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Highlights

Highlights of GAO-11-281, a report to congressional requesters

U.S. COINS

Replacing the $1 Note with a $1 Coin Would Provide a Financial Benefit to the Government

Why GAO Did This Study

Since coins are more durable than notes and do not need replacement as often, many nations have replaced lower-denomination notes with coins to obtain a financial benefit. GAO has estimated the annual net benefit to the U.S. government of replacing the $1 note with a $1 coin four times over the past 20 years, most recently in April 2000. Asked to update its estimate, GAO (1) estimated the net benefit to the government of replacing the $1 note with a $1 coin and (2) examined other effects stakeholders suggested such a replacement could have. To perform its work, GAO constructed an economic model and interviewed officials from the Federal Reserve, the Treasury Department, the U.S. Secret Service, outside experts, and officials from Canada and the United Kingdom. To determine the effects on stakeholders, GAO interviewed officials from industries and organizations that might be affected by changes to currency.

What GAO Recommends

As in the past, GAO's analysis indicates that replacing the $1 note with a $1 coin would provide a financial benefit to the government if production of the $1 note ceased. GAO previously recommended replacement of the $1 note and continues to support this recommendation. The Federal Reserve and Treasury reviewed a draft of this report and both noted the importance of societal effects in deciding on such a replacement and offered technical comments.

View GAO-11-281 or key components.
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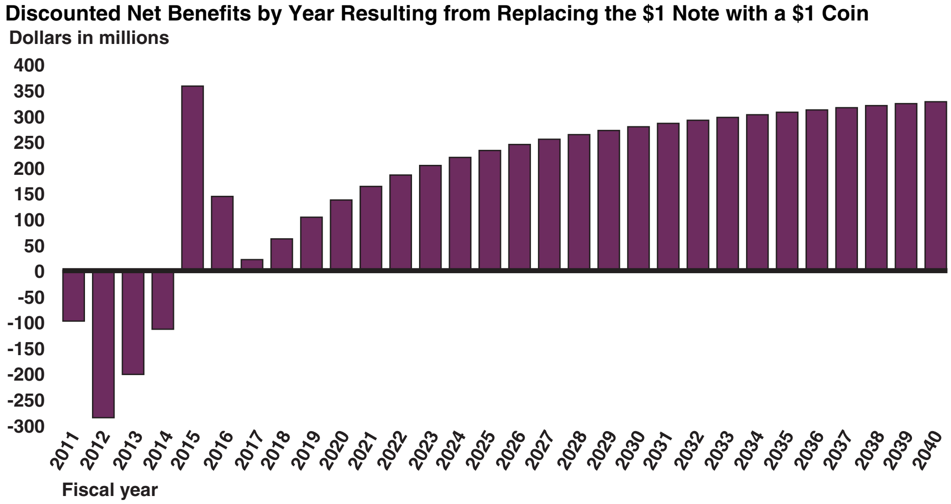
What GAO Found

According to GAO's analysis, replacing the $1 note with a $1 coin could save the government approximately $5.5 billion over 30 years. This would amount to an average yearly discounted net benefit—that is, the present value of future net benefits—of about $184 million. However, GAO's analysis, which assumes a 4-year transition period beginning in 2011, indicates that the benefit would vary over the 30 years. As shown in the figure below, the government would incur a net loss in the first 4 years and then realize a net benefit in the remaining years. The early net loss is due in part to the up-front costs to the U.S. Mint of increasing its coin production during the transition. GAO's current estimate is lower than its 2000 estimate, which indicated an annual net benefit to the government of $522 million. This is because some information has changed over time and GAO incorporated some different assumptions in its economic model. For example, the lifespan of the note has increased over the past decade, and GAO assumed a lower ratio of coins to notes needed for replacement. GAO has noted in past reports that efforts to increase the circulation and public acceptance of the $1 coin have not succeeded, in part, because the $1 note has remained in circulation. Other countries that have replaced a low-denomination note with a coin, such as Canada and the United Kingdom, stopped producing the note. Officials from both countries told GAO that this step was essential to the success of their transition and that, with no alternative to the note, public resistance dissipated within a few years.

Stakeholders representing a variety of cash-intensive entities in the private sector identified potential shorter- and longer-term effects of a replacement. For example, some stakeholders said that they would initially incur costs to modify equipment and add storage and that later their costs to process and transport coins would go up. Others, however, such as some transit agencies, have already made the transition and would not incur such initial costs.

Discounted Net Benefits by Year Resulting from Replacing the $1 Note with a $1 Coin



Source: GAO analysis.