. The Mint noted that the GAO's proposed reallocation of cost (based on the number of coins produced rather than labor cost) double charged portions of the penny fabrication process. That is, the GAO assigned penny contractor costs to make the coins for the Mint and then also added significant parts of Mint non-penny costs. It is important to repeat again that the Mint receives the penny in a form ready to be struck directly into legal tender. For the other denominations, the Mint begins with raw metal strip.

It is unfair to apply all the Mint's overhead based on volume when only a small fraction of the operations on the penny are performed by the Mint. This accounting change is particularly troublesome since the penny has accounted for 60 to 70 percent of Mint coin production historically.

³ Bosco R. Davis K. Impact Of Eliminating The Penny On The United States Mint's Costs And Profit in Fiscal Year 2011. *Navigant Consulting*. 2012. Available at: http://www.pennies.org/images/pdfs/Navigant_Report_-_April_12_2012.pdf

ADDITIONAL KEY POINTS

Before concluding, it is important to address a couple of questions that have been raised concerning the penny and, more broadly, different metal content for the nickel, dime and quarter.

1. How do you address vending industry concerns? The U.S. vending industry has raised concerns about the potential impact of any changes to coin or currency. These concerns are not unlike those mentioned by the Canadian vending industry early in the planned adoption of Multi-ply, plated steel alloy for Canada's \$1 and \$2 coins.⁴ However, the Royal Canadian Mint worked closely with the vending industry to relieve those concerns.⁵

The key factors in alleviating vending industry concerns appear to be good communication between the RCM and the Canadian vending industry and sufficient time for the transition, including providing coin samples for testing and equipment calibration.

"Throughout 2010 CAMA represented our industry in frequent dialogue with The Royal Canadian Mint. Questions were raised regarding potential security issues, and consistent and reliable reading of the new multi-ply plated steel coins by coin mechanisms across the country. Release of the new one and two dollar coins was originally scheduled for late 2010 and then the first quarter of 2011. We are pleased to report that The Mint heard the concerns raised, and has confirmed their intention to allow the industry ample time to calibrate their machines prior to the launch of the coins, which is now expected to be early in 2012.

While no one likes the monetary costs associated with this initiative, it should be recognized that it is not unlike other business expense related to technological upgrades. In fact, on the subject of coinage, Canada has fared well with only two significant changes in the past 40 years, while other countries have experienced changes with far greater frequency.

In closing, we are particularly gratified to see senior management at The Mint encouraging stakeholders to "communicate directly with CAMA, as they have been working closely with us on this important initiative".⁶

The Canadian vending industry response to the metal coin change is applicable to the U.S. Like the RCM, the U.S. Mint could provide ample time for the vending industry and other stakeholders including transit, telephone, parking, casinos and others, to test product and calibrate their machines. With a sufficient implementation schedule, CAMA cooperated with the coin alloy change and viewed any monetary costs as they would any other technology upgrade business expense.

According to CANA President Kim Lockie, "The Royal Canadian Mint sought the input of CAMA and will ensure there has been sufficient time for testing followed by the necessary upgrade to coin acceptors

⁴ Canadian Vending Industry Upset with Coin Alloy Changes, *Coin World*, April 19, 2010, p. 68.

⁵ Modernizing Canada's Currency: Upcoming Changes to \$1 and \$2 Coins for CANA Members, Royal Canadian Mint Presentation, Updated October 5, 2010, pages 10 and 20.

⁶ Canadian Automatic Merchandising Association Newsletter to members, February 2011, found at <http://www.vending-cama.com/INDUSTRY/notices-Feb07-2011.asp>

by industry members.” CAMA is satisfied with how the Royal Canadian Mint is working with them on timelines for the new \$1 and \$2 coins, which will hit the streets in early 2012.⁷

2. If Canada ended penny production, why shouldn't the US? While the Canadian situation holds some similarity given the budget constraints faced by the national government, our US situation is different in several ways. First, since Congress has requested a Mint study on saving money through alternative metals, it is prudent to review the Treasury recommendations as part of a broader coinage reform of our circulating coins. Second, and related to the first point, the Canadian Finance Minister acted to stop penny production by executive fiat. Issues about the mix of coin and currency we use should not be made unilaterally without Congressional direction. The Canadians forced the dollar coin on the public by pulling the paper dollar. Such an action would meet widespread opposition in the US. Third, unlike Canada, there is still widespread support for the penny in the US. Over two-thirds of the public wants to keep the penny according to a March 2012 Opinion Research Corporation poll commissioned by ACC.

Apart from process differences, the financial impact from estimated savings in Canada is different than in the US. Finance Canada estimates an \$11 million savings by stopping penny production. In a December 2010 Report of the Standing Senate Committee on National Finance, which served as the basis of the Economic Action Plan for 2012, the elimination of the penny was estimated to save \$5 million per year. This estimate was based on a cost of 1.5 cents that Finance Canada pays and a production run of a billion pennies annually, spending \$15 million and receiving \$10 million (the face value of each penny).

In contrast, the US Mint shipped 4.29 billion pennies (valued at \$42.9 million) during FY 2011 at a reported cost of \$103.1 million (2.4 cents per coin). But a April 2012 Navigant Consulting study found Mint fabrication and distribution costs include fixed components that will continue to be incurred if the Mint eliminates the penny. Navigant estimates this fixed component at \$13 million in FY 2011. Plus, there is \$17.7 million in Mint overhead allocated to the penny that would have to be absorbed by the remaining denominations of circulating coins without the penny.

Also, under current Mint accounting, the nickel costs eleven cents to manufacture. In response to a 2006 question from Congresswoman Maloney, the Mint put forward a scenario where nickel production doubled without the penny. It's hard to see how you save money by making more nickels that are losing more money. The data bears this out. Applied to FY 2011 cost and shipment data, the Mint would have incurred an additional net cost of \$40.4 million without the penny last year.

Navigant concludes that with existing fixed costs, and the nickel substitution scenario outlined by the Mint, eliminating the penny would likely result in increased net costs to the Mint of \$10.9 million, relative to the current state.

3. Isn't public support for the penny dropping? To the contrary, national polling over the past two decades has consistently shown that between two-thirds and three-fourths of Americans support keeping the cent in circulation.

Most recently, a March 2012 Opinion Research poll pegged public support for the penny at two-thirds or 67 percent of Americans. In 2006 Coinstar National Currency Poll also found that two-thirds of Americans want to keep the penny as legal tender, virtually the same percentage (65 percent) as in 2001.

⁷ Canadian Vending Magazine, Spring 2011, <http://www.canadianvending.com/content/view/2557/136/>

Thus, polls conducted by Americans for Common Cents and independent polls⁸ such as those by Coinstar, USA Today, and CNN/Time never have shown the level of public support for the penny below 60 percent.

4. So few people use cash these days, would the impact of eliminating the penny will be noticeable?

Many local fundraising drives are fueled by pennies. So too are canister collections by charitable organizations such as the Ronald McDonald House, Muscular Dystrophy Association, the Taco Bell Foundation and Salvation Army, among others, who rely heavily on donations from the collection of pennies. These collections prove the penny's value as money.

America's charities are the foundation of our nation's social safety net and help to ensure that people in need get the help they deserve. As our economy declined in the last two years, contributions to charities have dramatically decreased. Knowing this, can there be any doubt that penny drives and other innovative ideas are critical to all charities.

One example from last 2009 is particularly telling. On the 200th anniversary of Abraham Lincoln's birth, the Leukemia & Lymphoma Society celebrated in New York the 1.5 billionth (\$150 million) penny collected by school students across the country for the "Pennies for Patients" program. The Leukemia & Lymphoma Society certainly recognizes that every penny literally counts. Indeed, the \$150 million collected in their Pennies for Patients program proves that pennies do add up to significant sums. With every life saved from blood cancer, their annual penny drives debunk the nay-sayers, proving the penny's value.

SUMMARY

Today, countries around the world are concerned about the cost of producing quality circulation coins, especially when the cost to produce their coins approaches the face value of the coin. The United States is not alone as countries look at alternative metals and ways to make their coins less expensively. As the Mint and Congress explore options to make coins more cost effectively, several factors should be paramount.

Steel is a feasible coin material that has been used successfully in Canada and other countries. Adoption of multi-ply plated steel for the five-cent, dime and quarter dollars will reduce the per-unit raw material costs of these coins by 89% (five-cent), 84% (dime) and 86% (quarter dollar). Based on recent metals prices, the Mint could save up to \$200 million annually by adopting multi-ply plated steel coins.

Metal content is only one component in the rising cost of our circulating coins. In fact, metals actually have become less of a factor as prices have lowered since the 2006 market price highs. A focus on metal content alone ignores the Mint's substantial overhead as well as cost accounting changes made by the Mint that inflate the reported cost of the penny and the nickel.

We need to ensure that Congressional and Mint discussions about alternative metals not become the pretext for an ill-considered decision to remove the penny from circulation. The alternative to the penny, rounding transactions to the 5-cent coin, is bad for consumers and our economy. Under the current

⁸ A Gallup Organization poll in 1990 and Opinion Research Corporation surveys conducted in 1995, 1996, and 2001 show Americans are persuaded by several factors, such as antipathy toward price rounding. And a 1992 CNN/Time survey conducted by Yankelovich found 74 percent of Americans support keeping the penny in circulation.

economic climate, elimination of the penny would automatically increase inflationary impacts during a period of recessionary pressure.

In addition, Americans overwhelmingly want to keep the penny; 67 percent of Americans support keeping the coin. And finally, no one has explained how we would replace millions of dollars raised by penny charitable drives every year if we didn't have the penny. Notable charities like Ronald McDonald House Charities and the Leukemia & Lymphoma Society rely significantly on small, yet critical, penny contributions.

Government resources and credibility should be devoted to making our coins more cost effectively, not pursuing initiatives that will cause considerable adverse effects.

In these uncertain economic times, the last thing consumers need is price rounding, inflation or reduced charitable assistance. And for those merchants or Americans who don't want their pennies, send them our way. They will be put to good use supporting charities conducting blood cancer research, local food banks, reading programs, and services that have contributed to groundbreaking community programs. The penny is wanted, needed, and appreciated by thousands of organizations and millions of people around the nation.

We look forward to working with Congress and the US Mint during these important discussions to ensure that the one-cent coin is retained.