United States House of Representatives
Committee on Financial Services
Subcommittee on Domestic Monetary Policy & Technology
Hearing on The Future of Money: Coin Production
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Statement for the Record

There is an old German saying that goes, "whoever does not respect the penny is not worthy of the dollar." It expresses the sense that those who neglect or ignore the small things cannot be trusted with larger things, and fittingly describes the problems facing both the dollar and our nation today. For nearly a century monetary policy has been delegated to the Federal Reserve System. Congress has ignored the importance of monetary policy and relegated monetary oversight to the sidelines, considering it less important than such matters as welfare spending, warfare spending, and who to tax and how much they should be taxed. While Congress has dithered, the Federal Reserve has destroyed the value of the dollar, so much so that the metal value of our already much-debased token coinage now exceeds its face value.

The cost to mint pennies and nickels is alleged to be more than double their face value, so that the Mint loses tens of millions of dollars every year by placing them into circulation. Inflation continues to erode the purchasing power of the penny and nickel, so that many consumers find it aggravating and time-consuming to fish around for small change. But changing the composition of the penny and nickel to steel fails to address the root cause behind currency debasement. It also fails to provide a viable solution both for the devalued dollar and for our circulating coinage.

If Congress were truly interested in the cost of coinage, it would begin by reining in and eventually abolishing the Federal Reserve System. The Fed alone is responsible for the devaluation of the dollar. The problem with the penny and nickel is not that the price of copper and nickel are rising, but that the purchasing power of the dollar is declining due to the Fed's currency debasement. The same pattern has been seen throughout history, as debased currency results in the value of the metal content of coins outstripping their face value. Coins disappear from circulation and only paper money circulates. Finally, the currency collapses. Coins will begin to reappear once the monetary unit is restabilized, usually with the introduction of an entirely new currency and after much economic hardship for the people.

The United States is no different in this regard, as it now takes more and more devalued dollars to purchase the raw materials and employ the capital and labor necessary to mint coins. It is only a matter of time before inflation obviates the need for pennies and nickels, and other coins will disappear from use in due time. Unless Congress puts an end to the Fed's loose monetary policy and returns to a sound and stable dollar, the issue of U.S. coin composition will be revisited every few years until inflation finally forces coins out of circulation altogether and we are left with only worthless paper.

In addition to ending the Fed, the United States should embrace currency competition. Economics demonstrates that monopolies lead to suboptimal output, decreased quality, and higher prices. The circulating currency of the United States has been monopolized by the U.S. Government since the 1860s. Issuance of paper currency has been delegated to the Federal Reserve System, while the U.S. Mint maintains a monopoly on the issuance of coins. The result of this monopolization has been calamitous. Whenever government tries to monopolize the issuance of money, and forces that money on the people through legal tender laws, the temptation to debase that money is too great to withstand.

Government mints throughout history have succumbed to the temptation to use their ability to coin money to amass huge profits to themselves. When gold and silver circulated as money, this often took the form of outright debasement of the coins' purity. Minting coins that were a little underweight or that contained less than their required content of precious metals could produce handsome profits to the king's treasury. The Founding Fathers knew their monetary history, and knew the proclivity of governments to debase coinage until it contained paltry amounts of gold or silver. Therefore the Coinage Act of 1792 made currency debasement a crime punishable by death.

Unfortunately, the proponents of easy money won out in the succeeding decades. By the 1860s, the federal government launched its first major experiment with unbacked fiat paper currency in a bid to fund the Civil War. Although these "greenbacks" were unpopular and eventually ruled unconstitutional by the Supreme Court, they marked the first step on the road towards government monopolization of currency and thence to the debasement of the dollar. Since the creation of the Federal Reserve System in 1913, the dollar's devaluation has only accelerated, with the dollar's purchasing power having declined 99% since then. Without competition, the money monopolists will continue driving the dollar to destruction.

In the 1840s, Lysander Spooner's American Letter Mail Company engaged in competition with the U.S. Post Office. Successfully undercutting the Post Office's prices, Spooner's company forced the Post Office to cut its prices significantly in order to remain competitive. This competition benefited consumers, who were able to pay lower prices for mail. Unfortunately for both Spooner and the American people, the American Letter Mail Company was driven out of business by a Congress more intent on maintaining a government monopoly over the mail than on allowing affordable and efficient service to consumers. The U.S. Mint operates in much the same way today, with a monopoly on coinage and therefore no incentive to keep costs under control. Imagine how much more efficient the Mint might be if private mints were allowed to compete with it, an idea that is not without precedent.

In 18th century Britain, as described in Prof. George Selgin's recent book "Good Money," the Royal Mint focused more on minting gold and silver coinage and neglected the minting of token copper coinage. Private mints took up the slack, minting coins that were superior in quality to those from the government's mint, and ensuring adequate supplies of coinage for use in commerce. During the first half century of the United States' existence, changes in the statutory bimetallic ratio of silver to gold led to American silver and gold coins leaving the country. To fill the shortage created by misguided government policy, the people used foreign gold and silver coins as money based on the foreign coins' metal content. Privately minted coins also circulated at times—up until the 1860s when Congress began to monopolize the monetary system. The American people could benefit from a similar system of competition today, if the government got out of the way.

While the state of United States coinage is in disarray, the remedy is clear. Ending the Federal Reserve's monetary policy and breaking up the government's money monopoly by allowing monetary competition and parallel currencies will restore monetary stability to this country. Focusing on symptoms rather than causes is only hacking at the branches, when we need to strike at the root.