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1-DOLLAR COIN

Reintroduction Could Save Millions If It Replaced the 1-Dollar Note

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to summarize the results of our prior work regarding the proposed reintroduction of a 1-dollar coin.

Australia, Canada, Japan, and the major Western European economies all now use a coin for monetary transactions at, and in many cases well above, the same level for which Americans use the paper note. Although the United States introduced the Susan B. Anthony 1-dollar coin in 1979, it was not widely accepted by the public for reasons I will discuss later in this statement.

Two units of the Treasury Department--the U.S. Mint and the Bureau of Engraving and Printing--produce coins and notes, respectively, in the United States. While the 1-dollar note lasts about 1.4 years in circulation before needing to be replaced by the Federal Reserve System, coins last about 30 years in circulation.

POTENTIAL SAVINGS TO THE U.S. GOVERNMENT

In May 1990, we reported that the government could save an average of $318 million per year over a 30-year period if the 1-dollar coin were widely accepted and used.[1] We used a Federal Reserve System model to estimate the savings. A 1992 study by the Federal Reserve System, which used more current data in that model, concluded that the government could save $395 million per year on average over 30 years by substituting a 1-dollar note with a 1-dollar coin. In May 1993, we issued a second report in which we agreed with the 1992 Federal Reserve estimate.[2]

The Federal Reserve's 1992 estimate was higher than our 1990 estimate because the Federal Reserve used more recent production cost and coin and currency circulation data. GAO and Federal Reserve estimates assumed that 25 percent of the demand for 1-dollar notes would be replaced by a demand for 2-dollar notes and that two 1-dollar coins would replace each remaining 1-dollar note in circulation at that time. We based these assumptions on the experiences that Canada and other countries had in their conversions.

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[1]National Coinage Proposals: Limited Public Demand for New Dollar Coin or Elimination of Pennies, May 23, 1990 (GAO/GGD-90-88).

[2]1-Dollar Coin: Reintroduction Could Save Millions if Properly Managed, May 11, 1993 (GAO/GGD-93-56).

The $395 million annual average savings comes from: (1) $109 million from not printing dollar notes, (2) $47 million in lower Federal Reserve processing costs of dollar coins than of dollar notes, and (3) $430 million in interest savings on the debt because of decreased government borrowing resulting from the seigniorage recognized on a dollar coin; less (4) $20 million in start-up and Mint operational costs for the new 1-dollar coin, and (5) $171 million in lost earnings on 1-dollar notes issued by the Federal Reserve System.[3] While these costs are not the same every year over the 30-year period, they are the average costs per year for each factor, on a present value basis.

Most of the government's savings would come from the interest on financing the debt that the Treasury would avoid from seigniorage. The Department of the Treasury defines seigniorage as the difference between the face value of a coin and the coin's cost of production. In the model, GAO and the Federal Reserve estimated a coin would cost about $.08 to produce, thus resulting in $.92 seignorage per coin. While seigniorage itself has no impact on the size of the current budget deficit, it does reduce the amount of money that must be borrowed from the public to finance the deficit. Therefore, the amount of interest it saves does reduce future budget outlays and deficits.

The $395 million estimate reflects average annual savings over 30 years. That level of savings would not be achieved until the 14th year of the period in the model. There would be a negative savings, or net cost, in the first year of production totaling $23 million primarily due to the Mint's start-up costs. However, after the first year, annual savings would grow and reach $631 million in year 30, in present value dollars. The estimate also takes into account that substituting the 1-dollar note with the 1-dollar coin would cost the Mint an average of $20 million per year in increased operational costs to make the new coins, and the Federal Reserve would lose an average of $171 million per year in decreased earnings on its portfolio of securities.

Neither we nor the Federal Reserve estimated what impact a 1-dollar coin would have on the private sector.

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[3]Generally, the difference between the face value of notes and the cost of printing them and an allocation of the Federal Reserve's operating costs is used by the Federal Reserve to purchase Treasury securities, which make up the Federal Reserve's portfolio. The Federal Reserve's holdings of Treasury securities back up the Federal Reserve notes, which are obligations of the Federal Reserve System. The earnings from these securities are returned to the Treasury.

LESSONS LEARNED FROM THE SUSAN B. ANTHONY 1-DOLLAR COIN

When the United States introduced the Susan B. Anthony 1-dollar coin in 1979, the 1-dollar note was not simultaneously withdrawn. In our May 1990 report, we concluded that the Susan B. Anthony 1-dollar coin did not gain wide acceptance because the 1-dollar note was not simultaneously eliminated, the coin too closely resembled the quarter, and an effective promotion effort was not made.

Based on the experiences of other countries, we noted five essential elements for a successful conversion in the United States: (1) the 1-dollar note would have to be eliminated, (2) a reasonable transition period would be needed, (3) the 1-dollar coin would have to be well designed and readily distinguishable from other coins, (4) adequate public awareness of the new coin, and (5) administration and congressional support would be necessary to withstand an initial negative public reaction. We continue to believe that these are the essential elements of a successful conversion. Moreover, we believe that any congressional decision to allow the public to choose between the use of a dollar coin or a dollar note will surely mean the failure of the coin to circulate, which would result in additional costs to the Treasury.

FOREIGN EXPERIENCES

As we reported in 1990 and 1993, the major Western economies all now use a coin for monetary transactions at, and in many cases well above, the level at which Americans use the paper dollar.

For our 1990 report, we contacted officials from seven European countries and Canada to obtain information about their experiences in converting low denomination currency to coins. The officials reported that all of the countries undertook the conversion to save currency production costs. In addition, all of the countries reported that they faced initial public resistance to the changes but that this was not unexpected and could be overcome by strong determination to eliminate the note.

The United Kingdom (U.K) officials said, for example, that as long as notes still circulate, the public will resist using coins and exert pressure on the government to rescind its decision. Interestingly, in 1914, the U.K. introduced a pound note and stopped issuing the pound coin in 1915. When this conversion from a coin to paper occurred, people objected to the pound being represented on paper. Also, French officials said that the public accepted the 10-Franc coin only when the note was eliminated.

PUBLIC RESISTANCE TO CANADIAN 1-DOLLAR COIN SHORT-LIVED

For our 1993 report, we commissioned Gallup Canada to poll Canadians regarding their acceptance of the 1-dollar coin. The nationally representative survey indicated that 5 years after the coin's introduction in 1987, public disapproval of the coin had fallen to its lowest point--18 percent of those surveyed--compared to 36 percent a year after the introduction. Further, 32 percent of Canadians surveyed felt more favorable about the coin in 1992 than when it was introduced, and only 7 percent felt less favorable. Overall, 49 percent of Canadians said that they approved of the dollar coin, 32 percent felt neutral about it, 18 percent disapproved of it, and 1 percent refused to answer or didn't know.

We also sent questionnaires to Canadian businesses and associations that were affected by the conversion, including currency printers, transit companies, an armored car service, a taxicab company, an association of grocers, an association of blind citizens, and an automatic merchandising association. The companies and associations said that most public resistance to Canada's 1-dollar coin lasted between 3 months to 2 years.

In Canada, the Royal Canadian Mint championed the conversion and was responsible for handling initial public resistance to the 1-dollar coin, which a Mint official said consisted of fewer than 100 letters of complaint to Parliament and negative press coverage. To counter initial negative news coverage about the conversion, Mint officials said they actively promoted the coin in interviews with the media. Further, Canada's 1-dollar coin had 11 sides and was gold-colored, which made the coin easily distinguished from other coins.

We concluded that resistance to change also could be overcome in the United States if the conversion were properly managed. Converting to a 1-dollar coin would not be painless but, in our view, is likely to be more palatable to Congress and to the public in these times of deficit reduction than raising taxes or reducing federal spending by a comparable $395 million per year. We included the 1-dollar coin recommendation in our recent report to Congress on options that could be considered to reduce the deficit.[4] However, Congress and the executive branch would have to lead rather than follow public opinion for the conversion to succeed. We believe that with good planning and determination, a successful conversion would be not only possible but also beneficial.

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[4]Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996 Mar. 15, 1995 (GAO/OCG-95-2).

Mr. Chairman, that concludes my prepared statement. I would be pleased to answer any questions.

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