

TESTIMONY OF  
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ON THE  
“COIN MODERNIZATION AND TAXPAYER SAVINGS ACT OF 2008”

BEFORE

THE SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY  
POLICY, TRADE AND TECHNOLOGY

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 11, 2008

Chairman Gutierrez, Ranking Member Paul, Members of the Subcommittee, thank you for inviting me here today. I welcome the opportunity to testify on the “Coin Modernization and Taxpayer Savings Act of 2008,” H.R. 5512. It is based, in part, on the recommendations of the Treasury Department’s proposal, introduced as H.R. 3330, to reduce the cost of coinage. You are to be commended, Chairman Gutierrez, for your leadership on this matter and for providing an opportunity here today for open, public debate on what the right course of action should be.

Mr. Chairman, as I have met with you and many of your colleagues on this subcommittee to discuss the spiraling costs of our Nation’s coinage, I have heard only support and encouragement to come forward with a solution to address this problem. Portions of this legislation would take a major step toward achieving such a solution. I support it with two specific objections which, if addressed, will ensure that the legislation will not delay or offset the significant savings to our taxpayers that this measure otherwise promises.

Section 3 of H.R. 5512 assigns the responsibility for determining the metal content (“weight and composition”) of all circulating coinage – the one-cent, 5-cent, dime, quarter-dollar, half-dollar and dollar coins to the Secretary of Treasury. This is the approach recommended by the Treasury Department to fairly and efficiently manage the highly technical evaluations of alternative metals using the public process and public protections afforded by the Administrative

Procedures Act. All other statutory provisions applicable to coinage – denominations, size, required inscriptions and other factors are unaffected. This authority should be employed to anticipate and prepare for a timely change in materials to avoid unnecessary costs borne by the taxpayers. Under current law, we have evaluated alternatives from a cost standpoint, but without more express permission from Congress, we are reluctant to proceed unilaterally to fully evaluate and test alternatives in the production setting and marketplace.

The Department of the Treasury is requesting the ability to determine the metal content of the Nation’s coinage because it would ultimately result in significant taxpayer savings by providing the Department with the flexibility to respond to changing market conditions through an open, fair and deliberative process.

Thus, the Department and the United States Mint can support the “Coin Modernization and Taxpayer Savings Act of 2008,” but only if two specific objections—that I will mention throughout my testimony—are removed or addressed.

### Saving Taxpayers Money

Producing lower denomination coins under their face value is now a common problem experienced by mints worldwide, exacerbated in the United States by the higher volume of coins we produce for the American economy. The current situation is unprecedented. Never before in our Nation’s history has the

Government spent more money to mint and issue a coin than the coin's legal tender value. The rising prices of nickel, copper, and zinc have dramatically increased the costs of producing our Nation's circulating coinage. The problem we face today is clear, and it is not going away unless we act: some of the coin alloys specified in our current laws are no longer economical for Americans. For instance, in Fiscal Year 2007, it cost 1.67 cents to make each one-cent coin and 9.53 cents to make each five-cent coin. As a result, with each new penny and nickel we issue, we also increase the national debt by almost as much as the coin is worth, and these losses are rapidly mounting. Current law forces the United States Mint to make coins at a loss to the taxpayer.

However, the Department of the Treasury has decades of proven success in determining the materials for our highest and lowest coin denominations, and now is simply proposing to save taxpayers hundreds of millions of dollars per year by determining the materials for the other coin denominations. We anticipate that, by changing the compositions of just the 5-cent and one-cent coins to less expensive materials, we can save the Nation up to \$30 million for the one-cent coin and up to \$70 million for the 5-cent coin. That's a cumulative annual savings of \$100 million without compromising the utility of these coins.

## Saves Taxpayer Money Through Increased Flexibility

Our first major objection to H.R. 5512 relates to the provision mandating five years of consecutive losses (as stated in Section 3(c)(1)) because it deprives the United States Mint of needed flexibility to act as quickly as possible to save the taxpayer money.

H.R. 5512 assures that a significant portion of the \$782 million in seigniorage we returned to the taxpayer in FY 2007 would be put at risk over time as we helplessly watch our seigniorage evaporate and then become negative for five years before the Secretary can change coinage materials. This is because section 3(c)(1) prohibits a change in coinage material until the taxpayers have sustained five consecutive years of losses from the respective coin denomination. This guarantees that the taxpayers must suffer losses, when the better course of action is to anticipate and prevent such adverse taxpayer consequences.

Similarly, the five-year loss test in H.R. 5512 also prevents consideration of the benefits of making changes to the materials of all the coins commonly used in vending machines and other coin-operated devices. While our present problem and need is to address only the penny and nickel, the intent of the Treasury proposal is to enable the United States Mint to change the materials used for all denominations, when necessary. That means taxpayers could see a potential

savings on all denominations. It would also minimize the potential impact on the vending and coin handling industries. The problem with the bill we are discussing today, H.R. 5512, is that it addresses one denomination at a time based on the volatility of metal prices. The vending and coin handling industries would potentially have to repeatedly face costly changes denomination by denomination.

The United States Mint is required by law to produce coinage to meet the needs of commerce. In this vein, we need to avoid the inclination to focus on the one-cent and five-cent coins just because their production costs exceed their face values. Rather, we need to consider the relationship of new materials for all of our coins. Regardless of the relationship between production costs and face value, any change in production processes or materials that lowers the cost to produce coinage saves the taxpayer money.

Finally, the five-year loss test in the bill contradicts the view that the Government should take prompt and decisive action to prevent avoidable losses to the taxpayer, rather than sustain years of unrecoverable expenses. The five-year rule significantly restricts the United States Mint's ability to take advantage of advancements in material technologies to benefit the American taxpayer. We, therefore, cannot support this provision and, accordingly, recommend that you remove section 3(c)(1) from the bill.

Any change that lowers the cost to produce coinage preserves seigniorage and saves the taxpayer money. We need that flexibility to respond whenever appropriate. Thus, delegating authority to the Department of the Treasury without a prescribed period of sustained losses solves the current dilemma of inability to respond to changing metal prices.

Our second objection to H.R. 5512 is the requirement in section 4 that mandates the production of one-cent coins made primarily of steel 180 days after the enactment of this legislation, without first obtaining any public input. It restricts the United States Mint's flexibility to ascertain and employ the most cost-effective material and production process timeframe.

Although plated steel appears to have merit as a viable low-cost alternative, this has not been proven. Mandating a primarily steel penny eliminates any consideration of other alternatives that may prove more cost effective, either now or in the near future. Furthermore, requiring the use of steel exposes the United States Mint to the same vulnerability of volatile metal prices that we currently experience.

The Canadian example of a similar coin cited in H.R. 5512 does not reveal that Canada has the flexibility to change back and forth between orders for its traditional zinc penny and the steel penny based on the prevailing cost and availability of these metals. This flexibility, interchangeability, and co-circulation

are all essential factors to manage costs and to be able to reliably supply the necessary volumes this denomination requires.

However, if a steel penny is mandated, there are practical considerations that make this mandate imprudent. Because steel is significantly harder than zinc, die life is a major factor that will determine whether appreciable cost reductions can even be achieved. It would make little sense to reduce the cost of materials used in the penny, only to have the manufacturing costs of producing replacement dies for the penny increase dramatically with no ultimate benefit to the taxpayer.

The United States Mint anticipates a reasonable timeframe to make these critical decisions to be 18 to 24 months to properly implement this mandate and do our part to bring a penny made primarily of steel to the marketplace. This includes engaging in an open process to gather suggestions from the public that should take about two months. We estimate needing three to five months to be able to determine specifications for a cost effective copper-plated steel penny blank that has a potential of reducing the cost of that denomination. Potential vendors supplying penny blanks to the United States Mint will need up to a year and a half or more to make the arrangements to procure steel feedstock and make investments in machinery necessary to be fully capable of producing penny blanks at the capacity required by the United States Mint. An open, competitive procurement process can take about two months to complete. If the change is

required within 180 days, production of pennies will be limited to the capacity level of the blanks supplier at that time. This reduced production capacity will potentially result in a coin shortage.

Prescription of exact material and production timeframe denies flexibility, interchangeability and co-circulation, which are all essential to the United States Mint's maximizing cost savings for the taxpayer. Therefore, we cannot support the provision that summarily mandates conversion to a steel-plated penny and, accordingly, recommend that you remove section 4 from the bill.

Congressional Precedent Exists for Delegating the Authority to Select Coinage Materials to the Department of the Treasury.

I want to stress that delegating the authority to test and select alternative materials to the Secretary of Treasury is a sound, legal, and proven approach to determining the composition of our Nation's coinage. Do not be swayed by some critics who have raised concerns that it would be unprecedented or unconstitutional because it would cede Congress's authority to decide the weight and composition of circulating coins to the United States Mint.

Twice in the last 50 years, the Government took action to protect our taxpayers from needlessly bearing the increased costs of coinage materials. In 1965, as the value of silver climbed because of industrial demand, Congress approved a

change in the composition of the dime, quarter-dollar, and half-dollar coins from silver to cupro-nickel clad. Similarly, in 1974, Congress granted to the Secretary of the Treasury the authority to vary the copper-zinc alloy of the one-cent coin. After several years of rising copper prices, again because of industrial demand, the Secretary exercised this authority in 1982, changing the alloys in the one-cent coin to its present composition of copper-plated zinc. So, history and economic reality tell us why we are in the current situation, and also tell us that it will recur in the future if we fail to act. That is why we seek a durable solution that will substantially reduce the cost our citizens must pay for the Nation's coinage now and in the future.

Congress has already delegated the authority to select the composition of some coins to the Department of the Treasury and the United States Mint. We have capably coined and regulated money under laws passed by Congress since 1792. Most recently, just 11 years ago, Congress passed the United States \$1 Coin Act of 1997, which granted to the Secretary of the Treasury the sole discretion to select the materials for the \$1 coin. Thus, the Department's current proposal builds on these precedents established by Congress. Indeed, it does no more and no less than the United States \$1 Coin Act of 1997 did for the \$1 coin.

## Saves Taxpayer Money Through Open, Fair, and Deliberative Process

By delegating the authority to the Secretary of the Treasury to select circulating coinage compositions, Congress can be assured such changes will be made effectively. The United States Mint would accomplish these changes by employing an open, public process to determine new coinage materials. Specifically, we will seek public and industry comment to ensure consideration of all factors relevant to the acceptability of new coinage materials, including physical, chemical, metallurgical and technical characteristics; material, fabrication, minting, and distribution costs; material availability, sources of raw materials, and environmental impact; coinability; durability; effects on sorting, handling, packaging and vending machines; appearance; resistance to counterfeiting; and commercial and public acceptance. Once the agency has a comprehensive inventory of these factors and their relative significance, the United States Mint would then employ an objective, competitive, and public process to solicit and evaluate proposals for new coinage materials.

Circumventing such a process prior to changing the composition of the one-cent coin not only belies the Treasury proposal's intent to use an open and public process to select all coinage materials, but also is inconsistent with the process that is outlined in section 3(a) of this bill.

Together, as we consider alternative metals for our Nation's coinage, I want to stress our strong preference for engaging in the open deliberative process set out in Section (3)(a), that provides for public input, as well as an opportunity to test available options and fully evaluate the alternatives; this applies to the penny no less than the other denominations. This process will allow us to address the following three central issues: continuing volatility of metal prices, coin material uniformity and use among denominations, and providing taxpayers the best result for their investment in coinage.

## **CONCLUSION**

The Department of the Treasury and United States Mint support H.R. 5512, but only if the objectionable provisions are removed or addressed. We are then prepared to implement this legislation as expeditiously as possible. Our intent is to enable the United States Mint to be pro-active, versus reactive, in efficiently serving the American public in making the Nation's coinage.

Due to the volatile nature of metal prices, the taxpayer will be better served by a nimble, flexible United States Mint which can address the problem in its entirety, not piecemeal. We want to get this done right, and we know that the Congress, the public, and the many stakeholder industries and interests share that view and want to contribute their expertise and perspective. We expect, and welcome, your subcommittee's oversight at every step in this process.

We appreciate your attention to this issue. I hope that the Committee will consider the improvements I have suggested; they will help ensure that that we achieve a result that will serve the best interests of the country.

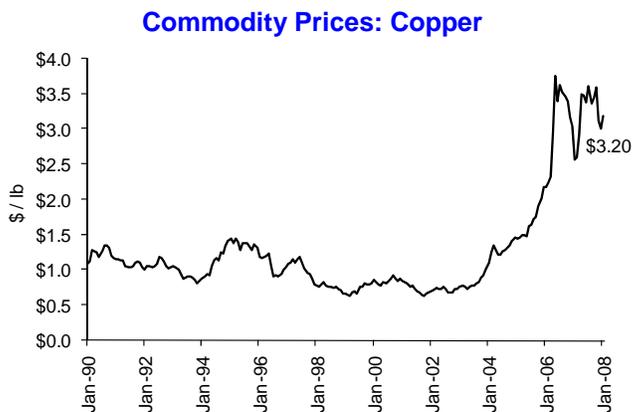
Thank you, Mr. Chairman, for the time you have provided me today.

## Addendum

### Background on Rising Metal Prices and Consequences

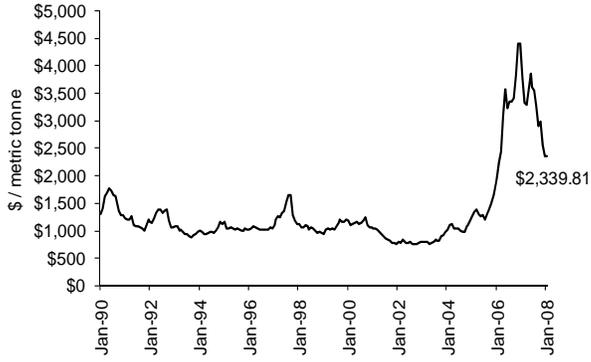
Rising metal prices, caused by high world demand for core metals, have driven the cost of metals up by 440% for copper, 310% for nickel and 260% for zinc since March of 2003. The spot prices for these metals have risen dramatically because of the global demand for raw materials, especially in China and India. Metal prices are forecast to stay at or near existing levels for several years because of these global demand pressures. Demand pressures take longer to resolve themselves than supply shortages, and thus the current increase in global demand has led to a sustained price increase or level shift that argues for the need to act on coinage composition soon.

United States Mint



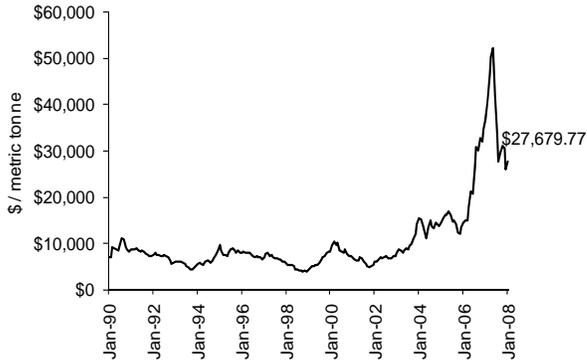
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### Commodity Prices: Zinc



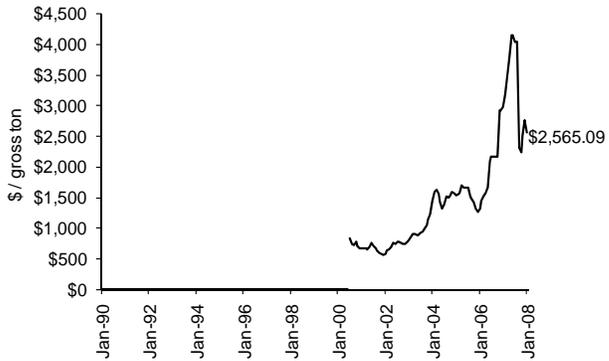
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### Commodity Prices: Nickel



84

### Commodity Prices: Steel



85

These escalating metal prices have led to two problems. The first problem is arbitrage and extraction of coins from commerce (by melting pennies and nickels for their metal value).

The second problem is the loss to the taxpayers, \$98.6 million for Fiscal Year 2007, resulting from the metal costs of the one-cent coin (-\$40.1 million) and the five-cent coin (-\$58.5 million), based on coins shipped to the Federal Reserve System in Fiscal Year 2007.

<b>UNIT COST OF PRODUCING AND DISTRIBUTING COINS FOR THE YEAR ENDED SEPTEMBER 30, 2007</b>						
	<b>One-cent</b>	<b>5-cent</b>	<b>Dime</b>	<b>Quarter</b>	<b>Half</b>	<b>Dollar</b>
Total Expenses	0.0167	0.0953	0.0409	0.0978	0	0.1573

<b>CIRCULATING EARNED REVENUE (in Millions) FOR THE YEAR ENDED SEPTEMBER 30, 2007</b>						
	<b>One-cent</b>	<b>5-cent</b>	<b>Dime</b>	<b>Quarter</b>	<b>Half</b>	<b>Dollar</b>
Revenue	\$78.1	\$64.4	\$224.8	\$677.8	\$0.0	\$682.7
Expenses	118.2	122.9	92.1	265.3	0.0	108.5
Seigniorage	-\$40.1	-58.5	\$132.7	\$412.5	\$0.0	\$574.2

These costs will recur annually if not addressed, and began showing up in Fiscal Year 2006 when there was a loss of \$32.9 million associated with producing and delivering the one-cent and five-cent coin denominations. We are now in the third fiscal year of losses on these smaller denomination coins. There is no indication that copper, nickel, and zinc prices will decrease over the short-term.

Moreover, even if prices were to retreat, we are quite confident that the costs for these metals will not diminish to the prices that prevailed when they were selected 42 years ago. Accordingly, under virtually any pricing scenario, finding lower cost alternative materials for all of the Nation's circulating coins will yield significant dividends to our taxpayers.