Prepared Statement
of
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before the
Subcommittee on Domestic Monetary Policy and Technology
Committee on Financial Services
United States House of Representatives
November 29, 2012

Thank you, Mr. Chairman and Members of the Committee.

It is my pleasure to speak today on a subject that I have followed for over a decade. I testified about the problems associated with eliminating the dollar bill back in 2000. The issues have changed only to the degree that substituting dollar coins for dollar bills has become an even worse deal for American businesses and consumers.

It has been quite clear from polls carried out by many sources over the years that people prefer dollar bills to dollar coins.[1] In one survey, people said the dollar bill evokes their pride in America and that eliminating it suggests erosion of our national character.[2] Americans said they see the dollar coin as a rarity, not something they use or spend. We also know they object strenuously to the elimination of the dollar bill.

Despite extensive efforts since 2007 by the Federal Reserve and financial institutions across the country to support the circulation of Presidential Dollar coins, we know that more than 1.4 billion of them are stored in Federal Reserve Bank vaults – enough to satisfy the demands of commerce for the next 40 years.[3] Many of the relatively few Presidential Dollar coins issued over the past six years that are not in Federal Reserve vaults are held by consumers as collectibles or keepsakes.

As in the past, I am disturbed by allegations of huge savings from substituting dollar coins for dollar bills. If you look at various GAO reports, you find that the major portion of what they label as benefits to government stem from the interest-free loans consumers would be forced to give to government. That is, what GAO calls benefits to government are really taxes -- implicit taxes on consumers. There is no net savings here. It is a wash. Moreover, the tax is a

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[1] See, for example, GAO-11-281 (Washington, DC: March 4, 2011), p.17; GAO-03-206. (Washington DC: December 17, 2002), p. 20; and Gallup News Service, *Americans Support Dollar Coins Featuring Past Presidents* (Princeton, New Jersey: November 21, 2006).

[2] Luntz Global, October 2011.

[3] http://www.federalreserve.gov/paymentsystems/coin_data.htm#dollarcoin. See also, Board of Governors of the Federal Reserve System, *Annual Report to the Congress on the Presidential $1 Coin Program* (Washington DC: June 2012), p. 2.

regressive one: studies show that higher-income consumers are more likely to use alternative forms of payment such as debit or credit cards.[4] So, the tax would fall disproportionately on the poor.

Moreover, analysis of production costs for dollar notes and coins is very sensitive to assumptions. The two reports issued by the GAO in February of 2012 make it very clear that their modeling of the costs and benefits to government of substituting dollar coins for dollar bills varies enormously depending on the questions they address.[5] In fact, GAO entitled one of its reports "Alternative Scenarios Suggest Different Benefits and Losses from Replacing the $1 Note with a $1 Coin."[6] GAO stated clearly that dollar coins would always cost more to produce than dollar bills and that the purported benefits to the government come solely from seigniorage – the implicit tax on consumers. They reported that when seigniorage is eliminated from GAO's calculations, the cost to government of substituting dollar coins for dollar bills is estimated at $1.8 billion over 10 years.[7]

Even counting seigniorage, if you assume that only one dollar coin would be needed to replace each dollar bill, the government would lose $582 million over 10 years.[8] Or, if you assume, as does GAO, that it would take 1.5 dollar coins to replace each dollar bill, the government would still lose $531 million over 10 years.[9] And even with this greater seigniorage, it would take 10 years for the government to start breaking even.[10] Given the rapid development of electronic payment systems, does anyone on this Committee really think that we would be making abundant use of dollar coins 10 years from now?

The GAO has also made it clear that it has never calculated the costs to parties outside of government, including businesses and consumers. Thirteen of 15 stakeholders that it surveyed about eliminating dollar notes said they would incur both short- and long-term costs related to changing their operations to handle dollar coins.[11] It cannot be a surprise to anyone that managing coins that weigh eight times as much as notes would create significant additional handling and transportation costs. There also could be significant environmental consequences associated with transportation, but the GAO has not addressed that issue either.

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[4] See, for example, Arango, Hogg, and Lee, "Why is cash (still) so entrenched? Insights from the Bank of Canada's 2009 Methods-of-Payment Survey," Bank of Canada Discussion Paper 2012-2 (Ottawa, Canada: February 2012), p. 5.
[5] GAO-12-307 (Washington DC: February 15, 2012) and GAO-12-342SP 2012 Annual Report (Washington DC: February 28, 2012). See also GAO-11-281 (Washington, DC: March 4, 2011).
[6] GAO-12-307 (Washington DC: February 15, 2012).
[7] Ibid., p. 7.
[8] Ibid., p. 9.
[9] Ibid., p. 6.
[10] GAO-11-281 (Washington DC: March 4, 2011), p. 4.
[11] Ibid., p. 19.

The GAO tells us that if we look out over 30 years, the government would benefit from the seigniorage tax that comes from substituting three dollar coins for every two dollar bills. Why? Because coins circulate differently than bills. People leave them at home instead of recirculating them; they drop on the ground or between sofa cushions. And businesses hold onto coins longer than bills to avoid transportation costs.

So, the best that can be said for the dollar coin is that the production costs to government may be no higher than the costs of producing dollar bills. But the costs to businesses, and ultimately to consumers, are far greater. And finally, consumers would pay a huge tax that would offset precisely the government's gain on seigniorage.

In any event, it seems to me that consumers ought to be the ones making this decision. The Federal Government's sovereign power to mint money is a monopoly power, and just as a monopolist in the private sector might raise prices and stick it to consumers, a government that dictated using a means of exchange that is clearly in disfavor would be sticking it to consumers.

In conclusion, Mr. Chairman and Members of the Committee, Americans view eliminating the dollar bill as a budget gimmick, not a serious cost-cutting measure.[12] What the GAO characterizes as a benefit to the government – seigniorage -- is really a tax on the American people. The sovereign power of government to print money or to mint coins is a monopoly power, and just as monopolies impose more costs on consumers, the same thing happens when the government forecloses choices for consumers.

And finally, it seems to me that after many failed efforts to make dollar coins more appealing to consumers and the clear costs that would be shifted to them from government, the notion of eliminating the dollar bill from circulation is really quite absurd.

Thank you, Mr. Chairman and Members of the Committee: that completes my prepared statement. I shall be happy to address any questions you might have.

[12] Luntz Global, ibid.