AMERICANS FOR COMMON CENTS

STATEMENT OF

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ON THE

"THE STATE OF U.S. COINS AND CURRENCY"

BEFORE THE

HOUSE FINANCIAL SERVICES SUBCOMMITTEE
ON DOMESTIC MONETARY POLICY AND TECHNOLOGY

UNITED STATES HOUSE OF REPRESENTATIVES

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Mr. Chairman and Members of the Committee, my name is Mark W. Weller and I am Executive Director of Americans for Common Cents. I am pleased to submit testimony today concerning the one-cent coin, its cost, and its importance to the American economy and culture.

By way of background, Americans for Common Cents was established in 1990 to'conduct research and educate Congress on the need to retain the penny. Our organization is broad-based and comprised of, and endorsed by, many of the nation's leading coin and numismatic organizations, charitable organizations that benefit from penny donations, and companies involved in the manufacturing and transport of the penny.

My message this afternoon is a simple one. Consumers and charities benefit with a low denomination coin. It is prudent to look at ways to make our coins less expensively, but we need to ensure that Congressional and Mint discussions about alternative metals not lead to quick or uninformed decisions. The penny is important to the economy and without it working families and America's many charitable organizations will be harmed. Our current involvement with the penny has led us to four conclusions which I want to share with you.

1. Historically, penny production has generated millions in revenue for the Treasury. Net government revenue generated by penny production has exceeded $900 million since 1982, even accounting for recent increased costs.

2. The American public overwhelmingly supports keeping the penny. Polling over the past 20 years shows that between two-thirds and three-quarters of American's want to keep the penny.

3. The economy benefits with a low denomination coin. The alternative to the penny -rounding to the nickel - harms consumers and the economy. Rounding simply can't be done fairly and will negatively impact working families every time they buy a gallon of gas or a gallon of milk. Also, the one-cent coin is our nation's first line of defense against inflation. Without it, we would see a jump in prices that would add billions to government outlays.

4. The penny fuels millions of dollars annually in charitable contributions. America's many wonderful charities raise millions of dollars annually from the penny and other coinage. While some may question the value of the penny, collectively the penny is very powerful and helps fund many charitable causes that make a difference in communities every day.

Taken together, the findings outlined above, and discussed in more detail below, suggest that the adverse public policy and economic effects associated with elimination of the penny are considerable. It makes sense to look for ways to make our coins less expensively, but these discussions should not lead to policies that will cause harm. Additionally, we believe any attempt to alter our coinage system by removing the penny will meet strong public resistance and fail.

COINAGE COSTS AND TAXPAYER SAVINGS

Today, countries around the world are concerned about the cost of producing quality circulation coins, especially when the cost to produce their coins approaches the face value of the coin. The United States is not alone as countries look at alternative metals and ways to make their coins less expensively. As the Mint and Congress explore options to make coins more cost effectively, several factors should be paramount.

1. Historically, penny production has generated millions in "revenue" for the Treasury, which reduces government borrowing costs. (Revenue is a result of seigniorage - the difference between the face value of the coin and the costs of its mintage.) Between 1982 and 2006, seigniorage from the penny earned the Treasury almost $1 billion. During this time, the Government Accountability Office said that eliminating the penny would increase government borrowing to finance the deficit and increase the deficit by almost $18 million a year; there would not be budget savings.

Beginning in late 2006, there was a super surge in world wide metals prices caused by market speculation, increased global demand, and supply disruptions that increased penny production costs. Since that time, the price of the primary penny metal, zinc, has dropped by 60 percent. From 2007 to 2009, total coin volume through the Mint dropped 63%. Although metal prices have decreased, and penny production and transport costs have remained relatively constant, the low coin demand has negatively impacted the penny's cost.

2. The cost of penny metal and fabrication costs have remained relatively constant recently. Mint coin production reports show that the total coins produced dropped from 10.1 billion coins in 2008 to 3.5 billion coins in 2009. While production numbers for the first half of calendar 2010 show an uptick in total coins produced, the anticipated coin production for calendar 2010 is down 50 percent from just two years ago. Consequently, there is a fixed amount of Mint ,/ overhead that is being allocated to a smaller number of coins. Historically, the penny has accounted for 60 to 70 percent of Mint coin production. As Congress and the public review reports on the cost of coins, it is important to identify the various segments that comprise thos costs.

On July 16, 1996, the GAO testified before the Domestic and International Monetary Policy Subcommittee regarding the penny's cost. In a three page letter to the GAO, then-Mint Director Diehl strongly objected to a GAO accounting "scenario" that spread Mint costs based on the number of coins produced rather than labor cost, calling the GAO methodology "faulty" and incorrect. Director Diehl was particularly concerned that the GAO incorrectly added almost $10 million to Mint overhead thereby inflating the cost of the penny. The Mint noted that the GAO's proposed reallocation of cost (based on the number of coins produced rather than labor cost) double charged portions of the penny fabrication process. That is, the GAO assigned penny contractor costs to make the coins for the Mint and then also added significant parts of Mint non-penny costs. It is important to realize that the Mint receives the penny in a form ready to be struck directly into legal tender. For the other denominations, the Mint begins with raw metal strip. It is unfair to apply all the Mint's overhead based on volume when only a small fraction of the operations on the penny are performed by the Mint.

3. Nickel produced at a loss as well. Suggesting that eliminating the penny saves money is a short-sighted view. The nickel cost more to make than the penny in FY 2008, so it's hard to see how the government saves money by making more nickels. The Mint's cost estimates to produce the nickel (75% copper and 25% nickel) were 6.4 cents in FY 2008, down from 9.2 cents - almost a dime - in FY 2007. The economic dislocations from 2009 and 2010 make future predictions difficult, especially in light of the Mint halting nickel and dime production in 2009. But one point is clear, the impact of increased metals costs and Mint overhead cost allocations would become measurably greater if the penny were eliminated and the nickel became the lowest denomination, and most widely produced, coin.

In response to a question by Congresswoman Maloney in July 2006, the Mint stated that at early 2006 prices for nickel and copper, it would lose approximately $100 million annually to make 3 billion nickels if the penny was eliminated. In addition, the Mint noted that fixed costs associated with production of the penny would have to be absorbed by the remaining denominations of circulating coins, adding several million more in losses.

Americans need to understand that they won't save government revenue if the penny is eliminated. The Mint is losing money making nickels as well, which should lead to a thorough examination of alternative metal compositions for our coins. We support calls in Congress and the Mint for a review of alternative metals for producing our coins.

AMERICANS WANT TO KEEP THE PENNY

National polling over the past two decades has consistently shown that between two-thirds and three-fourths of Americans support keeping the cent in circulation.

A Gallup Organization poll in 1990 and Opinion Research Corporation surveys conducted in 1995, 1996, and 2001 show Americans are persuaded by several factors, such as antipathy toward price rounding. And a 1992 CNN/Time survey conducted by Yankelovich found 74 percent of Americans support keeping the penny in circulation. More recently, a 2006 Coinstar National Currency Poll found that two-thirds of Americans want to keep the penny as legal tender, virtually the same percentage (65 percent) as in 2001.

Thus, polls conducted by Americans for Common Cents and independent polls such as those by Coinstar, USA Today, and CNN/Time never have shown the level of public support for the penny below 60 percent.

CONSUMERS AND THE ECONOMY LOSE WITHOUT THE PENNY

Faith in the strength of the economy and the nation is tied to perceptions about the currency system, and public acceptance is an important criterion for evaluating currency and coinage changes. The penny has become embroidered into the social and commercial fabric of our society. Any benefits associated with possible cost savings with elimination are outweighed by the public policy and economic costs.

1. The penny serves as a hedge against inflation. Eliminating the penny will have an impact on inflation, both real and perceived. Even a small increase in inflation mounts to considerable sums

since virtually all government outlays (e.g. Social Security, welfare programs, interest on the public debt) and many private sector costs (e.g. wages) are tied either formally or informally to the Consumer Price Index. A conservative estimate of rounding translates into government outlays being close to $2 billion over 5 years. By contrast, annual costs for the penny for FY 2009 exceed revenue by about $20 million.

In 2006 the *Wall Street Journal* editorialized that eliminating the penny would "wave a symbolic white flag before the forces of inflation." They likened taking the penny out of circulation to / actions one usually associates with nations like Argentina, Bolivia, and Mexico that periodically degrade their peso currencies and create hyper inflation.

Under the current fragile economic climate, the last thing Congress should do is increase inflationary pressure.

<u>2. Rounding doesn't work.</u> If there is one principal that economists generally agree on it is that the behavior of firms (employment, production, advertising, pricing decisions) is guided by a straight forward objective -- the desire to maximize profits. There is no obvious incentive for 'firms to price in a way that will lead to rounding down. In fact, Raymond Lombra, Ph.D., Professor of Economics at Penn State University, told this Committee in 1990 that we can be certain pricing schemes will be designed to take advantage of single item and small number cash purchases in a way that leads to net rounding up. Such considerations suggest that there will be no tendency for the rounding "tax" to disappear over time.

Over three-quarters of Americans (77 percent) are concerned merchants would raise prices without the penny. And they're probably right. The claim that rounding will have no noticeable effect on the typical consumer is predicated•on the notion that there is an equal 10 percent probability of purchase prices ending in any particular digit. In fact, what little evidence there is suggests the equal probability assumption is false. Some retail food pricing studies and restaurant studies demonstrate that prices ending in odd digits are much more common than those ending in even digits, and that prices ending in "9" are most often observed.

<u>3. Rounding will disproportionately affect those who least can afford it.</u> Federal Reserve studies show that people with relatively low incomes (particularly the young, elderly, and minorities) use cash more frequently than individuals with higher incomes. More than 10 million "unbanked" Americans lack accounts at mainstream financial institutions and must rely on cash and coins for purchases.

Since only cash transactions will be subject to rounding, it follows that cessation of penny production would be regressive in that the poor will bear a larger share of the aggregate burden than will other segments of society. As a result, those with the least ability to afford the "rounding tax" will experience the greatest burden in paying for it.

CHARITIES THRIVE ON PENNY DONATIONS

Many local fundraising drives are fueled by pennies. So too are canister collections by charitable organizations such as the Ronald McDonald House, Muscular Dystrophy Association, the Taco Bell Foundation and Salvation Army, among others, who rely heavily on donations from the collection of pennies. This collections prove the penny's value as money.

America's charities are the foundation of our nation's social safety net and help to ensure that people in need get the help they deserve. As our economy declined in the last two years, contributions to charities have dramatically decreased. Knowing this, can there be any doubt that penny drives and other innovative ideas are critical to all charities.

One example from last February is particularly telling. On the 200th anniversary of Abraham Lincoln's birth, the Leukemia & Lymphoma Society celebrated in New York the r.5 billionth ($150 million) penny collected by school students across the country for the "Pennies for Patients" program. The Leukemia & Lymphoma Society certainly recognizes that every penny literally counts. Indeed, the $150 million collected in their Pennies for Patients program proves that pennies do add up to significant sums. With every life saved from blood cancer, their annual penny drives debunk the naysayers proving the penny's value.

CONCLUSION

Today, countries around the world are concerned about the cost of producing quality circulation coins, especially when the cost to produce their coins approaches or exceeds the face value of the coin. We look forward to working with Congress and the US Mint during these important discussions to ensure that the one-cent coin is retained.

The alternative to the penny, rounding transactions to the 5-cent coin, is bad for consumers and our economy. Under the current economic climate, elimination of the penny would automatically increase inflationary impacts during a period of recessionary pressure.

In addition, Americans overwhelmingly want to keep the penny; 70 percent of Americans support keeping the coin. And finally, no one has explained how we would replace millions of dollars raised by penny charitable drives every year if we didn't have the penny. Notable charities like Ronald McDonald House Charities and the Leukemia & Lymphoma Society rely significantly on small, yet critical, penny contributions.

Government resources and creditability should be devoted to making our coins more cost effectively, not pursuing initiatives that will cause considerable adverse effects.

In these uncertain economic times, the last thing consumers need is price rounding, inflation or reduced charitable assistance. And for those merchants or Americans who don't want their pennies, send them our way. They will be put to good use supporting charities conducting blood cancer research, local food banks, reading programs, and services that have contributed to groundbreaking community programs. The penny is wanted, needed, and appreciated by thousands of organizations and millions of people around the nation.