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A DOLLAR COIN COULD SAVE MILLIONS

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A DOLLAR COIN COULD SAVE MILLIONS

SUMMARY OF STATEMENT BY L. NYE STEVENS
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The major Western economies all now use a coin for monetary transactions for the same level that Americans use the paper dollar. Although the United States introduced the Susan B. Anthony 1-dollar coin in 1979, it was not widely accepted by the public, primarily because the 1-dollar note was not simultaneously eliminated.

GAO reported in 1993 that the government could save $395 million per year on average over 30 years by substituting a 1-dollar note. GAO reviewed a recent Federal Reserve study that updated this estimate to $456 million per year, which GAO believes is reasonable. The $456 million savings comes from the lower costs of using longer-lived coins, lower Federal Reserve processing costs, and the interest avoided on the federal debt resulting from the seigniorage recognized on a dollar coin. Seigniorage is the difference between the face value and the production cost of a coin and would be significant because at least 1.5 coins would replace each 1-dollar note, based on the experiences of other countries.

The Congressional Budget Office (CBO) has estimated a lower savings from the dollar coin conversion. Seigniorage is not considered a part of the budget, and CBO does not score interest savings to the government. Moreover, for scorekeeping purposes under the Budget Enforcement Act, CBO uses a 5-year estimating period. GAO recognizes CBO's budget scoring. However, GAO believes that the Congress should also consider the longer 30-year evaluation period and the lower interest costs to the government related to seigniorage.

Based on the foreign experiences GAO studied, GAO notes five essential elements to help ensure a successful conversion: (1) the 1-dollar note would have to be eliminated; (2) a reasonable transition period would be needed; (3) the coin would have to be well designed and readily distinguishable from other coins, (4) an adequate public awareness campaign would be needed, and (5) sustained administrative and congressional support would be necessary to withstand an initial negative public reaction.

Treasury officials have been reluctant to support a dollar coin because they believe in the strong possibility that Congress, even if it initially approved the elimination of the dollar note, would bow to public pressure and allow the note to co-circulate with the coin. They believe, and GAO agrees, this could result in Treasury having billions of new dollar coins on hand that would not be accepted by the public. Officials in eight countries GAO contacted reported that they faced initial public resistance to conversions from notes to coins but that this was not unexpected and could be overcome if properly managed.

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 level for which Americans use the paper dollar. 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 the same 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]

Recently, the Federal Reserve again updated its estimate, using the latest available production cost and coin and currency circulation data. The Federal Reserve now estimates that the government could save $456 million per year on average over 30 years by substituting a 1-dollar note with a 1-dollar coin. We reviewed the Federal Reserve model and supporting data and discussed the assumptions made with Federal Reserve officials. We believe that the Federal Reserve's updated estimate is reasonable.

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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).

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. This equates to an overall 1.5 to 1 replacement rate of coins to notes. We based these assumptions on the experiences that Canada and other countries had in their conversions.[3]

The $456 million annual average savings comes from: (1) $128 million from not printing dollar notes, (2) $7 million in lower Federal Reserve processing costs of dollar coins than of dollar notes, and (3) $536 million in interest savings on the debt because of decreased government borrowing resulting from the seigniorage recognized on a dollar coin; less (4) $215 million in lost interest earnings on 1-dollar notes issued by the Federal Reserve System.[4] While these costs would not be 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 earned on the additional coins resulting from the conversion. 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 by budget convention seigniorage itself has no impact on the size of the current budget deficit, it does substitute for borrowing from the public and thus lowers interest costs to the government. For example, if 10 billion dollar coins were minted and circulated, the government's need to borrow or raise taxes would be reduced by $9.2 billion. Therefore, future budget outlays would be reduced because of lower interest costs to the government.

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[3]In Canada, the replacement of coins to notes ratio was 1.6 to 1 for the 1-dollar note, the Netherlands experienced a 3 to 1 ratio for the 5-guilder note, Spain experienced a 2 to 1 replacement for the 100-peseta note, and the United Kingdom experienced a 1.6 to 1 ratio for the 1-pound note.

[4]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.

The latest Federal Reserve estimate assumes that a 1-dollar coin would be approved by Congress in early 1996, the Mint would begin to produce a 1-dollar coin in 1998, and the coin would start to be issued in early 1999. This would allow the Mint at least 24 months to test market and design the new coin, with production to begin sometime in the subsequent 12 months. We note that S. 874 would require that a new 1-dollar coin be placed into circulation 18 months after its enactment. The Mint maintains that it would take at least 30 months after enactment to place a coin into circulation.

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

The Congressional Budget Office (CBO) in a May 3, 1995, hearing before the House Banking Subcommittee on Domestic and International Monetary Policy, stated that budgetary savings from reduced production and processing costs could total $100 million over the next 5 years and exceed $200 million per year in later years. CBO further stated that savings could increase if the public was willing to hold a higher ratio of 1-dollar coins for each 1-dollar note formerly held. We believe that our 1.5 to 1 ratio of coins to notes is conservative, considering the experiences of other countries which had replacement ratios of between 1.6 to 1 to 3 to 1.

CBO noted that it is restrained from projecting budgetary savings beyond 5 years. In addition to CBO's projection that the 1-dollar coin would be cost effective in the short-term, we believe that the 1-dollar coin should be evaluated as a long-term investment and that Congress should also consider the savings to the government that would accrue over the life of the investment. Accordingly, our estimate covers a 30-year period.

CBO also stated that its projected cost-effectiveness of the 1-dollar coin did not include interest savings to the government, which are not scorable under the Budget Enforcement Act. While we do not dispute CBO's interpretation of the act, we believe that the interest on the debt avoided by the seigniorage recognized on a dollar coin is a real savings to the government and should be considered in the decision making process by Congress.

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) an adequate public awareness would be needed, and (5) sustained 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 widely circulate, based on our experience with the Susan B. Anthony dollar and the experiences in other countries with similar conversions.

Treasury officials in the last two administrations told us that their reluctance to support a new 1-dollar coin has been based on their belief of a strong possibility that Congress, even if it initially approved the elimination of the dollar note, would bow to public pressure in the eleventh hour and allow the dollar note to co-circulate with the dollar coin. They believe, and we agree, that this could result in Treasury having billions of new dollar coins on hand that would not be accepted by the public.

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 was 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 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 a vending machine 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 government downsizing than raising taxes or reducing federal spending by a comparable $456 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.[5] We noted, however, that 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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[5]Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996 Mar. 15, 1995 (GAO/OCG-95-2).

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

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