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S. HRG. 104-189

CREATING A NEW ONE DOLLAR COIN [S. 874]

[HE]ARING

[BEF]ORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

S. 874

TO PROVIDE FOR THE MINTING AND CIRCULATION OF ONE DOLLAR COINS, AND FOR OTHER PURPOSES

THE COST SAVING AND BUDGETARY IMPACT FROM THE PROPOSAL TO ELIMINATE THE ONE DOLLAR BANKNOTE NOW IN CIRCULATION AND REPLACE IT WITH A NEW ONE DOLLAR COIN

JULY 13, 1995

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

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CREATING A NEW ONE DOLLAR COIN [S. 874]

THURSDAY, JULY 13, 1995

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:10 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Al D'Amato (Chairman of the Committee) presiding.

OPENING COMMENTS OF CHAIRMAN D'AMATO

The CHAIRMAN. The hearing will come to order.

Good morning. This Committee today considers an issue that affects everyone. The question is whether or not we should mint and circulate a dollar coin in place of the dollar bill.

I'd first like to thank Senator Grams for his leadership and hard work on this matter. Senator Grams has been diligent in bringing this matter to our attention by introducing S. 874, the United States One Dollar Coin Act.

I am going to ask that all of my statement be included in the record as if read in its entirety. Let me attempt to summarize, though.

Proponents of Senator Grams's bill would argue that savings to the Government and the positive effect on the budget would be in the millions, possibly even in the billions, of dollars.

Opponents of the bill question the estimate as it relates to savings and they cite the huge differences in reported totals. They also cite polls showing that the public is not ready to give up the dollar bill.

I understand the motivation of those who wish to save the greenback. The dollar bill is a powerful symbol for America and the world. It represents a lot more than one hundred pennies or what it can or can't buy. It represents stability. It represents tradition. The dollar bill's significance is not confined to the United States. It has a universal recognition. That recognition translates into security and reliability all over the world.

This is not an easy issue. You cannot say that any side is right or wrong. There are merits for those who propose. I believe that there are substantial dollar savings that can be achieved, without a doubt.

By the same token, no one can deny the arguments of those who are concerned with the significance of the dollar and the symbol that it represents.

So this is not an easy question. That's why I want to commend Senator Grams for his leadership in this matter in bringing it forth in this way so that we can have a hearing and focus in on the facts.

Senator Grams.

OPENING STATEMENT OF SENATOR GRAMS

Senator GRAMS. Thank you very much, Mr. Chairman. Also, I want to thank you for calling today's hearing on the issue of what is of great importance to me, and I believe to every person who is concerned about Government waste, who use vending machines, ride mass transit, or suffers from a visual disability.

Of course, I'm talking about replacing the one dollar bill with a dollar coin, an idea, I believe, whose time has come, and in which I've introduced legislation—that is, S. 874.

I don't know of any Member of Congress who has not been urged by his or her constituents to cut Government waste and to get on with the business of eliminating our budget deficit.

With Congress having passed the budget resolution 2 weeks ago, we have outlined the glidepath toward a balanced budget within 7 years. Now we are faced with the hard choices and decisions to implement this plan and, believe me, every dollar is going to count.

To accomplish this task, I've always advocated improving the way Government conducts the business of the people and developing policies which can help us carry out our responsibilities in the most cost-efficient manner possible.

One simple way to do this is to switch from using the one dollar bills to using a one dollar coin.

Now nearly every study shows that this practice would save our taxpayers dollars. For example, the Federal Reserve Board estimates that the one dollar coin would save $456 million every year, and that is no small chunk of change.

I am pleased that Governor Edward Kelley from the Fed can be here today, as well as representatives of the GAO and the CBO, who have calculated savings from the one dollar coin as well.

Savings from S. 874 are not, however, simply limited to tax dollars. Consumers and users of vending machines and mass transit will benefit as well. In fact, studies show that switching to a one dollar coin would save the mass transit industry as much as $124 million every year.

I also look forward this morning to hearing the testimony of William Buetow, from the Chicago Transit Authority, on his testimony on savings that can be passed down to the thousands of people who use mass transit every day.

Another group of Americans who will benefit from S. 874 are those who suffer from a visual disability. Our legislation is a major step forward for these Americans who run the risk every day of accidentally spending a large bill or being cheated when receiving change.

Replacing the one dollar bill with a coin will help tremendously in reducing such unintended discrimination.

Finally, we should learn a lesson from other countries. Every major industrial nation in the world has already switched to a high denomination coin and removed or phased out their paper currency of the same value.

I brought with me a display of 24 different countries coins that they have used to replace their dollar bills or other currency that they've had. I'll just pass that around, if I could.

In fact, in Canada, that country has experienced so much success with their coin, which they call the "loonie," that they are now in the process of issuing a two dollar coin as well.

Mr. Chairman, I'm pleased to report that we do have broad bipartisan support for our legislation. I'm also honored that Senator Moseley-Braun has joined me as the two lead sponsors of S. 874.

Mr. Chairman, under the budget resolution just passed by Congress, this Committee has been instructed to find over $2 billion in savings over the next 7 years. This morning, our offer to you and the other Members of the Banking Committee is a reasonable, common sense way of fulfilling this responsibility and also doing a great service for the American people at the same time.

I'm urging my colleagues on the Committee to join me and Senator Moseley-Braun in carrying the resolution of 1995 into the most basic function of Government, and that is the printing and minting of currency.

Our work begins today in this room and, again, Mr. Chairman, I want to thank you very much for holding this important hearing and I look forward to listening to the testimony that will be presented.

Also, I would also like to introduce one of the cosponsors of the dollar coin in the House, Mr. Jim Kolbe, Congressman Kolbe. He has a statement that he would also like to submit in writing for this Committee.

The CHAIRMAN. So ordered.

Senator GRAMS. Thank you. Thank you very much, Mr. Chairman.

The CHAIRMAN. Senator Faircloth.

OPENING STATEMENT OF SENATOR FAIRCLOTH

Senator FAIRCLOTH. Thank you, Mr. Chairman.

Certainly, the idea of a dollar coin is a most interesting subject and I think it's one this Committee is exploring and it needs to look into in depth.

North Carolinians have been calling me going on both sides of it. But the estimates are that this coin could save as much as $456 million a year. If these estimates are correct, and I believe they are, then any idea that could generate that kind of savings, we need to follow.

Now the dollar bill itself has a life of 18 months. With most people, it's about 30 seconds.

[Laughter.]

Whereas, a coin can last for 30 years, and that's a pretty significant difference in the life we could expect from the coin.

Mr. Chairman, my concern, like many people, is whether a dollar coin will somehow increase the cost of products sold at vending machines or other items like mass transit fares.

I am told that the cost of producing a vending machine that accepts dollar bills is several thousand dollars more than a vending machine that accepts just hard coins.

Thus, it's a bit of irony. By not having a dollar coin, we may be increasing the cost of food, soda, or convenience foods that are sold out of machines.

I think we need to take a look at it fully and I think that if it would produce the savings, we should get into it. But I'm concerned that the American public, whether they're ready for a dollar coin or not, are ready to accept a dollar coin. We know that there are a lot of Susan B. Anthony ones still in storage. Will it have an inflationary effect?

These are some of the things we don't know, we need to look into, and that's what the hearing's for, Mr. Chairman, and I thank you for holding it.

The CHAIRMAN. Thank you, Senator.

Senator Frist.

OPENING COMMENTS OF SENATOR FRIST

Senator FRIST. Mr. Chairman, can I take this opportunity to introduce somebody on the third panel, because I will not be here?

The CHAIRMAN. Absolutely. Certainly.

Senator FRIST. I have the pleasure of introducing a member of the third panel today, Mr. David Clayton, who is president of the Automatic Food Service of Nashville, Tennessee.

Today, he'll be speaking on behalf of the National Automatic Merchandising Association.

Mr. Clayton is a fellow Nashvillian, Tennessean, who has been involved in the vending industry for over 30 years, and has been president of Automatic Food Service since 1975.

Mr. Clayton's work in the vending industry includes being president of the Tennessee Automatic Merchandising Association from 1979 to 1980, and chairman of the National Automatic Merchandising Association in 1993.

Currently, Mr. Clayton is a director of the boards of both the TAMA and NAMA and is also the chairman of government affairs of the NAMA.

I personally appreciate Mr. Clayton coming forward and testifying before our Committee.

The CHAIRMAN. Thank you, Senator.

Senator Mack.

OPENING COMMENT OF SENATOR MACK

Senator MACK. I have no opening statement.

The CHAIRMAN. OK. We'll turn to our first panel. A Member of the Board of Governors of the Federal Reserve System, Mr. Kelley. Mr. Kelley, it's good to see you.

Our other panelist is Mr. Philip N. Diehl, who is the Director of the United States Mint.

Mr. Kelley.

STATEMENT OF EDWARD W. KELLEY, JR., MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. KELLEY. Would you like me to start, sir?

The CHAIRMAN. Certainly.

Mr. KELLEY. Thank you.

The CHAIRMAN. Let me first say that we will enter your statement into the record as if read in its entirety. We would appreciate if you would go right to the highlights of your testimony because I think that's more important. So then, the Members present can pose their questions to you.

Mr. KELLEY. Fine. Thank you, sir.

The Board of Governors is pleased to have the opportunity to present its views on S. 874, which would provide for substituting a one dollar coin for the one dollar bank note now in circulation, and on several benefits and costs of making such a replacement.

In summary, the dollar coin would produce a substantial budgetary gain to the Federal Government, provided that the one dollar note is withdrawn from circulation.

The Board staff estimates that the gain would be about $2.28 billion, in nominal terms, over the first 5 years after introduction of the new coin and would average about $456 million per year in real discounted present value terms over the assumed 30-year life of the dollar coin.

The Board believes, however, that the convenience and needs of the American public, as well as cost savings, should weigh heavily in this decision.

Experience in Canada and other countries where similar changes have been made in recent years suggests that the public will over time find a dollar coin more convenient than the dollar note.

Finally, we would note that the significance of the U.S. dollar goes beyond the purchasing power that it represents or the utility it provides. For Americans, the dollar is a symbol of economic and political stability and a source of national pride. Consequently, a change should be made only for compelling reasons.

If after taking account of all these considerations the Congress is inclined toward replacing the dollar note, it should enact legislation with a reasonably delayed effective date so that all of those affected can plan adequately for the transition.

The impact on the Federal budget of issuing coins and currency notes is not widely understood by the public, so I have devoted a portion of my written statement to reviewing those fundamentals. I will just say now that although the accounting processes and budget presentations are quite different for notes and coins, in substance, first, both issuing coins and issuing currency notes lower the Government's effective cost of borrowing from the public by approximately the value of the coin or currency notes in circulation times the interest rate that the Government pays on its debt.

Second, there is an offsetting cost to the Government associated with servicing the outstanding circulating coins or notes which involves replacing unfit coins and notes as they wear out and operating the Federal Reserve currency and coin processing facilities that provide the public with good quality and genuine coins and notes.

The Board's staff has estimated the gain to the budget position of the Federal Government by substituting a dollar coin for the dollar note, taking into account the various factors that would affect the budget. These include the respective costs and average lives of dollar notes and dollar coins, the higher cost for larger denomination notes that would follow from a reduction in note production of almost 50 percent and importantly, the likely substitution of two one dollar coins for each one dollar note remaining after a presumed larger public demand for two dollar notes.

The Board staff estimates that within the first 5 years of the implementation, the Federal Government budget position would be improved by a total of $2.28 billion. The average yearly gain in present-value terms over the 30-year life of a one dollar coin is estimated at $456 million.

There are other factors that could substantially add to the gains of such a substitution, but that are inestimable and so are not included in our calculations. For example, there is likely to be a very considerable numismatic or sentimental collecting of one dollar notes as a result of an announcement that they soon would be no longer issued, although I hasten to say that the one dollar notes would continue to be legal tender.

These gains would be unlikely to be achieved, however, if the dollar note were not withdrawn from circulation. First of all, many people, at least initially, would continue to prefer the note if given a choice. That being true, the private sector, notably banking and retail establishments, not knowing how extensively the public would use the dollar coin, would be reluctant to make the infrastructure outlays necessary for the coin to succeed, such as training employees on new cash register drawer procedures, ordering new coin inventories, new arrangements with financial institutions, and so forth.

Likewise, the public would refrain from using the new coin if the retail sector were not prepared. In the meantime, the public sector, particularly the Bureau of Engraving and Printing, the Mint, and the Fed, perhaps also the Postal Service and mass transit systems, not knowing what the respective demands would be for dollar notes and coins and wanting to be able to meet any likely demand, would almost inevitably overinvest in production and processing capacity.

As important as the budgetary gains would be, the Board believes that the convenience and needs of the public should also weigh heavily in this decision. In this regard, opinion surveys indicate that the American public generally is satisfied with the present currency system and may not initially welcome replacing the dollar notes.

There is evidence in the experience of other countries, including Canada, however, that over time, a dollar coin would come to be recognized as more convenient, cleaner, and more efficient than the one dollar note.

If designed properly, a dollar coin may very well be able to evoke confidence in the currency system and be a source of national pride to the same extent that the dollar note is now. Market testing, such as with focus groups, can help to achieve this result.

If this Committee decides to move forward with dollar coin legislation, please be aware that S. 874 would not, in our view, provide enough preparation time for those most involved—the Nation's banking and retail establishments, Treasury Bureaus of the Mint and of Engraving and Printing, and the Federal Reserve Banks, and we have two concerns in that regard. First, any legislation should, in our view, give the Mint adequate time in which to be certain that the coin design will meet the needs of users well into the next century. This has both physical and aesthetic design implications and presumably would require considerable market testing. Closely related is the need for adequate time in which to produce a large stock of new dollar coins once the design is approved.

In our view, any legislation should give the Treasury Department a good deal of freedom to set the Mint's production schedule so as to optimize costs and resource usage at the Mint, at the Bureau of Engraving and Printing, where the impact on bank note production will be substantial, at the Federal Reserve Banks, which will need to adjust considerably their capacity for processing notes and coins, as well as draw down their inventories of one dollar notes, and at commercial banks and retail establishments.

Eighteen months, as S. 874 provides, would not be enough time for this planning, production, and reorientation. The Board believes that any legislation should provide at least 36 months.

Our second concern is with the requirement in S. 874 that the Federal Reserve discontinue ordering and paying out one dollar Federal Reserve notes immediately upon introduction of the one dollar coin. The length of time in which the Federal Reserve must pay out both coins and notes would be a function not only of the Mint's production capacity, but also variables such as the substitution rate of dollar coins for dollar notes, and the public's demand for two dollar notes, which cannot be predicted accurately in advance.

The Board believes that any legislation should give the Federal Reserve freedom to adjust the timetable for discontinuing the issuance of one dollar notes within a period of 2 years following the introduction of the new coin, perhaps accompanied by an instruction to accomplish the transition as quickly as possible.

Moreover, beginning in 1996, Treasury and Federal Reserve will begin a multiyear introduction of new designs for Federal Reserve notes that will be completed with the introduction of the newly designed $5 note in about 1999. It would be preferable that these important changes not occur contemporaneously with the introduction of the dollar coin.

In summary, if Congress judges that the balance of considerations weighs in favor of replacing the note, it should adopt legislation as promptly as possible that would establish dates in the future for introducing the new one dollar coin, say in about 3 years, and for no longer issuing one dollar notes, say within 2 years after that.

In that way, both the public and private sectors would have a sound basis for beginning immediately to plan for the change.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Kelley.

Mr. Diehl.

STATEMENT OF PHILIP N. DIEHL, DIRECTOR, U.S. MINT

Mr. DIEHL. Thank you, Mr. Chairman, for your invitation to present the Treasury Department's position on S. 874, legislation eliminating the dollar note and mandating the production of a new dollar coin.

I find myself in the ironic position of being a bureau head that is opposing legislation that would give me significant new resources and manpower at a time in which there are very few departments of the Government that have that opportunity.

The CHAIRMAN. That's unusual. You don't want to do these things?

Mr. DIEHL. Excuse me.

The CHAIRMAN. You don't want to do these things? You'd be indispensable.

Mr. DIEHL. I think I owe you an explanation for why I am not following the expected line.

The CHAIRMAN. You owe Senator Grams one. But go ahead.

[Laughter.]

Mr. DIEHL. I will provide it to him at the same time, gladly.

The Treasury Department opposes the legislation for three reasons.

The American people overwhelmingly reject the——

The CHAIRMAN. Now let me ask you something. The Treasury Department has taken a position?

Mr. DIEHL. Yes.

The CHAIRMAN. OK.

Mr. DIEHL. The Treasury Department opposes this for three reasons.

The American people overwhelmingly reject substitution of a dollar coin for the dollar note, and for that reason, they are likely to resist attempts to force its circulation.

Second, proponents have greatly overstated potential savings and have ignored potential risks associated with substituting a dollar coin for the dollar note.

Third, the United States Mint cannot produce the dollar coin mandated by this legislation in the time allowed.

I begin, Mr. Chairman, by reminding this distinguished Committee that the Treasury Department has mounted two unsuccessful attempts to launch dollar coins in the past 25 years—the Eisenhower dollar of the early 1970's and the Susan B. Anthony in 1979.

After 15 years, the Mint and the Federal Reserve still have some 280 million of the original 857 million Susan B.'s in their vaults.

Since the failure of the Ike and the Susan B., the American consumer has not warmed toward a dollar coin. Public opposition to eliminating the dollar note is ardent. Repeated polls over the past 5 years show that Americans prefer a dollar note over a dollar coin by a margin of 4:1.

S. 874, like similar measures in recent years, eliminates the dollar note. Sponsors of this legislation know Americans will reject a dollar coin for a paper dollar if allowed a choice. They know the Susan B. failed to circulate primarily because Congress persuaded Treasury not to eliminate the dollar note, as initially planned.

I believe the sponsors of S. 874 are to be commended for stepping up to the plate knowing the unpopularity of abolishing the greenback.

However, abolishing the dollar note will not be sufficient to force circulation of the dollar coin over broad public opposition, because there's an alternative to a dollar coin—that's the $2 note, which the Federal Reserve will return to circulation upon eliminating the dollar note.

Whether through inertia, preference, or outright defiance of an unpopular Government mandate, the American people can simply substitute the $2 note for the dollar note and continue to use quarters as they do today.

Mr. Chairman, there's clear evidence that's exactly what they will do. An Opinion Research Corporation survey conducted this year for the National Consumers League found that a large majority, 64 percent of their respondents, would use a $2 note over dollar coins.

Moreover, there is a lesson to recall from our experience with the Susan B. Anthony.

During the launch of the Susan B., Congress's will to abolish the Greenback faded when it heard from angry consumers, constituents, and media who opposed the attempt to force circulation of an unwanted coin by denying people the dollar note.

In turn, Congress persuaded Treasury not to proceed with withdrawal of the dollar note, and the Susan B. failed as a result.

The American people do not want this coin. Our resolve to abolish the note is not fixed in the stars. Contrary to conventional wisdom of dollar coin advocates, there's a convenient alternative to the dollar coin in the form of the two dollar note, an alternative that will doom the attempt to force the acceptance of a dollar coin.

In addition, Mr. Chairman, we believe that some of the advocates have overstated claims about cost savings and other benefits resulting from replacing the note with a dollar coin. Their claims are based on lower production and recycling costs over a coin's 30-year lifespan compared to a lifespan of 17 months for the note.

GAO studied this issue in 1990 and 1993. Their latest estimate is that over a 30-year period, average annual savings would be $395 million a year, in mostly off-budget revenue, by substituting a dollar coin for the dollar note.

Multiplying this figure times five, and using private studies they have commissioned, proponents of the dollar coin have claimed potential 5-year savings of $2 billion or more.

We agree that, in the long run, this proposal could produce savings, significant savings, if the American people could be forced to accept a dollar coin.

However, given the public's well-documented resistance to a dollar coin, there's substantial evidence that this effort will fail. Not only would the Government realize no savings. It would incur substantial costs in producing the coins, and in disposing of them once the experiment fails.

Moreover, we are concerned that proponents have greatly exaggerated the near-term, 5-year savings potential of a dollar coin. Because of front-loaded costs and back-loaded savings over the first 5 years, CBO concluded the total scorable savings over the first 5 years would be only $100 million, compared with advocates' claims of $400 million a year.

It should be noted that the CBO estimate does not reflect the production timetables and other specifications mandated in S. 874. Rather, their estimate is based on a "generic" dollar coin proposal.

We believe that even this low CBO estimate of $100 million over 5 years probably overstates the real savings attributable to a dollar coin.

The CBO estimate overlooks several significant appropriated costs related to production of a new dollar coin and return flow of circulating Susan B's.

For example, the CBO estimate does not reflect what we estimate to be a $20 million public relations campaign to support eliminate of the dollar note, an estimated $23.4 million in capital expenditures in the first year alone in preparation to produce new dollar coins, and $25 million in production costs that must be appropriated for the first 5 billion coins.

All those expenses must be funded with appropriations beginning with next year's budget in order to produce the new dollar coin under the terms of this bill.

To put this into perspective, please note the attached cost estimate that I've included in my testimony.

Our analysis indicates that under current law, the Mint would require an additional appropriation in this year's pending appropriation bill of $23.4 million for next year, and $72 million over the next five years.

Costs of complying with the terms of S. 874 would be significantly larger than that, though, because the timeline of S. 874 is much shorter than what we based our estimates on.

Mr. Chairman, proponents of the dollar coin have not only exaggerated the savings potential of a dollar coin. They have ignored substantial risks and cost of failure inherent in this proposal.

When the Susan B. failed 15 years ago, the Mint had produced 857 million of them, and we carried over 500 million of them in our vaults for many years.

S. 874, however, requires a much faster ramp-up of production for a new dollar coin than was the case with the Susan B. Anthony, because the dollar note would be eliminated simultaneously with introduction of the dollar coin.

For example, under the provisions of S. 874, we estimate that the Mint will need some three billion dollar coins in stock 18 months after enactment in order to fill the pipeline. We further estimate we will need 6 to 9 billion coins within 36 months of enactment to replace the current stock of dollar notes now in circulation.

If the attempt to force circulation of the dollar coin fails under this timeline, we will not know it untii late into the 36-month period. Therefore, we will not have 500 million unwanted dollar coins on our hands as we did 15 years ago. We're likely to have more than ten times that number.

Failure to force circulation of the new coin will not only mean there will be no savings from eliminating the dollar note. It will mean there will be no opportunity to recover the costs of producing the dollar coin.

Moreover, neither the Mint nor the Federal Reserve Bank has storage capacity for billions of dollar coins. We will be required to rent private, secure storage vaults to warehouse the unwanted coins until a decision is made to melt them down or otherwise dispose of them.

Finally, if Americans reject the dollar coin and simply substitute the $2 note for the dollar note, we will see a rapid increase in demand for quarters for change-making purposes to augment the $2 note.

However, our production capacities will be stretched to the limit, and it will be very difficult to quickly produce additional quarters to meet this demand, and regional shortages could ensue.

Mr. Chairman, our third objection is one of physical compliance. S. 874 calls for the Treasury to introduce a new dollar coin and to cease issuing dollar notes within 18 months of enactment. The coin is required to be golden in color with metallic and anti-counterfeiting properties similar to existing clad coinage.

The Mint simply cannot produce sufficient quantities of this particular coin to assure a smooth transition in 18 months as contemplated in this legislation.

We will require at least 30 months to buy and install necessary coin production and material-handling equipment. I note that the Federal Reserve has called for an even longer transition of 5 years, citing the complexity of a new dollar coin, uncertainty in gauging its public demand, and the importance of not issuing a dollar coin at the same time the Fed is completing issuance of new designs for paper currency.

We also have significant doubts that our private-sector coin strip manufacturers have adequate capacity to produce the quantity and quality of coin strip necessary for the Mint to comply with the terms of the bill.

Moreover, we will need a new alloy of gold color. This requirement extends our production timetable while we research and develop the optimum alloys.

Mr. Chairman, I'd like to end with a historical note that may shed some light on why I believe the future of our Nation's currency lies elsewhere than with the dollar coin.

In the decades before the Civil War, U.S. coinage alone became inadequate to the demands of commerce in our growing Nation. As a result, a multitude of local and State banks filled the void by issuing their own currency, which traded at face value in the vicinity of the issuer and at deep discounts, if at all, elsewhere.

By 1860, the currency market was in chaos, and financial requirements of the Civil War led Lincoln's administration to issue our first national currency.

Today, a multitude of financial houses and other private interests issue their own high-tech and low-tech forms of currency—debit cards, smart cards, and similar types of E-cash, or electronic cash, creating an electronic Tower of Babel in the market place. These cards "trade" only on the technology of the issuing institution and cooperating institutions.

There is no universal form of E-cash, just as there was no universal form of currency before the Civil War.

Unlike Lincoln, we face no urgent national crisis today. But I believe we are rapidly approaching the point at which market efficiency may well demand the production of a universal card that can be used as a substitute for coinage.

But here we are today, at the end of the 20th century, attempting one final time to force circulation of the oldest technology of commerce known to mankind.

This is not how we should be investing the leadership and financial resources of this Nation. Instead, we should be identifying the American people's interest in emerging Third Wave forms of currency and defining the appropriate role, if any, of the Federal Government in the evolution of this technology.

We should be looking at the future of our economy and to the role of money in that economy, Mr. Chairman, not repeating the efforts of the past.

Thank you again for this opportunity. I'll take any questions you may have.

The CHAIRMAN. Thank you, Mr. Diehl.

Before we start our questioning, we've been joined by Senator Kerry.

Senator Kerry, did you have any opening statement?

OPENING COMMENTS OF SENATOR KERRY

Senator KERRY. Not really, Mr. Chairman. I appreciate the hearing.

I was just sitting here thinking that if a Democrat had introduced this 10 years ago, it would probably be accused of being a great communist plot to undo the coinage of America.

The CHAIRMAN. You've got to be careful now. There's a Republican and a Democrat sponsoring this legislation.

Senator KERRY. Well, I know. But I said, originally introduced it. [Laughter.]

I realize now we're across the lines. But Trent Lott has started the Save the Greenback movement, so we're going to have a bipartisan effort to keep America whole here.

I just am concerned, as a number of us are, with the experience, and I want to thank you for what I think has been very cogent testimony this morning regarding some of the issues.

Clearly, there's a legitimate question which I'm sure Senator Grams will raise, and others, as to whether or not within some appropriate framework of time and an adequate public relations campaign, which I believe was absent with the Susan B., as well as with the simultaneous phase-out, which didn't occur, whether that changes the dynamic. That's a legitimate question.

But I basically share the view that you've expressed here that there is no great advantage, particularly given the nature of the change in the marketplace today.

I think your last comments were perhaps the most important of all in some regard. We ought to think very carefully about where that takes us.

I also think that there is not yet, Mr. Chairman, a sufficient examination of the additional costs that may accrue and how those play out in the economy in terms of potential inflationary impact from the spin-off costs for changing over vending machines and all the attendant costs and what that means to a certain sector of our economy that is very dependent on that kind of transaction in the market place.

I think that those things need to be looked at very carefully.

But I do think that the Treasury has raised, as it appropriately ought to, the most salient questions here and I thank them for doing that and express my own deep reservations, even opposition, to the notion that this makes sense or that it will produce the savings advocated.

I might add, in the production of the current paper, which is not really paper. There's no wood product in it. It's a cotton recycling—versus the mining that will take effect of ore. There's a certain environmental consideration here, too, in that regard.

I think when you take it all in its context, I am not sure that it's something that we want to proceed forward on.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Mr. Diehl, let me point out to you, I think you've made a number of very valid—as has Mr. Kelley—points concerning the amount of time between enactment of the bill and introduction of a coin.

But given that, I am certain that the sponsors of the bill did not write this as something that is sacrosanct. As a matter of fact, I'm certain Senator Grams will address that.

I think we have to look at it as it relates to an impediment that can very easily be dealt with, and would be dealt with. So there's nothing magic in 18 months. I just wanted to make that point. I think that it's very interesting that you do touch on something that we have to consider in terms of estimates. The fact is, probably, that the outlay costs, et cetera, for the estimates in terms of the savings, throw the figure of $2 billion plus over 5 years, into some disarray and the total would probably be substantially less. But I think you'd probably admit that over the second 5-year period of time, it would probably be pretty accurate and you'd hit your $2 billion in savings over the second 5 years. Would you agree with that, Mr. Diehl?

Mr. DIEHL. Well, my understanding is, and I'm certainly not the expert. You have the experts here from CBO and GAO who can answer that question better than I can. But my understanding is that in terms of on-budget savings, you don't hit around $150 to $200 million a year until the 15th year or so.

The CHAIRMAN. 15th year? Is that what they estimate?

Mr. DIEHL. That's my recollection. But, again, I would rely on the expertise of GAO and CBO.

The CHAIRMAN. We'll get to them because I don't want to prolong this and I want to get the panel moving.

It just seems to me that you're right in saying that the savings estimate may be a little high in the first 5 years.

If you have a program and want it to succeed, it seems to me that if you introduce the coin, the only way it can be successful is to withdraw the paper equivalent from circulation, then once we undertake that task with a good deal of speed, opinions will change.

I don't think we should be for or against something in response to results of an opinion poll. It always seems to me that's the wrong way to run Government, although we all do it.

[Laughter.]

What should I say? I'm going to say it a different way.

[Laughter.]

Or not say it. In my case, I should not say it.

[Laughter.]

I think you have made some valid points, but, in fairness, they can be dealt with and you have to look at this business about withdrawing the dollar bill. That action alone, would eliminate the kinds of problems you had with the Susan B. Anthony.

No. 1, there was no educational program, as you mentioned.

No. 2, there was no withdrawal of the dollar bills.

No. 3, I think we will be looking at the future of electronic money and services. As a matter of fact, our counter-parts in the House are holding a hearing later this month, which will probably be quite constructive on the same topic. Just last week we sent a letter to the Congressional Budget Office requesting a study of these progressive products and their impact on the U.S. financial industry. It's very, very, very interesting.

I think, if anything, that might mitigate in favor of moving forward on the dollar coin situation, given the fact that you're going to be using less of whatever it is, whether it's paper dollars or coins. That is obvious.

No. 4, I don't know what the poker players of America would like, whether they want to keep the greenback or go to the coins.

With that, Senator Grams.

[Laughter.]

Senator GRAMS. Thank you very much, Mr. Chairman.

Mr. Diehl, I'd like to first start out talking about the costs involved and the projected savings.

You stated that the dollar coin would cost the Treasury money. Governor Kelley has testified that the dollar coin will save as much as $456 million a year, $2.8 billion over the first 5 years.

Could you tell me, and Governor Kelley, which assumptions used by the Fed that you would disagree with?

Mr. DIEHL. First of all, I want to make it clear, as I stated in my testimony, that over the longer term, I will agree that there are substantial savings that can be had if we can force the circulation of the dollar coin and the withdrawal of the dollar bill.

There are no savings to be had if we end up simply substituting the $2 note for the one dollar note with a dollar coin having been rejected by the American people.

That being said, I think that there is a great deal of confusion about cost savings estimates because of the large number of sources of savings and whether we're talking about on-budget savings or off-budget savings.

When I say that there are only $100 million worth of scorable savings in the first 5 years, I am citing the CBO study that came out in February of this year.

The reason why there are such large differences between the on-budget and the off-budget savings numbers is because the concept of seigniorage, which I prefer not to get into a great deal of discussion of because it's one of the most esoteric and complex accounting issues in the Federal Government.

Seigniorage, which is the profit from the production of coinage, is not considered on-budget. It's only the interest saved as the result of seigniorage that ends up being on-budget.

Therefore, the up-front costs of producing a dollar coin, which are loaded into the first 5 years, are all in that 5-year initial budget window, and you don't begin reaping the benefits of any seigniorage savings until that savings accrues in later years.

That's why it's not until you get into the second decade, the second 12 years or 15 years, that you begin hitting that $395 million estimated savings, off-budget savings, that's contained in the GAO report.

Now another source of savings estimates has been the dollar coin advocates themselves from some private studies that they've had done.

Those estimates are much higher than the $456 million which GA0 and the Federal Reserve have come up with. Those range up around $800 million a year.

I'm not saying that the GAO and Federal Reserve estimates are wrong. What I'm saying is that there's a great deal of confusion and in that confusion, an opportunity has been presented to exaggerate the short-term benefits that can come from passing this legislation.

This legislation has been before Congress in similar forms for 8 years. It's never drawn a hearing either by this Committee or by the House Banking Committee, to my knowledge.

It's received much greater interest this year, and we saw the momentum building this year, I think, because some of the dollar coin advocates were claiming that there were $2 billion worth of savings over 5 years. They weren't saying that it was scorable savings, but they were claiming that there was $2 billion worth of savings, nonetheless.

The implication was that the $2 billion would be available in the 5-year or the 7-year budget window that all of us are struggling with right now.

Nothing could be further from the truth. We're talking about maybe $100 million in savings under the CBO scoring, $100 million in savings over the first 5 years.

So it's very modest, the savings that are attributable to this proposal.

Senator GRAMS. We're going to be talking to CBO about that a little later, the savings and the controversy.

Mr. Kelley, how about your opinion about this?

Mr. KELLEY. I think the savings are real and I think they're there.

I would agree with Mr. Diehl that they will start out lower than they will be later on. They're going to build up.

Our study that arrived at the $2.28 billion in savings over 5 years attempts to include those front-end costs as best we were able to understand them.

I think you'll find, Senator, when you get into these cost estimates that we and others have made, there are a number of assumptions that have had to be made there. I think that ours are quite reasonable and we are, in my view, certainly in the ballpark on where these savings are going to occur. They occur in two basic ways.

The first is in the basic cost of the operation, the cost of producing these two different types of pieces of currency. Then far more importantly, the subsequent servicing costs which differ greatly over a 30-year period of time.

The second tranche of savings comes from the well-documented fact that there winds up being substantially more coins that need to be issued than there are bills that need to be issued for a given level of activity in the economy, and the fact that there will almost certainly be substantially more coins issued indicates that the public sector, the Government, will be able to save the interest costs not expended if that same amount of money had had to be borrowed in the conventional credit markets, because essentially, these are monies that would be made available for the Government to spend through the seigniorage process and would not have to be borrowed and interest paid thereon in the public credit markets.

So there are two different types of savings. We have attempted to include both of those and have attempted to also include clear front-end costs that the Mint would incur, and I'm sure to some extent also, Engraving and Printing would incur, and the Federal Reserve Banks would incur.

We would be glad to provide to you and to your staff for their analysis the rather sophisticated and extensive computation that went into this $2.28 billion.

But I do have a high level of confidence that it's in the ballpark, even for the first 5 years, and that it does have the phenomenon of building up from a relatively modest base in the first and second year to more substantial figures in the out-years.

Senator GRAMS. I know that GAO will testify later this morning that they back up your figures and say they are reasonable.

Mr. KELLEY. Yes, sir. They have examined our model and my understanding is that they accept those numbers. Of course, they'll testify to that themselves.

Senator GRAMS. I want to move on, but I wanted to ask Mr. Diehl just one quick question.

Do you oppose a dollar coin ever? Is there any time in the future you see a dollar coin being reasonable and if not now, when?

Mr. DIEHL. I certainly don't want to be in a position of trying to speak for Treasury until the end of the Republic. My position is that we oppose the concept of a dollar coin. The Treasury Department opposes the concept of the dollar coin.

Senator GRAMS. Despite the other 25 industrialized countries now have moved to that?

Mr. DIEHL. I'd like to address that because I think that——

Senator GRAMS. I'd like to move on, but just quickly, so the other questions can be posed.

Mr. DIEHL. I think you've raised a very good point regarding the success of other nations in making similar substitutions. I think there are four crucial differences between what we would attempt here in the United States and what has been done in other nations.

One is that the scope of the task in the United States simply dwarfs what any other, or even all the other nations have done combined. We're talking about between 6 and 9 billion coins that would have to be produced in a very short period of time, many times larger than all of them combined.

Also, they must be produced in a relatively short period of time because all indications from the experience of these other nations is that you must make this transition very rapidly.

I think one of the reasons why this 30-month timeline is written into your bill is that it recognizes the experience both with the Susan B. and with other nations' attempts to make this transition.

In order to overcome the initial opposition and resistance of the population, it must happen very quickly.

The problem in the United States is, in order to make it happen very quickly, you have to produce enormous numbers of coins. No other country has faced that problem. The risks associated with that is that if it fails, as it has twice before—no other country has that experience, either, of failing twice before in this attempt—the costs are much larger here than they are elsewhere.

The CHAIRMAN. Yes. But Mr. Diehl, in fairness to the analogy of what took place before, there was no attempt to withdraw paper money and then bring in coinage. Let's recognize that. When you talk about the necessity of having this timeline and bringing coins in rapidly—if you can only put in X-dollars at a particular point in time, you simultaneously withdraw, you only withdraw X-dollars. As you withdraw—it just seems to me, and I haven't done any study—as you withdraw the paper currency, obviously, the coins are going to have acceptance whether some people might dislike them, et cetera. So let's be balanced. I understand opposition, but I think it has to be reasoned and balanced. I'm sorry, but I thought I'd have to make that observation.

Senator Grams, please continue.

Senator GRAMS. The last point before I move on.

Mr. DIEHL. The last point is that I think that Americans tend to be more independent-minded about unpopular Government mandates than are the citizens of other Western nations. I think they are more likely to resist an unpopular Government mandate, especially in this political environment.

There's a significant difference between who makes the decisions in the United States versus who makes them in most other Western democracies. In most Western democracies, it's an unelected bureaucrat, if you will, in a central bank who makes the decision, who's not held accountable. In the United States, under the Constitution, that decision rests with Congress, and it's reversible.

Senator GRAMS. I just wanted to mention, too, that I've been sought out by people who have opposed this and they've come up and after about 5 minutes of being able to talk with them, they've walked away either saying that, well, maybe the dollar coin wouldn't be bad or even support it. So I think you underestimate that, too. I've had people very much opposed and then in 5 minutes saying, well, maybe it is a good idea and maybe the time has come. So I hope we give the Americans more credit.

The CHAIRMAN. Senator Faircloth.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

It's true that Americans have opposition to rules and regulations of the bureaucrats. But it took them 40 years until November to say it at the election box.

Mr. Kelley, we talk about—what we've dealt with here this morning is the cost of producing the coin, the possible savings in and out. In my view, this is a pretty minor mark of what we're really dealing with here. What would be the savings to the American public? More and more, we're coming to vending machines. There's very little today that you can't buy at a vending machine of some description.

What would be the savings to American business, to productivity, to consumption, if we had the convenience of a dollar coin and the ease with which a vending machine can utilize and accept a metal dollar coin, as opposed to the necessity of putting your dollar in and getting the coin and then going to the machine?

So I think that the savings that we're focusing on is somewhat minutia, as compared to the potential savings for the American public and business. Would you address yourself to that?

Mr. KELLEY. That may well be the case, Senator. I have not seen, and certainly, we have not attempted to conduct a formal study that would indicate the extent of those savings. But I'm very sure they would be there.

In all candor, I would have to say that there are some offsetting costs that would go along with it as well. How those would balance out is hard to say.

I might take this opportunity to comment on how we would perceive the impact of this change-over, if it were to occur, on the price level generally.

It's difficult to see how this change would have much of an impact one way or the other on the price level across the country generally.

At the macro level, while you're quite correct that there's a wide variety of products available through vending machines today, if you think of all of the products that are sold in this country, thousands and thousands of different kinds of items that go into the creation of price indexes, there are relatively few of those that are sold through vending machines.

Second, there is a tremendously competitive private business environment in the country. I think that it would be very difficult for anyone to successfully jack up prices in one type of distribution channel when there were other perfectly readily available distribution channels for the same product that were not attempting to do that.

So I have difficulty seeing how there's going to be much in the way of a price impact, broadly speaking, one way or the other.

I'll take one quick second to illustrate how that might work. In the basement of the Federal Reserve, there's a bank of vending machines. I'm told that they used to sell candy bars for 55 cents through those vending machines.

We opened a little storefront store just 50 feet down the way. We had some vacant space down in the basement. Among other things, they sold candy bars for 50 cents and lo and behold. The price at the vending machine went down to 50 cents in short order.

So competition is alive and well. There are varieties of different distribution channels available. I think that that would tend to be self-righting in the general effect on the price level.

Senator FAIRCLOTH. Well, I can't imagine that, whether we have the coin or not, it's going to affect the price of the commodity at the vending machine. It's just a proven fact that dollar bills don't work in vending machines.

Mr. KELLEY. That's right. There would be that convenience factor, certainly, sir.

Senator FAIRCLOTH. I don't know whether you remember or not, but one time, we went to a gasoline vending machine with dollar bills.

All of the people that rode dirt road sports around, and country people, found out that you could put a piece of tape to it, run it in, and pull it back out.

[Laughter.]

So they used the same dollar many times to buy the same gasoline with. So dollar bills don't work on vending machines.

Mr. Diehl, you say if we eliminate the $1 bill, the American public will have an instant love affair with the $2 bill.

Now I don't know the terminology I want to use, but about 10 or so years ago, Treasury printed a lot of $2 bills. They tried to force them into circulation.

Is that not right?

Mr. DIEHL. That is correct. Back in 1976.

Senator FAIRCLOTH. All right. Well, aged time runs fast. So it was close to 20 years ago.

Mr. DIEHL. Yes.

Senator FAIRCLOTH. But you put on a campaign to popularize the $2 bill.

Mr. DIEHL. We were about as successful at that as we were with the Susan B. Anthony.

Senator FAIRCLOTH. It was a total failure. People wouldn't take them, and would look at them funny.

Mr. DIEHL. Well, part of the problem was, though——

Senator FAIRCLOTH. Why do you think now that they're going to all of a sudden love the $2 bill if they didn't 20 years ago?

Mr. DIEHL. It's a very practical reason. When you look in a change drawer in a cash register, there's no place to put a $2 bill.

But there will be a place in the cash register draw for a $2 bill as soon as you eliminate the $1 bill. The $2 bill will fit very conveniently where the $1 bill was. I think it will fit in the same spot in the pocketbook where the $1 bill is.

The Federal Reserve will distribute the $2 bill based upon demand from the Federal Reserve banks and the local banks. We will not face the same challenge that we faced in 1976, because there will be a spot available for the $2 bill through this proposal by elimination of the $1 bill.

Senator FAIRCLOTH. The only surprise I heard this morning was that the Federal Government had trouble printing money. I thought that was the one thing that we could do.

[Laughter.]

I thank you.

Mr. KELLEY. There's a difference between printing money, sir, and making coin.

In terms of printing money, the Bureau of Printing and Engraving, particularly with the opening of its new plant in Fort Worth, has plenty of capacity to print paper currency, and they're doing so very efficiently.

Stamping out coins from metal is a little bit different process and involves different kinds of production considerations, which Mr. Diehl can certainly address. But they're really two different problems.

Senator FAIRCLOTH. But the one thing, I don't often agree with Senator Kerry. The dollar bill is made, I understand, totally from cotton waste, because I've had a number of manufacturers from North Carolina that sell the waste from the production of textiles to the paper manufacturers.

So it is produced from a byproduct.

Thank you, Mr. Chairman.

The CHAIRMAN. Did you know that?

Mr. KELLEY. Oh, yes. But I didn't know about the North Carolina connection.

The CHAIRMAN. Lauch Faircloth amazes me continually with these tidbits.

[Laughter.]

It's absolutely amazing.

Senator Grams.

Senator GRAMS. I would just like to wrap this up by asking about the timetable.

First, Mr. Diehl, basically, you're talking about the $2 bill. I think it would become more prominent, of course, when the change was made, if there was a dollar coin to replace the dollar bill.

But I think you've gone through the same trouble I have. A lot of times you go there and you don't have change for parking meters. They don't take dollars.

It's just hard. There are so many things that we use coinage for today, and with the cost of everything being higher, and there's so many times when the average American family just need for it to be convenient to have the dollar coin.

Do you agree that it could be a convenience, despite.

Mr. DIEHL. Every time I go to a Washington, DC, parking meter and I have to have all those quarters in hand, there's no question. There's a convenience in having a dollar coin in those situations.

I think that the question is:

> Does the convenience overcome the natural resistance of the American citizen to change in their currency?

I think that's where the question lies.

Senator GRAMS. I think our closest comparison would be Canada. There was similar resistance there. They aren't used to being told what to do by a single regime or anything. But they have overwhelmingly now been in support.

In fact, I think census show that if they can get a $2 coin to replace the $2 bill, they would like to do that.

So here it goes from vast opposition in Canada to vast support.

Do you think that would be similar? We did make a lot of mistakes with the Ike and the Susan B.

Mr. DIEHL. Yes.

Senator GRAMS. Other countries around the world have said, they've looked at the United States to see the mistakes we made.

Mr. DIEHL. Yes, that's right.

Senator GRAMS. And have been successful in response. Have we learned anything? I think we have and I think another attempt might be very successful.

Mr. DIEHL. Well, I think there's no question that withdrawing the dollar bill from circulation, as your legislation does, gives us a better chance than we had with either the Ike or the Susan B. to make it work.

My point is that I do not believe that it will be sufficient to make it work. It's certainly not the slam-dunk—if you'll excuse the expression—that the proponents of this legislation have all along said, as though night follows the day that if you withdraw the dollar bill from circulation, the dollar coin must circulate.

My central point is that, with the $2 bill available as a substitute, that's not necessarily the case.

Senator GRAMS. I think there's also been studies, and we'll probably get at it later, that show that when you say there would be an increased demand for quarters, other countries with similar denominations of coinage have found a reduction in the demand for such things as quarters. So rather than asking for four quarters in change, they've taken the dollar coin.

Mr. DIEHL. No, that's absolutely right, if the dollar coin circulates.

Senator GRAMS. Yes.

Mr. DIEHL. That's exactly right.

Senator GRAMS. One thing—go ahead, Mr. Kelley.

Mr. KELLEY. Sir, I have very little question that the dollar coin will circulate if it's at all well designed and if, most particularly, the bill is withdrawn.

We need a unit of currency at approximately the level of a dollar. The next one smaller is a quarter. That's four multiples down. The next one bigger is a $2 bill, which is twice. There needs to be a unit of currency at that level.

I think it's interesting, I might add, that in most, if not all, of the larger economies, the industrial economies, the first level at which you will encounter paper currency is somewhere around $8 or $10. Everything under that has gone pretty well to coin at this point. People seem to be comfortable after a break-in period with that sort of a configuration.

Senator GRAMS. Mr. Diehl, just finally, to wrap this up.

It seems like a lot of the opposition to the four points that you were mentioning was the actual introduction, minting and production of getting the dollar coin into circulation. I think that all can be accomplished and taken care of. If you take away that, you've taken away 75 percent of your opposition and then you rely on studies saying that the public would resist it.

But do you believe that extending it to at least 30 months or, as Mr. Kelley has suggested, 36 months, given the appropriate phase-in time or an unveiling, so to speak, that would be even more successful than the 18-month projected?

Mr. DIEHL. Well, I think, following Mr. Kelley's recommendations of the 30-month, 36-month initial transition, and then another 2-year transition instead of a flashcut in which you stop introducing the dollar bill at the same time you begin introducing the dollar coin, I think that makes this at least theoretically do-able.

Unless these changes are made, the Mint simply cannot comply with the requirements of this bill as it stands today. We have a fighting chance of producing the number of coins that we would need in order to make for a smooth transition and give the experiment a decent chance of success. But what I'm also saying is that

I have very strong doubts that we can make it a success, even under those altered conditions.

Senator GRAMS. Put the West Point mint back into production in New York.

[Laughter.]

The CHAIRMAN. Excellent idea.

Senator GRAMS. Thank you.

Mr. DIEHL. Thank you.

The CHAIRMAN. I want to thank you, Mr. Kelley, and Mr. Diehl, for your thoughtful presentations.

Mr. DIEHL. Thank you.

Mr. KELLEY. Thank you.

The CHAIRMAN. We'll call the next panel: Mr. Stevens, the Director of the Federal Management Workforce Issues of GAO; and Mr. Blum, Deputy Director of the Congressional Budget Office.

Mr. Stevens, Mr. Blum, I'm going to ask you to summarize your testimony. We'll take your testimony as if read in its entirety and enter it into the record.

Mr. Stevens.

STATEMENT OF L. NYE STEVENS, DIRECTOR, FEDERAL MANAGEMENT WORKFORCE ISSUES, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

Mr. STEVENS. Yes, sir. I will be very brief, Mr. Chairman.

We have extensively studied the issue of coinage conversions in other countries and we've carefully analyzed the economic impact of coinage on the Government accounts. As the result of over 5 years of studying this, we've issued a report that makes a strong recommendation that the Government should reintroduce the dollar coin. But it makes the qualification, "if properly managed," and that is an essential condition.

The benefits of such a decision are substantial. It restores our coinage to the structure that it more or less resembled in the 1960's. It puts us in line, as has already been testified, with all the other major industrial countries of the world.

It would add to the convenience of using vending machines, fare boxes, telephones, and so forth.

But most important, in our calculation, is that it would save the taxpayers $456 million a year over the next 30 years, on the average. The figure of $395 million has been quoted. That was what our estimate was in 1993. It's been updated by the Fed. We've checked those figures and we agree with their reasoning and their assumptions.

You've heard from several other witnesses. The production savings from this are really undisputed. The coins cost 8 cents to produce, but last about 17 times as long as the comparable bill, which costs 4 cents to produce.

The principal source of savings, however, is interest avoided on debt that is in turn avoided on the 92-cent profit or seigniorage that the Government realizes on the difference between the coin's production cost and its value in the market place.

We believe that our estimate is a conservative one. We use a 1.5:1 ratio of substitution of coins for dollars, which is lower than any other country we studied has experienced.

We did assume that, as Mr. Diehl said, there would be an increase in use of $2 bills. About 25 percent of the $1 bills now in circulation would be replaced by $2 bills. We also assumed 100 percent return of dollar bills, which is unlikely to be the case, but any that weren't returned would add to the savings as well.

But there are also two major disadvantages. The first is that it is not a quick-fix for the deficit. Much of the savings is not scorable under the Budget Enforcement Act. Seigniorage itself has been defined as an off-budget receipt. We don't count that in our calculations, but we do count the interest that is avoided from use of seigniorage instead of borrowing the same dollars.

Little of this comes in the first 5 years, which is CBO's horizon, when basically all of the production costs are borne. But the savings do grow steadily over time and the fact that in the early years, there would be less than $456 million is offset by the fact that in later years, there would be substantially more than that. The $456 million a year is an average figure.

The second disadvantage is certainly public opinion, as it currently exists. It's now negative to the idea, by a large margin. But we also found in our work in other countries that that was true in all of them as well, and that it could be handled through careful planning, through sophisticated communications with the public.

These countries have learned from our Susan B. Anthony experience and I think we could do so as well.

In Canada, we actually commissioned a Gallup poll there to followup on some work they had done before putting the coin out. We found that 5 years after the introduction of the coin, there were only 18 percent of the Canadian people who felt that it had been a bad idea. And now they have made a firm decision to go ahead, Senator Grams, with the $2 coin because the $1 coin has been a success there.

In our 1990 report, we listed five essential conditions to a successful conversion. We still believe they are valid preconditions to our recommendation.

First, as has been mentioned, the dollar bill would have to be eliminated.

Second, there would have to be a reasonable transition period. I agree with the other witnesses, that 18 months is probably too short. Thirty months seems more reasonable.

The coin would have to be well designed and readily distinguishable from other coins, which could be done by a different color.

A sophisticated public awareness campaign would be needed. It was absent in the Susan B. Anthony case.

Finally, and perhaps most important, there would have to be a sustained administration and congressional commitment to withstand what would be an initial negative public reaction to the move. We can anticipate that. It would require Congress and the Administration to lead rather than follow public opinion.

But we believe that if it's well managed, it would be successful.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Stevens.

We've been joined by Senator Carol Moseley-Braun, original cosponsor of the legislation. Senator Braun has been participating at the Finance Committee hearings until now, which I'm going to leave for in a short time. They've been deciding the issue of Medicaid and Medicaid reform.

Senator Braun, do you have an opening statement you'd like to make?

OPENING COMMENTS OF SENATOR MOSELEY-BRAUN

Senator MOSELEY-BRAUN. I do, Mr. Chairman. However, I'd like to submit it for the record. We have a number of witnesses and we need to have an opportunity to hear from them this morning.

The CHAIRMAN. So ordered. We'll put your statement in the record as if read in its entirety.

Mr. Blum.

STATEMENT OF JAMES L. BLUM, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE, WASHINGTON, DC

Mr. BLUM. Thank you, Mr. Chairman.

In the interests of time, I will make just a few comments because, in fact, I have very few differences from the discussion that preceded in the first panel and from Mr. Stevens's remarks. We're all working off of the same songsheet, I think, as far as the facts involved.

The Congressional Budget Office does not take a position on this issue, since we don't make recommendations of policy to the Congress. Our job is simply to give you the best budget and cost information we can.

The point I want to make is that the variation in estimates of savings, as cited in the first panel, between CBO, the Federal Reserve, and the General Accounting Office essentially arise from different perspectives on how to measure these costs.

Since the Congressional Budget Office deals with the Congress on the annual budget process, our focus necessarily is the 5-year budget window—or, in this case, a 7-year budget window under the recently adopted budget resolution.

Similarly, we only focus on those effects that actually appear in the budget and get scored. We're also concerned with scoring bills as they emerge from committee and what can and cannot be counted there.

That does lead, unfortunately, to different numbers being thrown around. But I wanted to assure you that, in essence, there isn't any difference in the basic underlying assumptions about what's going on.

The only other point I wish to highlight from my statement is that the critical factor (I think it has been discussed at length this morning) is the timeframe—the lead time that's necessary to design coins, get them produced, and so forth, and the amount of time that's needed for the conversion from the use of notes to the dollar coin.

Those are really the critical assumptions, and how they play out will have effects on what the budget scoring will be.

But in the long run, there's no question that substantial savings would accrue to the Federal Government.

Thank you.

The CHAIRMAN. Well, Mr. Blum, I want to thank you for your cogent summary. You have, I think, spelled out, very clearly, the differences between the numbers used in the scoring for budget purposes, and the numbers that may not be scored.

But essentially, there are large savings to be achieved as a result of going to the dollar coin.

Thank you.

Senator Grams.

Senator GRAMS. Mr. Blum, I would just like to say that you talk about your estimates that you have made, and you're probably using a different set of scenarios or numbers. But would you feel that, if anything, your numbers are on the conservative side and you're comfortable with that, that basically, bottom line, that there would be savings to the Treasury?

Mr. BLUM. There's no question that if the dollar coin is successfully introduced and the dollar note is withdrawn from circulation, there will be substantial savings.

But, as was pointed out in the first panel, those savings will accrue and increase down the road. There's not likely to be much that you would see in our 5-year budget window or even a 7-year budget window. Beyond that, there would be very substantial savings for the reasons that have been pointed out. In terms of production and the processing costs, it's undoubtedly less expensive to have coins, because of their durability, than notes. And there would be less need to borrow in the form of interest-bearing securities from the public because the public would be holding more Federal debt, if you will, in non-interest-bearing coins.

Senator GRAMS. Are the savings estimates by the Federal Reserve and the GAO flawed in any way by the inclusion of the interest avoided through the seigniorage?

Are these savings real, I think is what we want to know?

Mr. BLUM. Yes, they're real.

Senator GRAMS. They can be complicated. They're hard to talk about. Basically, there are tremendous savings that you're not figuring in. Is that correct?

Mr. BLUM. Well, the estimate that's in my statement, which is the estimate that we included in our deficit reduction volume, is, as Mr. Diehl pointed out, a generic estimate. We had to make up some assumptions. Those assumptions included a 30-month lead time before the conversion would go into effect.

On the other hand, they also included a conversion lasting 5 years rather than the 2 years that Mr. Kelley spoke about earlier. So there could easily be differences that would show up on our budget scorepad.

Senator GRAMS. Your scorepad also figured in the cost, the additional cost of introducing the coin. Is that correct?

Mr. BLUM. Yes, it did.

Senator GRAMS. The $79 million plus dollars that was estimated.

Mr. BLUM. The $72 million that Mr. Diehl spoke about earlier. Yes, we did take that into account. He's absolutely correct. Those are additional monies that would, under the current budget procedures, have to be appropriated to the U.S. Mint.

It turns out that in the budget, those are offset dollar for dollar by budget convention, so there is no bottom-line effect on the deficit. The savings that we showed in our testimony are simply the increased Federal Reserve earnings that would occur because they would have lower costs from having to purchase dollar notes from the Bureau of Engraving and Printing.

Senator GRAMS. Briefly, even though your numbers are different, are you comfortable with the assumptions that the Federal Reserve made in coming up with their $456 million-a-year?

Mr. BLUM. Yes, we would be comfortable.

Senator GRAMS. You would be comfortable with those assumptions.

Mr. Stevens, you mentioned a couple of things. Properly managed, we've learned, as I think the other countries have from the mistakes we made with the Ike and the Susan B.

The main, I think a good argument is the convenience. Until you try it, you don't know. Although there is some opposition, I think it's been proven around the world. In fact, I had one person talk to me that they had come back from Europe, and spent a month there, and didn't realize that they had all the coins and how convenient they were. He came to me specifically to say, I was kind of ambivalent on the coin issue until I was there. He was very strongly supporting that because of the convenience he found.

So I think that's one thing that's underestimated and I think that's why Canada found the huge resistance almost evaporate once the coin was introduced.

Then the basic savings to the taxpayer. We're trying to find every dollar that we can for education and nutrition programs and everything else. If we can save, whether it's $100 million or a billion dollars, I think it would be better spent in other areas.

But also, you had some reservations, the public opinion and everything else.

What is the suggestion, then, if we're going to do this, to properly manage that?

Mr. STEVENS. Yes. Basically, proper management. I think it means a fairly sophisticated public awareness campaign, which was not done in the SBA case, but which was done in all these other countries.

Usually, there's a champion or a spokesman appointed who presents the case and responds to questions, appears on talk shows.

It should be preceded, probably, by a much more sophisticated public opinion poll than has been done so far, mostly by opponents of the matter, and to learn what are some compelling arguments that the public would respond to.

So far, I believe, none of the polls have really presented the question in the context, "if the Government were to save x-billion dollars, would you favor this?"

Senator GRAMS. Yes. Right.

Mr. STEVENS. That is probably the most relevant question to ask.

Senator GRAMS. I think those polls have been done and it shows that it almost flip-flopped from 4:1 against to almost 4:1 in favor, if a poll like that has been presented exactly in those terms.

Mr. STEVENS. The best poll, I think, is the experience that the foreign countries have had. They've all gone through this. They started out with initial public opposition. There were some fairly snide editorials in the newspapers. It passes in a few months and they move on to other matters.

Senator GRAMS. I think the media was against the Susan B., as Mr. Diehl, I think, had mentioned. But I think a lot of the editorials, in The New York Times, USA Today, and all other, a lot of major newspapers have come out with editorials in favor.

So, a lot of times, if you've got the media on your side, it's an easier sell.

Mr. STEVENS. That may be a change.

Senator GRAMS. Thank you very much.

Mr. STEVENS. Thank you.

The CHAIRMAN. I may have to reconsider if they come out in favor.

[Laughter.]

Senator Braun.

Senator MOSELEY-BRAUN. Thank you very much.

Just to pick up where Senator Grams kind of left off and talking about public perception because I frankly believe that a lot of what we're dealing with here has to do with public perception.

Putting aside for a moment polling and polling data and focus groups and the like, what do you suggest we could do or should do in terms of public awareness and in terms of allaying fears in the public that somehow or another, going to this coin would mean that people have less money or that there's something wrong, that they have less value, rather, in the assets, in the resources that they own?

Mr. STEVENS. I think, basically, the Government needs a champion. It needs a leader of this. In fact, our recommendation is that the legislation somehow provide for the Treasury not to oppose it, but to in fact support it. I think once the decision is made, the Treasury will have to support it because if it is a failure, I think Mr. Diehl's explanation that the consequences would be quite severe is accurate.

But understanding what the public's attitudes are, what are the persuasive arguments among the many cases that can be made, which are the most persuasive with the public?

No one has really done that in the prospect of developing a campaign of public awareness and persuasion. That work would have to be done.

We have estimated that this should be about a $20 million investment. Less than a million, if that was spent in promoting the Susan B. Anthony. Put that $20 million up front. We've included right in our calculations of the cost and benefits. That's a cost, but it's very much worthwhile.

Senator MOSELEY-BRAUN. In terms of the public awareness campaign to which you refer, would you agree that development of a climate of opinion regarding this issue is probably the single most important thing that we can do at this point?

Mr. STEVENS. I think what worries the Treasury most is the prospect that public opinion would be so negative at the outset, that Congress would reverse the decision and leave the Treasury with billions of coins and that we would have to go to reverse seigniorage.

The CHAIRMAN. You think we would do that?

[Laughter.]

Mr. STEVENS. I think the Treasury is concerned about that, Mr. Chairman. And I agree that the consequences would be——

The CHAIRMAN. I agree, you understand. We've got to be very careful. We learned in law school, sometimes you say something in jest, but it's in the record. But please, Mr. Stevens.

Mr. STEVENS. I honestly do not think that at the time that the coin is actually introduced, that public opinion would be in favor of it. I think you would still get public opinion polls that say, this is a lousy idea. They had them in Canada.

Senator MOSELEY-BRAUN. I'm sorry? This is what, now?

Mr. STEVENS. But after a little experience——

Senator MOSELEY-BRAUN. I didn't hear your last statement. I'm sorry, Mr. Stevens. I didn't hear your last statement. What did you say?

Mr. STEVENS. That I think there would be still negative polling numbers at the time the coin was introduced. I think whatever you did up front wouldn't turn the situation around.

Therefore, the actual experience of using the coin instead of the dollar bill, of finding the $2 bills are readily available and acceptable, that there's a place for them in the cash registers, all that goes into not so much a perception as an actual behavioral adjustment that would mitigate the negative public attitudes.

Senator MOSELEY-BRAUN. In terms of behavioral adjustment, you studied closely the Canadian experience. And post-introduction, what was the polling or what was the experience there?

Mr. STEVENS. The Canadians had done a good deal of polling themselves in preparation for introduction of the coins. We have that data. When it was introduced and successfully so, they didn't do any more because they didn't really need it.

We went back and took the same set of questions and hired the same pollster, who was Gallup, and did a nationally projected opinion study. We found that while the numbers had been skeptical and negative, even at the time the coin was introduced—in fact, at the time the coin was introduced, it was the highest negative.

But 5 years later, there were five times as many people who felt more favorably towards the coin.

Senator MOSELEY-BRAUN. Five times.

Mr. STEVENS. Five times as many. In other words, the people who felt that it had been a good idea were outnumbered by those who felt it was a bad idea, 5 to 1. The actual opposition was down to 18 percent in Canada nationwide. This was in 1993.

Since the trendline was going down, I wouldn't be surprised if we did it again and it would even be lower than that today.

Senator MOSELEY-BRAUN. Was any similar polling done in Great Britain?

Mr. STEVENS. Not that we have had access to. If there was, I'm not aware of it.

Senator MOSELEY-BRAUN. Final question. Do you have—and I don't know if this question was asked before I came in—but regarding seigniorage. Is it considered to be an outdated concept or a real one at this time?

Mr. STEVENS. I'm sure Mr. Blum will want to comment on that.

I would make the point that seigniorage is real money. The 92-cent profit is money that the Government gets credited to its checking account and can buy aircraft carriers or pay for foodstamps or do whatever Government does with its money. It's real money.

However, it is an off-budget receipt, by long-standing budget convention. There would be a temptation, if it were not so, for the Government to make major, major reductions in the national debt simply by coining huge coins and calling them something, putting them out there and saying the national debt is gone. That's basically the reason underlying that.

We don't dispute that convention. But because real money is saved—that is, money that does not have to be borrowed, and we do count the interest that is saved in the future on the money that was not borrowed because some expenditures were covered by seigniorage.

Senator MOSELEY-BRAUN. Mr. Blum.

Mr. BLUM. I would point out, if I may, that seigniorage is indeed real. Technically, it is considered a means of financing the deficit, which means the profits that come to the Government are a substitute for borrowing from the public. So in essence, instead of having to issue interest-bearing securities to finance the deficit, one could use seigniorage toward that end. It's not a huge amount at present, but it would grow if the dollar coin were introduced.

Senator MOSELEY-BRAUN. And the estimated savings?

The CHAIRMAN. $2.7 out.

Senator MOSELEY-BRAUN. There's a difference, though, between GAO and——

The CHAIRMAN. Well, yes. Mr. Blum explained the reason.

Senator Braun mentions and raises the question as it relates to why the differences in numbers. Mr. Blum has indicated that as it relates to scoring purposes for the budget, that's the differential, the technical scoring. But that their numbers are essentially the same, that it comes out to $2.4 billion, or $2.7 billion over—what is it, over a 5-year period of time, the savings?

Mr. BLUM. Yes.

The CHAIRMAN. Or $2.2 billion. It's over $2 billion.

Mr. BLUM. The point I would make is that most of those savings really accrue after you've made the conversion.

There was one other point that I meant to make in response to Senator Moseley-Braun's question about seigniorage.

The seigniorage effect comes from the basic assumption that the public would demand to hold more dollar coins than they now hold in dollar bills. That's why we get these longer-term savings by having reduced borrowing from the public and, therefore, reduced interest costs.

If there were simply a one-for-one conversion, those seigniorage effects or interest savings that both GAO and the Federal Reserve have talked about would not materialize.

So it hinges critically on the assumption that there would end up being a higher total value in coins and more $2 notes in circulation than the $6 billion worth of one dollar notes that are in circulation now.

Senator GRAMS. Isn't that estimate about 2:1 for the coins to the dollar bills?

Mr. BLUM. 2:1 for——

Senator GRAMS. About 6 billion.

Mr. BLUM. Yes. But it also includes an assumption that about 25 percent of the one dollar notes would end up being substituted for $2 notes. The 2:1 applies to the remaining 75 percent of the dollar notes presently in circulation.

Senator GRAMS. You make collector items out of the dollar notes and they never get redeemed.

Mr. STEVENS. The assumption we wound up with in our estimate, Mr. Grams, was 1.5:1, which was in fact lower than any other country experienced. We believe it's very conservative.

Senator GRAMS. Thank you.

Senator MOSELEY-BRAUN. No, no, no. I appreciate your question.

One of the things you learn early in law school is don't ask questions you don't have the answer to. I don't have the answer to this question, so I may be on real slippery ground.

On what do you base that assumption, the assumption that the same number of coins would be held as dollars?

Mr. BLUM. You mean that more coins would be held than dollars? That's based on foreign experience. Mr. Stevens can attest to that.

Senator MOSELEY-BRAUN. OK. I didn't have the answer to that question, but I still wanted to explore it. So it is based on the experience of other countries.

Mr. STEVENS. It's been confirmed in every other country. I think some of the following witnesses may address the reasons for it.

One of them probably is that vending machines do tend to collect money. They're not collected every day. And also, there's a certain kind of heaviness to coins that prevents them being transported back and forth to banks quite as readily or as cheaply as dollar bills are. So the banking system winds up holding some more of these. You may want to ask the Banking Association president about that.

Senator MOSELEY-BRAUN. Right. Thank you. I have no further questions.

Senator GRAMS. I just have one quick question for Mr. Blum there. When we talk about—Mr. Stevens said a 1.5:1, which was lower than any industrial country. Did you do a 1:1 in your study in the seigniorage, or did you have higher estimates, too, for presumptions of savings?

Mr. BLUM. For purposes of our deficit reduction volume, in coming up with this generic estimate we didn't have to make that assumption. That assumption only comes when you get into the question of whether there would be long-term interest savings.

Senator GRAMS. But you didn't figure that in.

Mr. BLUM. We didn't figure that in. We didn't have to figure it in. But we certainly would take that into account in any cost estimate that was more comprehensive.

Senator GRAMS. OK. Thank you very much, gentlemen.

The CHAIRMAN. I would just like to make this observation, particularly after my two colleagues have examined and gotten the witnesses to indicate that, on the first two panels, that these are real dollars that we're talking about in terms of savings. Whether they begin to accrue at the $400 million annual level of the third year or the fifth year or the eighth year after its implementation, the fact is that over a 30-year period of time, we're talking about an average of about $400 million a year that the taxpayers will save.

This Committee, which is in the process of examining our expenditures, in all areas of our activity, which are mass transportation, banking areas, and housing, will have to reduce expenditures over a period of time by some $2.4 billion.

We serve on other committees involving areas of education, of decent, affordable housing, of transportation, and of Medicare or Medicaid. At this very moment, the Finance Committee is conducting hearings on Medicaid and seniors are concerned.

We're talking about cutting $700 billion over 7 years.

I will say this. In fairness to this entire area, we should be considering the economics.

Sloganeering—there isn't one of us up here who doesn't understand that and its use in the proper context of campaigns is fine. But how do you say that you would give up $400 million that could be utilized for education? Try to send a kid from a working family, to college today, even to a State university where the tuitions are down.

There isn't a working family in America that doesn't incur for that student a huge loan in the end. Furthermore, we are talking about reducing dollars for education.

I'd far prefer to find revenues in the area of $2-plus billion dollars to offset that kind of cut. There are numerous areas which would benefit from $400 million. For example, AIDS research and cancer research, the list goes on and on.

I think maybe sometimes we overdo, conveying our stand on an issue, due to the position that we hold, more than just being for something or against something because it's popular. We must not forget that we have a duty to also educate and inform people of all aspects of an issue.

Fulfilling that duty can be difficult sometimes, particularly if you're debating a topic that claims to have a 4:1 public disapproval ratio.

I'd suggest maybe that's why we're elected for 6-year terms. At some point within that span of time opportunity sometime, we may have an opportunity during some period of time, to take a risk in terms of losing popularity for doing what is right and being part of a process that educates as well.

Senator MOSELEY-BRAUN. It's called leadership.

The CHAIRMAN. Leadership. My colleague and friend, Senator Braun, has indicated. It's leadership.

So, I want to commend both Senator Braun and Senator Grams for bringing this legislation forward. We will probably hold more hearings. We're just starting now. I think that's important, because I'm certainly learning.

I had no idea of the real, potential economic benefit to the taxpayer. If we can produce $400 million a year, again, in savings, that's $400 million that can be better utilized. Then every year over 30 years, that's a lot of money.

Providing the means to benefit taxpayers on that level is something you can look back on and say, that's a job well done as it relates to moving decisively on an issue and demonstrating leadership.

I want to thank you, Mr. Blum, and Mr. Stevens, for your testimony.

Mr. BLUM. Thank you.

Mr. STEVENS. Thank you.

The CHAIRMAN. We'll call our third panel: Mr. William Buetow, treasurer and senior vice president of finance, Chicago Transit Authority; Mr. Clayton, president of Automatic Food Service, Inc.; Tommy Looper, executive vice president and CEO of the Anchor Bank, Myrtle Beach, SC; Linda Golodner, president of the National Consumers League; Robert L. Leuver, former director, Bureau of Engraving and Printing; and The Honorable David J. Ryder, former director, United States Mint, president of the Ryder Company.

I thank all of our panelists. Thank you for your patience in being here. I'm going to ask you to please attempt to summarize your remarks.

Now before I ask you to start, and we'll start with Mr. Buetow and work left to right, I know that Senator Faircloth has a time constraint. I do. I have a Finance Committee hearing now in session reviewing Medicaid and the private sector interests. So I'm going to leave.

But I know Senator Faircloth does have, I think, a question or an observation he'd like to make to the panelists before he's forced to leave.

Senator Faircloth.

Senator FAIRCLOTH. Thank you, Mr. Chairman. I just had a thought. I do not in any way negate or belittle the fact that the savings to the Government appears to be something like $2.5 billion over several years.

But I think the real issue here is what does it mean to the industry and to commerce and to the productivity of the manufacturers.

I would have no idea, and I'm sure that some of you can tell us, but how much of the business of this country is done through vending of some matter.

I'd like—maybe we'll start with you, Mr. Clayton, to tell us what it would mean to the industry. We know what it would mean to the Government. Tell us what it would mean—I know that you're in the vending business. Tell us what it would mean to the industry.

Mr. CLAYTON. It would mean a great deal to us because of the reduced costs in purchasing equipment. The cost of a bill acceptor on a machine adds up to $400 of additional costs to each piece of equipment. It also makes it much easier for our customers to use the machines because the acceptance rate of a dollar coin or a coin is 99 percent. The acceptance rate, if you've ever tried to use bill acceptors, is questionable.

We, as an industry, are already prepared to accept the dollar coin. We've been investing in coin-handling equipment since the Susan B. Anthony coin was presented in 1979. Any progressive vendor that's looked to the future has already been buying through those years coin-handling equipment that would accept readily today a dollar coin of the same size and diameter as the Susan B. Anthony.

Senator FAIRCLOTH. May I ask you a question?

Mr. CLAYTON. Yes, sir.

Senator FAIRCLOTH. How much commerce, how much of the GNP, how much business goes through vending machines a year in this country. How many dollars? Do you have any idea?

Mr. CLAYTON. I'm not certain of that, but I think the figure is $26 billion.

Senator FAIRCLOTH. $26 billion of our economy is handled through vending machines.

Mr. CLAYTON. Yes, sir. So we're probably the largest user of coinage in this country.

Senator FAIRCLOTH. There's no question that the vending industry is totally in support of this?

Mr. CLAYTON. Wholeheartedly, yes, sir. At this point in time, 80 percent, approximately 80 percent of the equipment on the street today of the food and refreshment vending industry is capable of taking a like dollar coin as the Susan B. Anthony. So we've been ready for a long time.

Senator FAIRCLOTH. $26 billion.

Mr. CLAYTON. Yes, sir. I could stand to be corrected on that. That's approximately right, I'm told.

Senator FAIRCLOTH. Mr. Looper, half of that goes through Myrtle Beach?

Mr. LOOPER. A good part of it.

[Laughter.]

Mr. RYDER. Mr. Faircloth.

Senator FAIRCLOTH. Sure.

Mr. RYDER. Can I point out one thing that I think should be noted? And I've got a chart.

This comes to us by way of a company called COINLUX, which is the second largest manufacturer of this type of equipment. What this is and what this represents is a device that goes inside the vending machine. It's the coin acceptor that accepts the coin.

Currently, there is not a vending machine in this country that can give a dollar coin out as change. So when the Committee considers the bill and the Treasury is forced to introduce a $2 bill, the current vending machines that accept $1 coins cannot give out a $1 coin in change, meaning COINLUX says that it's going to cost about $2.6 billion to retrofit the machines that are currently in our country.

That is an enormous cost that I think is going to be passed right back on to the consumer. For example, the small vending machine companies, the small guys, not the big guys. They can ill-afford to pay for those kinds of costs on the machines that they own as a small business because this type of cost—for example, this device is going to cost somewhere in the neighborhood of $275. A $2 bill changer is up around $300. That cost, if forced on the small vendor, I think will put him out of business.

Mr. CLAYTON. Sir, I would like to address that.

I'm a small vendor. My father started this business in 1952. My five children now work with me in this business. We are a local company which started from the ground up.

I am not one of these big guys. The bulk of the people in this industry are not the big guys that these people keep talking about.

We represent over 250,000 people that are employed in the vending industry that are primarily small, independently owned businesses all across this country.

I've been in this business for 30 years and it really upsets me that someone is going to come in and tell me what my business is.

The fact is that if we can accept the dollar coin, why do we need to pay back a dollar coin? If the purchase price exceeds a dollar, they put in $2 and we can readily pay back the change difference.

Our need is for a circulating dollar coin of the same size and diameter as the dollar coin, as the Anthony coin.

Senator FAIRCLOTH. The same size as?

Mr. CLAYTON. As the Anthony coin. We can readily accept a dollar coin of the same size and diameter as the Anthony coin that is in existence today.

Senator FAIRCLOTH. Let me ask a question here that maybe some of the people who could have answered it have left.

We say that the reason—I'll ask you, Senator Grams or Senator Braun.

The reason the Susan B. Anthony coin was not accepted is because the dollar bill stayed in circulation. In other words, there was nothing wrong with the Susan B. Anthony coin for vending machines or whatever.

Mr. CLAYTON. We can accept the Susan B. Anthony coin. That is true. But it was a poorly designed coin and it was very easily confused with the quarter.

Senator FAIRCLOTH. All right.

Mr. CLAYTON. That was the biggest problem we had with that.

Senator FAIRCLOTH. I was going to ask, if we withdraw the dollar bill and print more Susan B. Anthonys. But if that is the case, it was a poorly designed coin and the wrong size——

Mr. CLAYTON. Not necessarily size, but in color and feel.

Senator FAIRCLOTH. All right.

Mr. CLAYTON. It was very easily to confuse with a quarter.

Senator FAIRCLOTH. I thank you so much. I'm sorry I do have to leave and I thank you, Senator Grams and Senator Braun.

Mr. CLAYTON. Thank you, sir.

Senator GRAMS. We'd like to hear the opening statements and again, we'll go from left to right, starting with Mr. Buetow.

Again, if we can, because of the hour, keep your opening remarks brief, we'd appreciate it. Thank you.

Senator MOSELEY-BRAUN. Senator Grams, before you do.

Senator GRAMS. Yes.

Senator MOSELEY-BRAUN. While Senator Faircloth is here, Senator Faircloth, Mr. Looper handed me this. He's a former Illinoisan, by the way. Which demonstrates the different coins.

This may be part of the problem. The Susan B. Anthony looked like the quarter. But the Canadian—this is the Canadian coin.

Mr. LOOPER. Correct.

Senator MOSELEY-BRAUN. Yes, that's the Canadian coin. The Canadian coin is a different color, you can see. So you can easily distinguish a different color coin, a different configuration. Whereas, this was more difficult to distinguish. Of course, that's the penny, the nickel and the dime.

I'm sorry, Senator Faircloth. I didn't know if you had had a chance to see this provided by one of the witnesses.

Senator FAIRCLOTH. There's some talk of they're having trouble getting rid of the Susan B. Anthony.

They might try discounting them.

[Laughter.]

Mr. CLAYTON. I wish you had time to hear my total statement because I address that to some degree.

[Laughter.]

Senator GRAMS. Mr. Buetow.

STATEMENT OF WILLIAM C. BUETOW, SENIOR VICE PRESIDENT/TREASURER OF FINANCE, AND CAPITAL MANAGEMENT, CHICAGO TRANSIT AUTHORITY, CHICAGO, IL, ON BEHALF OF THE AMERICAN PUBLIC TRANSIT, ASSOCIATION

Mr. BUETOW. Thank you for this opportunity. I'd like to explain that I am the treasurer and senior vice president of finance for the Chicago Transit Authority. But I'm here today on behalf of the American Public Transit Association, which really represents over 400 transit properties across the Nation.

I am here to speak in favor of S. 874, which allows the U.S. Government to issue a fully identifiable one dollar coin in place of the current dollar bill.

I also must explain, though, I'm a 34-year transit veteran. I've been involved in a war on currency for more years than I can state to this panel.

But I'm also here as a taxpayer and I think my presentation will indicate my concern for the expenditures of Government to transit, and also the savings that are really out there for the industry that I serve and for the company that I have worked for all these years.

The Chicago Transit Authority is one of the largest processors of one dollar bills in the Nation. On an annual basis, we collect and process approximately $123 million in one dollar pieces of currency. Our ability to collect and process one dollar bills has improved over the years. That's an undeniable fact.

However, the issuance of a one dollar coin will eliminate the labor-intensive problem of processing dollar bills. We process money. Machines count money.

The labor-intensive nature that will be eliminated from a readily-identifiable coin will save the agency that I serve approximately $2 to $4 million annually.

On the national level, independent research had indicated $124 million will be saved within the transit industry alone by the issuance of this fully identifiable coin.

In situations like this, and I hope I can have your OK to do this. Sometimes a picture speaks louder than words.

This photo is indicative of all counting areas within transit or any counting area in the country that has to burden itself with processing currency.

We have a commodity that everybody wants. It's cash. The thing that's not in any statement, and certainly, it should be part of anybody's thought process is that any industry that deals with cash, does have a commodity that everybody wants.

It's very easy to steal paper currency. It's very hard to steal coin. It's certainly a category not addressed but has to be understood.

Even coming into your building today going through your metal detectors. They monitor coin. But not currency. It has to be part of what we talk about, but certainly, it's something that no one wants to talk about because we're all sensitive to the issue.

It's a very, very difficult statement to make. It's not in my prepared text but theft of currency has to be identified. I just picked this up from hearing some of the verbiage on that issue.

But the statement that I'd like to say involving transit itself is the cost I just gave you of $123 million annually for transit, there really are more cost savings within the transit industry that can be achieved when other expenses, such as equipment purchases, token sales, are added to the cost of accepting and handling one dollar bills, all of this has to be considered.

First, I would like to explain the potential savings in the area of processing dollar bills.

The cost to process $1,000 worth of one dollar bills at the CTA's counting operation facility, is approximately $22 per $1,000 of one dollar currency.

The cost to process the same amount of coin drops dramatically to $1.65. It's an absolutely phenomenal difference and I think you'll find it's standard throughout any industry that has to handle coin and currency.

The difference for the large cost difference in processing is due to the fact that handling paper currency naturally is much more labor-intensive. Coin processing is more efficient due to the higher degree of technology and availability of counting machines.

To date, our experience has shown that no technology exists to fully process paper currency. The difficulty is enhanced by the Federal Reserve's requirement that all paper currency when delivered be faced when stacked, face up.

By this I mean again that the dollar bill portrait of George Washington has to be face up.

Again, there is no technology available to adequately process currency, so our money-handlers must stack and face the bills by hand. You'll find this in every counting house in the Nation, again, a processing procedure.

With the general philosophy of deficit reduction becoming more evident in the Federal Government, transit authorities like the Chicago Transit Authority must look at new ways to get the most out of our limited resources. The issuance of the dollar coin will not only provide processing cost savings. It will give transit properties the flexibility to provide better fare structures.

Over the years, the transit authority has been limited in its own fare structure because it has taken a number of steps to avoid the problems associated with dollar bills.

That's a nationally known fact.

The problem with dollar bills first became a monumental problem when the CTA's fare was raised to 95 cents in 1992. Customers flooded our fare boxes with dollar bills and we encountered a multitude of jammed fare boxes.

It should also be noted that at that time, we had more than 5,000 buses on any given week sidelined by jammed fareboxes due to currency problems. We were never equipped, and the industry basically still is not, from the other testimony you've heard, to accept dollar bills in any specific category.

Our solution was to increase the level of technology of our fareboxes so dollar bills could be accepted. This required a capital investment of $15 million, just to fight the war on currency at that particular time. The cost of purchasing, maintaining and updating this technology over the years is a capital expense shared by the Federal Government.

That's a situation that has to be known when you're a public agency. We are subsidized as most transit properties are.

As a result of the increased dollar bill usage, the Chicago Transit Authority began emphasizing use of our transit token. In essence, it has been our board's policy to make the tokens available at a discount as a means of enticing customers away from using one dollar bills.

That's the only reason a token exists, other than quick entry.

In other words, we print our own coin. You pay for that at the present time. It's an absolute known fact that you should address.

Again, keeping in mind that tokens, like coins, are less expensive to process. Unfortunately, we have also incurred other costs associated with token usage.

Every time we issue tokens on the street, everybody basically has independent vendors. A commission is paid. It accelerates the costs. That's not identified in my processing costs.

From that standpoint, it costs me about $2.5 million to make the tokens available within the metropolitan operating district of the city of Chicago, so our ridership base can handle that situation. Again, cost savings to the Government itself and certainly to the area I serve.

Finally, if the issuance of a dollar coin becomes a reality, the ability of the Chicago Transit Authority to assume its usage in fareboxes and turnstile is not a significant problem.

I agree with my colleague two chairs down.

There will be, of course, some minimal costs associated with the change, but the savings in handling and processing costs would more than make up for any initial change-over process. An added benefit is that a coin increases the ability of passengers to board—they're certainly a quicker entry—than those with the dollar bill and the current dollar bill problem we have.

I firmly believe at that point an identifiable—again, identifiable—dollar coin is an absolute necessity in order for us to exist in the world today. Transit properties in other countries, especially in Canada, have had success with the dollar bill. The transit industry, including the Chicago Transit Authority, fully supports the issuance of a fully identifiable dollar coin to replace the dollar bill.

Senator MOSELEY-BRAUN. Excuse me.

Mr. BUETOW. It is smart. It is efficient and it needs to happen.

Senator MOSELEY-BRAUN. Mr. Buetow, didn't you misspeak? You said foreign countries have had success with the dollar bill.

Mr. BUETOW. I'm sorry. The foreign countries have had success in the change-over to the dollar coin.

Senator MOSELEY-BRAUN. OK. That's what I thought.

Mr. BUETOW. It was Canada that went to the same gold coin, the loonie. It's readily acceptable. I apologize. Thank you. It is a major factor.

I have been to their counting facilities in Toronto. It's an absolute joy to watch coins being processed in boxes and packed for distribution and redistribution, where, in essence, currency, on the other hand, had been a problem.

From the standpoint of closing this, as I said, transit is definitely in favor of this situation. At the present time, it makes absolutely no sense to us in transit, and I speak for myself personally, that the dollar bills that I've talked to you about processing, the $123 million that this company that I represent handles. Those dollars that are funneled at teller acceptability through banks and into the Federal Reserve, to watch between 60 and 80 percent of those dollar bills be destroyed and not recirculated at a cost, again, to the Government that subsidizes the Federal Reserve System, is insanity to me, and it always has been. Where coins are bagged, weighed, completely auditable into the Federal Reserve, back out for circulation—again, the currency problem in this country has to be identified. Transit is fully supportive of this issue.

Thank you.

Senator GRAMS. Thank you, Mr. Buetow.

Mr. Looper. Again, I remind you of the time.

STATEMENT OF TOMMY E. LOOPER, EXECUTIVE VICE PRESIDENT AND CEO, ANCHOR BANK, MYRTLE BEACH, SC, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

Mr. LOOPER. I will be as quick as I can.

I'm pleased to be here to testify regarding S. 874, the One Dollar Coin Act, on behalf of the American Bankers Association.

ABA members represent approximately 90 percent of the commercial banking industry's total assets and about 94 percent of the ABA members are community banks with assets less than $500 million.

The Anchor Bank is a $380 million community bank with 15 branches, headquartered in Myrtle Beach, SC. My duties at the bank encompass oversight of the operations area, including the teller functions.

While we support the efforts to reduce the cost to Government, we do not believe this goal will be realistically advanced in S. 874, and the ABA cannot support that proposal at this time.

We believe the estimated savings are overstated and in addition, these budget calculations don't take into account the substantial private-sector costs which would be incurred and the new operational problems created for banks and others.

We have serious concerns about the introduction of the new coin and that it would place a new financial and operational burden on the banks and our customers. We believe that the American public would again reject the one dollar coin to which they are opposed.

We have worked over the last few years to reduce the burdens imposed by Government on our industry and this legislation just adds new burdens without any added benefit to the banks or consumers.

Now should the coin be approved, it is possible to minimize some of the projected cost increases and problems created by the new coin by working with Congress and the Treasury to lower the possibility of failure of the dollar coin and to reduce the operational impact to a more manageable level.

The requirements are tough and unless they're met, we fear the new one dollar coin would meet with the same end as the Susan B. Anthony.

The necessary requirements for successful introduction of the dollar coin are:

That the coin replace all the $1 bills in production and especially the $1 bills within the Federal Reserve System;

That $1 coin production and stockpiles are sufficient to accommodate demand before the $1 bill is discontinued;

That the $2 bill be printed and stockpiled in sufficient quantities to accommodate demand before the $1 bill is discontinued; and

That the $1 coin be the same diameter, thickness, and weight as the Susan B. Anthony $1 coin, but with distinguishing characteristics from the Susan B. Anthony.

Just as a personal aside, I think if you're messing with the coin and currency system, we ought to really look at doing away with the penny at the same time because a lot of the concern of the banking industry is the additional weight, transportation costs and handling costs involved with the coin itself.

Some of that could be obviated by doing away with the penny at the same time.

But the three primary issues for the banking industry are the expected rejection by the public of the proposed coin, the cost of retrofitting and acquiring new equipment to handle these dollar coins in the banking industry, and in the ongoing operational issues related to the weight of the proposed coin, the transportation costs and so forth.

We believe that the mandating of the termination of the $1 bill against the public's wishes, as demonstrated in several polls, would be viewed as one more example of Big Government in Washington dictating to the American public what they can and can't do.

It's also clear that there would be some economic impact on the retail economy because of the increased transportation costs associated with moving heavier coins around and these costs would be passed through to retail institutions who use the coins, and ultimately to the public.

At our bank, we currently charge less than our cost for rolled coin to our customers. Any increases in cost of transportation and handling would definitely have to be passed on to our customers.

We believe that the budget savings and other benefits to the Government may be overstated, while the cost to the public could be substantial and the chances for successful introduction are lower than the proponents of this legislation may lead us to believe.

Bankers most of all fear a reenactment of the Susan B. Anthony, where a large portion of the banking industry retrofitted and changed their equipment to handle these coins and then they were suddenly withdrawn after we incurred significant expenditures to accommodate them.

In fact, we still have to deal with the not infrequent appearance of an Eisenhower dollar coin in the bank. And asking banks, retailers and the public to face a third modern dollar coin just seems unfair.

When the Susan B. Anthony was introduced, teller lines grew longer because our customers were complaining. We were trying to educate them about the new coin and why it was there. While there were a few who stood in line to actually get the coins for collector's items, most customers actually refused them when they were offered in transactions. We fear that this might happen again.

Going to the retrofitting of equipment, most of our coin processing equipment is electronic, manual or mechanical sorting equipment. Even though some of the existing equipment is capable of handling the Anthony dollars, and some can be retrofitted, some alternative coin designs would not work in the equipment.

We favor, if the coin is minted, that it is the same size and weight of the Susan B. Anthony.

In most cases today, we can handle the Susan B. Anthony dollar in low volumes just by manual process in community banks.

In a survey that the Bankers Association did in 1993 at the National Operations and Automation Conference, less than 20 percent of the attendees there had the infrastructure in place to handle a dollar coin in their banks, and again, I'm talking about community banks. So there would be substantial costs.

In surveying several ABA committees and coin-handling vendors, we estimate that the average community bank would be required to spend somewhere between $6,500 and $9,500 to replace coin-sorting, wrapping equipment, cash drawers, coin racks and be ready to handle the dollar coin.

For the Nation's 10,000 community banks, again, small banks, these start-up costs might easily top $80 million. That doesn't account for the regional banks, super-regionals, and Nation-wide banks. That's just community banks.

In the case of my bank, that would probably be in the neighborhood of $15,000 in initial costs. That's beside the ongoing cost of more labor and transportation to handle more weight.

We will fully cooperate with the Treasury and the Federal Reserve if this legislation passes, but we believe that we really should be looking more to the future. Americans began with coin money, then adopted paper money, and we're moving in the direction of electronic money. There's a lot of time and effort being spent there. Expenses incurred in a coinage retrofit would divert money away from investments into electronic payment systems.

I know most of you have read that at the Olympic games, they're testing a smart card. So it won't be necessary for people to carry either coin or currency in their pockets. I think in the future, we're going to see vending machines where you walk up with a card to pay for your purchases.

I know that Congress is working on legislation regarding electronic money right now. We just feel that is a better direction to be moving in rather than going back to new coins.

As I say, one of the main problems we have with the proposed coin is with the weight. If you look at the Susan B. Anthony coin, it weighs about seven times as much as a dollar bill. Based on some research we did with community banks concerning the amount of coin and currency passing through banks, the weight of that coin and currency could double with the introduction of this dollar coin to replace the dollar bill.

In my bank, we did some work on the amount of weight that our tellers have to carry from the vault to the teller line at the beginning of the day. That weight would increase 50 percent if we just replaced the dollar bill with the dollar coin.

The average weight that our tellers have to carry would go from approximately 50 pounds to 75 pounds. That's just been to get ready to do business in the morning.

In summary, the ABA opposes this bill as it's currently drawn. However, if a new coin is created, the Congress and the Treasury should adopt all of the difficult steps we consider necessary to lessen the pain of the introduction of a new circulating $1 coin, and to ensure it is workable.

Thank you.

Senator GRAMS. Thank you very much, Mr. Looper.

Mr. Clayton.

STATEMENT OF R. DAVID CLAYTON, PRESIDENT, AUTOMATIC FOOD SERVICE, INC., NASHVILLE, TN, ON BEHALF OF THE NATIONAL AUTOMATIC MERCHANDISING ASSOCIATION

Mr. CLAYTON. Mr. Chairman, I believe I'll be the only one up here so far today that hasn't let the red light come on.

[Laughter.]

I do thank you for the opportunity to testify, and I would like to thank Senator Frist for the record for the glowing introduction he gave me earlier.

It was much better than the one I wrote for myself.

[Laughter.]

So he did an admirable job.

This morning, as I said, I am a small businessman. We're a family-owned business. All five of my children do work for me within the company.

This morning, I'm speaking for the thousands of companies like mine, some larger and some smaller, that employ over 250,000 people across this great country.

In the early 1960's, the food and refreshment vending was more convenient and efficient. The primary reason for this fact was that a candy bar or soft drink could be bought with one coin—a quarter. You could even get change back from that quarter.

But those days are long gone. Due to inflation, the average selling price of a vended product today is 60 cents. This means you must have a minimum of three coins to make a transaction.

Because of the inconvenience to our customers caused by the antiquated coinage system, we have turned to a costly and less effective dollar bill acceptor. These bill acceptors add up to $400 to the cost of each machine. For those of you who have tried to use them, you have found them to be only marginally acceptable at best, while coins are accepted 99 percent of the time.

It's been said by those who oppose the introduction of the new dollar coin that the vending industry will take advantage of this and raise prices. This is an absurd statement.

The introduction of a new circulating dollar coin would greatly reduce our future capital outlay for bill acceptors. Additionally, we estimate that 80 percent of the equipment on location will accept an Anthony-size coin.

As a side note, it is very important that the new coin not change in thickness or diameter, or our industry could lose the more than $1 billion that we have invested to accept the dollar coin. If we were going to increase vending prices, we would have increased prices when we bought these expensive dollar bill acceptors.

At the present time, the Bureau of Engraving and Printing is in the process of redesigning all U.S. currency in an effort to reduce or eliminate the counterfeiting problem. They will start with the $100 bill and work their way down to the dollar bill.

The newly designed dollar bill is projected to appear in 1999. If this process is completed before we have a new circulating dollar coin, we could be forced to replace every bill acceptor that we have at a cost of hundreds of millions of dollars.

Our primary fear is that nothing will be done and we will be back to a situation where we only have quarters. If weight becomes an issue and pockets become an issue, the fact that you have to carry—some people have to use coins and if you have to carry enough quarters in your pocket to make a transaction, you will know what weight is.

It appears to me that the need of Government and industry alike could benefit by the introduction of a new, well-designed dollar coin at this time.

Not only would the Government save billions of dollars over the next 30 years, but it could improve the efficiency of our Nation's commerce at the same time.

Each day, over 125 million separate transactions are made in the vending industry alone. This does not include the millions who need coins for mass transit, toll roads or laundromats, just to name a few. So there is an immense commercial need for a new circulating dollar coin.

As you know, the introduction of the Susan B. Anthony dollar coin in 1979, was a disaster that has not been forgotten. The Anthony was poorly designed. It was the wrong color, the wrong edge, and the wrong feel. It was never accepted by the American people or the retail industry.

The amazing thing is, as bad as these coins are, they are now being drawn down at a rate of approximately 6 million per month. With the ever-increasing demand, the stockpile of 273 million Anthonys left in the Government vaults will be depleted in less than 4 years. What will the United States Mint do then? Produce more Anthony dollars? I certainly hope not.

But this fact alone demonstrates the dire need for a higher denomination coin.

The dollar bill has the purchasing power of the quarter of the 1960's. Would you like to try using paper quarters? This is the dilemma we are faced with today.

Mr. Chairman, Members of the Committee, our coinage system is broken and must be fixed. We urge the Committee to bring this bipartisan issue to a favorable conclusion.

Thank you for holding these hearings.

Senator GRAMS. Thank you, Mr. Clayton, and you did beat the red light.

[Laughter.]

Ms. Golodner.

STATEMENT OF LINDA GOLODNER, PRESIDENT, THE NATIONAL CONSUMERS LEAGUE, WASHINGTON, DC

Ms. GOLODNER. Mr. Chairman and Senator Moseley-Braun, my name is Linda Golodner. I'm president of the National Consumers League, a national nonprofit consumer organization founded in 1899 on market place and work place issues.

We appreciate the opportunity to testify today on the issue of the dollar coin.

I would ask that my written testimony be made part of the record.

Senator GRAMS. Without objection.

Ms. GOLODNER. There have been few issues in which consumers have more clearly expressed their opinion than the dollar coin.

They do not want it.

I would like to enter into the record the summary of five polls conducted over the past year on this subject. Americans consistently oppose switching to a dollar coin by a 3:1 and 4:1 margin.

In a poll conducted on behalf of the House Budget Committee, 82 percent of those surveyed nationwide opposed the dollar coin, even if it would help reduce the budget deficit.

To be perfectly sure that the polls we had seen were current and reflect American public perception on this issue, the National Consumers League, on June 8, 1995, commissioned Opinion Research Corporation to conduct a national random sample survey of three questions on the dollar coin.

The survey asked:

Do you favor or oppose abolishing the dollar bill and replacing it with a one dollar coin? If, given the choice, do you think you would prefer to use one two dollar bill or two one dollar coins? Then we asked, if the one dollar bill is replace with the one dollar coin, do you think prices on such things as vending machines, laundromat washing and drying machines, and parking meters, would increase, decrease, or stay the same?

Respondents opposed legislation to replace the $1 bill with a $1 coin by a margin of 72 to 19. Nearly 6 of every 10 respondents thought prices of vending machines products would likely increase if the dollar coin were mandatory.

Sixty-four percent of the respondents, if given a choice, would prefer one $2 bill over two $1 coins. Only 21 percent would prefer to use the coins.

To my knowledge, the National Consumers League poll was the first one to pose that last question, and the results raised the obvious question—if people will simply switch to $2 bills, what have we accomplished by eliminating the dollar bill?

The likelihood is that people would prefer $2 bills over $1 coins also raises the possibility that the Government could find itself with billions of unwanted dollar coins on its hands, much as it has already had with the Susan B. Anthony coin.

Coin proponents argue that public opinion is simply irrational and that forced to use dollar coins, people would soon acquiesce to the change. But this ignores some important facts.

I'd like to ask that I be allowed to enter again in the record, a University of New Haven study conducted by Dr. Darryl Jenkins.

Senator GRAMS. Again, without objection, it will be entered into the record.

Ms. GOLODNER. To summarize the study, Dr. Jenkins found that if the average price of vending machine products rose by only one percent, this would mean approximately $230 million a year in higher prices to the public. He also found that price increases would most severely impact low-income families, who often rely disproportionately on vending machines and laundromat machines.

I don't represent myself as an expert on the impact of the dollar coin on the U.S. Treasury. However, it's my understanding that the Congressional Budget Office estimates the dollar coin would save an average of $20 million a year over the first 5 years, while the Mint estimates it would cost the Government about $22 million over the first 5 years.

Even if the CBO estimate is accurate, one can see that every dollar saved by the Treasury would come up at the expense of many more dollars that are lost by the public.

If vending machine prices would increase by only 1 percent, that would mean the average American would lose $10 for every dollar saved by the Treasury.

Why would vending machine operators and soft drink manufacturers favor legislation that would require them to make expensive changes in their machines?

Presumably, because they feel that they can raise prices sufficiently to cover their investments and increase their profits.

Vending machine operators believe that people can see coins inherently less valuable than paper currency. As a result, some of the vending machine industry people believe that they can raise prices to a dollar with inpugnity.

For example, a vending machine operator recently stated, there's a psychological barrier against using four quarters, even if there's a bill changer right next to the game. That is why the editor of a video arcade magazine wrote recently, the video game industry would like a chance to boost play pricing across the board.

There's been discussion this morning about electronic banking and the use of cards. Use of cards has been accepted by the American public. Just look at the use of ATM cards, credit cards, debit cards, and now smart cards.

We're going to see that increase. Whether or not this legislation passes, there will be cards that people can use for vending machines and for other small purchases.

When the public holds strong and well-documented feelings in opposition to a piece of legislation, it seems to me that Congress must find an extraordinarily compelling argument to override that public opinion. I would suggest that there is no compelling argument that exists.

Congress should not try to impose this unpopular coin on an unwilling public. It will cost the American public and the Government a lot of money.

Thank you.

Senator GRAMS. Ms. Golodner, thank you very much.

Mr. Leuver.

STATEMENT OF ROBERT J. LEUVER, FORMER DIRECTOR, BUREAU OF ENGRAVING AND PRINTING, WASHINGTON, DC, PRESIDENT, NUMISMATIC ASSOCIATION, COLORADO SPRINGS, CO, ON BEHALF OF THE COIN COALITION

Mr. LEUVER. Senator Moseley-Braun, Senator Grams, it's a pleasure to appear before you this morning. I'd like to thank the Chairman and the Members of the Committee for inviting me to testify.

My name is Robert Leuver. I'm presenting testimony on behalf of the Coin Coalition, a group of 30 associations and companies that want a one dollar coin.

I'm a former employee of the U.S. Treasury Department, 1974 to 1988. I was with Treasury's Bureau of Engraving and Printing from 1979 until 1988, and its Director from 1983 to 1988.

Again, I'd like to ask your permission to submit a written statement for the record and make a brief oral statement.

Senator GRAMS. Without objection, so ordered.

Mr. LEUVER. Thank you. All the Coin Coalition is trying to accomplish is to adjust for inflation. A dollar today is worth what a quarter was in 1965. The country did not need a 25-cent bill in 1965. It does not need a one dollar bill today.

Allow me to try and dispel some of the common myths that are being spread about the dollar coin.

Myth number one—the Anthony dollar was the wrong size, too close to the dollar.

As was pointed out to Senator Faircloth, the Anthony dollar was a poorly designed coin. That I'll grant. But the size was not the issue. The Anthony dollar was a surprising 40 percent larger than a quarter.

The problem was because the Anthony dollar had the same color and the same reeded edge as a quarter. Canada proved this point by making their coin exactly the same size as the Anthony dollar. But Canada changed the color and they eliminated the reeded edge.

Thank you.

Another myth—the environment will be damaged.

On the contrary, this is a green proposal. Virtually 100 percent of coins returned to the Mint are recycled. In 1994, 89 percent, or almost 6.5 billion Federal Reserve notes, returned to the Fed were sent to landfills.

Myth number three—seigniorage is an antiquated and spurious concept.

Well, I would simply respond that the Federal Reserve earned about $21 billion in 1994 for the American taxpayer on Treasury notes that back our currency as a result of seigniorage.

The latest myth is that people will choose not to use the one dollar coin. In Monday's Los Angeles Times, director Philip Diehl wrote that consumers could bypass a dollar coin to use a two dollar note, as Mrs. Golodner has noted in her testimony.

Even if this were true, the Government would cut in half the annual cost of printing 4.5 billion one dollar bills. This alone would save the taxpayer $80 million annually.

What about public opinion?

None of the polls that have been commissioned told the respondents that there would be a paper alternative to a one dollar coin. No poll mentioned that the Government would save $400 million annually over 30 years. When these facts are explained, something remarkable happens. Opinions change.

Since the May 3, 1995 hearing in the House, 79 percent of the newspaper editorials written about the dollar coin are supportive. I suggest that this is an interesting contrast to Director Diehl's earlier comments about 80 percent of the population not favoring the dollar coin. The press is a mighty ally.

Now I want to turn to a more serious problem, and that is counterfeiting. With nearly perfect counterfeit $100 Federal Reserve notes now pouring out of the Middle East and Columbia, swift action should be taken by the Congress, the Treasury Department, and the Fed to eliminate the one dollar bill. Here's why.

At the BEP, some 47 percent of production is one dollar bills. In order to combat counterfeiting abroad, these presses printing one dollar bills are needed to replace $375 billion worth of higher denomination notes, two-thirds of which are held overseas.

Ted Allison, a senior member of the Federal Reserve who accompanied Governor Kelley, told me this morning that two-thirds of the $100 billions that are outstanding are overseas.

Treasury Department officials have stated that the redesign of U.S. paper money will begin in 1966 with the newly designed $100 bills, followed by lower denominations.

Senator MOSELEY-BRAUN. Mr. Leuver, you meant 1996, I hope.

Mr. LEUVER. 1996. Thank you very much, Senator.

Mr. Chairman, our money system is broken at every level, from the lowly one-cent piece to the $100 bill. An integrated approach needs to be taken to solve the problem.

A good place to start what is broken is to provide a one dollar coin which will last 30 years and cost 8 cents to manufacture. At the same time, eliminate the one dollar bill, which lasts only 15 months in circulation and will cost 4.3 cents to produce in 1996.

Give the BEP the capacity it needs to introduce the new generation of more counterfeit-resistant currency.

The Treasury Department last year determined to run counter to public opinion, change the design of our currency to combat counterfeiting. Introducing a dollar coin and eliminating the dollar bill is also unpopular. There is an opportunity now for the Congress to take the lead and save $400 million annually for the next 30 years.

Now is the time for leaders to lead.

Thank you.

Senator GRAMS. Thank you, Mr. Leuver.

Mr. Ryder.

STATEMENT OF DAVID J. RYDER, FORMER DIRECTOR, UNITED STATES MINT, WASHINGTON, DC, PRESIDENT, THE RYDER COMPANY, WASHINGTON, DC, ON BEHALF OF SAVE THE GREENBACK

Mr. RYDER. Thank you.

I appreciate the opportunity to be here today to discuss S. 874, the proposal to eliminate the one dollar bill and replace it with a one dollar coin.

As President Bush's Mint director, I had numerous discussions about the dollar coin with Members of this Committee and other Committees during my tenure. I never wavered in my belief that the dollar coin is a bad idea.

I would like to briefly put forth some thoughts and considerations which I believe should be part of any policy deliberations you would have, and would also ask that I have some other information that I think should be included in the record as part of my testimony.

Senator GRAMS. Without objection, it will be entered into the record as noted.

Mr. RYDER. Thank you. Like Mrs. Golodner said, I bring before me a list of all the various polls that have been done over the last about 18 months, and they range from USA Today, Gallup poll, 77 percent opposed. Opinion Research poll, 72 percent opposed. The John Kasich poll, which asked the question, even if it meant reducing the budget, would you like a dollar coin? Eighty-two percent said that they were opposed. Market Facts poll, 73 percent. And finally, a Yankelovich poll at 65 percent.

I would suggest that these numbers and these statistics be entered into the record and used as a real source of deliberations on the policy issue of should we have a new dollar coin.

Senator GRAMS. They will be entered. Thank you.

Mr. RYDER. Thank you. Not all vending interests are supportive of a dollar coin. For example, several small vending retailers around the country are fearful that a dollar coin will force them out of business.

I hold before me a letter that was sent to Senator D'Amato just last week. It's from a fellow by the name of Phil Greenhut of Eastern Vending in Lyndon, NJ, who wrote: We are the silent majority. I'm quoting here. "We are the silent majority. Every vote of the general vending population has called for the saving of the dollar bill." Yet, NAMA and the Coin Coalition have refused to listen to us.

In his first statement in the letter, he says—the elimination of the dollar bill will destroy my and most other small vending companies' businesses. Yet, NAMA and the Coin Coalition have refused to listen to us.

What he is saying is that the huge cost of retrofitting to accommodate dollar coins will drive him out of business.

I believe that it is significant that the conference agreement on House Concurrent Resolution 67, the 1996 Budget Resolution notes, "the conference agreement does not assume additional revenues from replacing the one dollar bill with a one dollar coin." In other words, no savings are assumed.

Nevertheless, coin proponents persist with the same justification for a dollar coin—big budget savings.

One fact we cannot overlook is that we have a demand-based currency and coining system. Thus, if the people don't accept the coin, as history says will happen, there will be no savings.

Five secretaries of the treasury in the last three administrations have opposed the dollar coin fearing, as GAO noted, "It is dangerous to minimize the negative reaction of the public that could result from converting to a one dollar coin."

CBO, in my opinion, did not account for a $20 million public relations campaign to promote the dollar coin. It did not account for capital expenditures needed to produce the coins. It did not account for these costs to recall and melt down the 300 million Susan B. Anthonys still stored in Mint vaults.

CBO offset these costs by using seigniorage.

Mr. Chairman, I believe that it is important to consider that the U.S. Mint simply does not have the capacity, either in labor or plant space, to produce a dollar coin.

As such, outlays to procure people, equipment and floor space to produce a dollar coin would be significant.

Additionally, as Secretary Rubin has noted, there are concerns as to whether or not private-sector coin strip manufacturers have the capacity to produce the quantity and quality of coin strips which the Mint would need.

I also believe it is important to consider the enormous consequences of a dollar coin failure and consider this bill as grounds of public policy versus budget effects.

By this I mean that under the best budget scenario, maybe $20 million per year is saved, about enough to pay the interesting occurring on our national debt during this hearing.

On the other hand, if a coin fails, which history shows will likely happen, the cost of storage, recall and meltdown alone will be huge, not to mention the monies wasted on new machineries and floor space.

H.R. 2018, introduced by Congressman John Oliver, will authorize the U.S.Mint to produce new, 24-carat gold and platinum investment coins. This would allow the Mint to market and sell new investment products and compete with other world mints.

But most importantly, it will create real revenues for the Treasury from the sale in world markets.

I also would like to hold up the June 12, 1995 issue of Business Week. It says, The Future of Money.

The wave of the future is a cashless transaction in the market place. This June 12, 1995 issue of Business Week features an article, The Future of Money, which I believe speaks to the direction we are heading in commercial transactions. I think that this type of information, this type of reliable data is the type of data and the way in which our society should be moving. I think Congress should sincerely take a look at why this makes such good sense.

I also should point out—and I've lost my place for a second—that Congress, and including Congressman Kolbe, used in a CBS news poll that he wants to force this on the American public.

I think that's a bad idea. I think it's a bad idea that Congress is going to force something on somebody that does not want it.

I think what will happen, and it's very important to note and all of the people that have talked today, that the only way that this proposal will work is simply if the American people will use it. If all the polls are correct and if history proves us correct, people will not use it.

The cost because of that to the Mint, to the private sector, to the Treasury, to the taxpayers, will simply outweigh any cost savings that anyone could devise under this proposed legislation.

I'd like to also thank you for your time and if I can answer any questions, I'd like to do so.

Senator GRAMS. Thank you very much.

Senator MOSELEY-BRAUN. Senator Grams, I won't force any questions on this panel. I have another appointment that started a few minutes ago. That's just the way of life around here. You have conflicting appointments.

I just wanted to thank the Chairman and thank this panel for very interesting testimony this afternoon. Thank you.

Senator GRAMS. I have a few questions that I'd just like to run through briefly. I know the time is getting late. But to talk about some of the testimony that you have given.

Mr. Ryder, first of all, when you talk about, as history would show that the dollar coin has not been accepted. I think there have been mistakes made and I think history has showed the Susan B. Anthony was not a good coin to introduce. The Ike one was not well introduced or handled.

But if you want to look at history, I think you have to look at the other 25 major industrialized countries of the world that have gone through this same scenario, faced the same opposition from the public.

Even when the Ford Motor Company introduced the Edsel, it failed. But that didn't keep them from introducing other cars.

So to say that history would preclude the prospects of success in this area, what about the surveys and what about the history in other countries? Canada, most specifically, with the success of the loonie, despite similar type opposition in surveys as what you have shown here?

Mr. RYDER. Well, I think one should not forget the fact that if this bill is proposed as it is today, what's going to happen is you want to reintroduce the $2 bill. As the polls say, if you introduce the $2 bill, with a corresponding $1 coin, people will use the $2 bill.

I merely bring up the issue that should be considered, that if people do that en masse, people will not use the dollar coin.

I also should note that if our currency, as Mr. Leuver and other people have suggested, if we're changing our currency because of counterfeiting and so on and so forth, and if the vending industry discounts the fact that if we eliminate the dollar coin, that would save them millions of dollars a year in savings that they wouldn't have to put into their machines.

However, most vending machine companies, I think, will require to maintain the proper disbursement of snacks and soda. If people start using the $2 bill, they'll require that a $2 bill be installed in those machines.

Now those new $2 bills in 1999 will have the same counterfeit deterrent features as the one dollar bill will.

There's no offsetting cost there. It's going to cost the vending machine industry, I think, an enormous amount of money to retrofit those machines.

Senator GRAMS. Mr. Leuver, you had mentioned, I think, in your testimony that if they did go to the $2 bill, it would cut the use or the cost to the Treasury in half to the one dollar bill.

Mr. LEUVER. Only because I heard the testimony from others that there would only be 50 percent of them used. So that would be actually what would be cut.

You know, an interesting point that you made on the perception of people and public opinion on the introduction of coin to replace a bill.

Canada, in January, determined that they were going to come out with the $2 coin. They ran a poll. Quite the contrary of when they introduced the $1 coin, 79 percent of the people responded that they would welcome a $2 coin.

What has happened is a change of perception in the 6 years since the $1 coin has been in circulation.

Senator GRAMS. I think I stated earlier, there was a friend of mine who returned from Europe. After 1 month, in finding the coins in Europe and how handy they were, he said that this would be a great idea, in fact, endorsed it. After only 1 month of use in Canada.

Mr. Clayton, the charges that it would raise prices in the vending industry, that it wouldn't save money, that you would be forced to use a $2 dollar coin or bill changer.

What is the response from the silent minority or the vocal majority?

Mr. CLAYTON. OK. I want to commend Mr. Ryder for finding a needle in a haystack with Mr. Greenhut. Mr. Greenhut is a vendor from New Jersey.

We have in our possession today a letter from the State of New Jersey's vending association wholeheartedly backing the proposition for a new circulating dollar coin.

I would be glad to enter that into this record.

As I stated earlier, our industry is ready today to accept a dollar coin of the same size and same diameter and thickness as the Susan B. Anthony.

Senator GRAMS. You accept Susan B. Anthony's today. Is that correct?

Mr. CLAYTON. Yes, sir. We are using them in our operation because of the ease and convenience. We are capable today of taking larger denomination currency and to give back 20 quarters for a $5 bill is very inconvenient to the general public.

So we have dollar bill changers equipped with the Susan B. Anthony and it is returned and we give them five coins back and then they can be used right now, today, in our vending industry.

There's no downside at all to us in this, and we've been getting ready for this since the Susan B. Anthony coin was introduced in 1979. Any progressive vendor in this country that is looking to the future and looking toward his well-being, has been purchasing coin-handling equipment that will accept the dollar coin of that size and dimension.

So, we are ready. We are anxious to move forward and have a coinage system that is not antiquated.

Senator GRAMS. Mrs. Golodner, you heard Mr. Buetow's testimony a few minutes ago that it would save the cost of processing a dollar bill compared to the process of the coinage and the amount of money that the transits could save and the amount of buses that they could put on the road without increased fares. Or maybe even holding the fares at a certain level.

This would basically help consumers in the long run, in just this one industry alone. Would you agree with that?

Ms. GOLODNER. Not necessarily. As we found in Washington, DC, prices can go up no matter what.

Senator GRAMS. It wouldn't be blamed on the use of the coin.

Ms. GOLODNER. I know in Washington, when we put a dollar bill into the Metro machine, you have to put it in a certain way. Therefore, no one has to be employed to turn the dollar bill in one direction.

I think, in the long run, if you look at the use of coins in vending machines, in laundromats, and in amusement machines, the cost to the American public is going to increase if a dollar coin is introduced.

Senator GRAMS. What about the fact, according to the testimony, that there are 6 million Susan B. Anthonys that are being drawn down from the Treasury every month?

I think that would show that, despite the unpopularity of that dollar coin, there's more and more demand for it and it's being used on a wider scale.

So the public itself is demanding even an unpopular coin at 6 million per month. In 4 years, they're going to draw down the entire source that we have.

What's your response to that. Despite opinion polls that they don't like it, more and more are being used.

Ms. GOLODNER. That was the first time I had heard that number. I don't know the reason for the demand.

Mr. RYDER. Can I clarify that one?

Senator GRAMS. Mr. Ryder.

Mr. RYDER. Where they're being drawn down from is from the U.S. Postal Service——

Senator GRAMS. Most of them.

Mr. RYDER [continuing]. Who uses them in vending machines. However, I think that the use, if you'll check with the U.S. Postal Service, and I'd be happy to do that for you, is that it's very inconvenient for them. They're finding that people that they use those machines, they get—and if you get to a machine, it flashes a red neon sign that says, this machine gives one dollar coins in change.

They're finding that those machines are not being used as much because people simply don't want the dollar coin. When they get the dollar coin——

Senator GRAMS. Or they don't have one.

Mr. RYDER. Well, more importantly, but they're not using them. What they're doing is taking those coins back to the postal desk and saying, give me real money for this. I can't use this.

So I think that's where the draw-down is coming. I think as the Postal Service carries out this experiment, that they haven't worked as well.

Senator GRAMS. To continue to move to the left side, Mr. Clayton, I also wanted to ask you about the charges, and we've heard some of this before, that it would increase prices in vending machines and probably even the transit. Mr. Buetow, we'll get to you on that in a moment.

We heard testimony before that there's many avenues to deliver products and vending machines are only one way. With competition.

Would that be an excuse for vending machines, to raise their prices on an unsuspecting public?

Mr. CLAYTON. No. Competition sets pricing. We don't. If the fellow down the street or my competitor in the vending industry decides that he can outbid me price-wise, that's the way he's going to get his business.

So, it's very unfounded to believe that just because we have the availability of a dollar coin, that we're going to go out and raise all of our prices to match.

Senator GRAMS. It already takes a dollar bill.

Mr. CLAYTON. Yes, sir. And had we—that is the point I tried to make in my testimony, the fact that we spend up to $400 at this point in time to accept the dollar bill, and that cost would be totally eliminated if we had a circulating dollar coin and had the elimination of the dollar bill.

Senator GRAMS. Mr. Buetow, would that be able to have transit companies raise prices?

Mr. BUETOW. Again, no, we would not raise prices. As I stated, our own production, the token, which is really counter to the production of the dollar coin, is sold at a reduced rate, just from the standpoint of the CTA. It's $1.25.

If, in fact, we had a dollar coin and the cost of processing the other dollar bills drops, then certainly, ridership cost drops and the saving would be passed on to the consumer.

That is the intent and that's why we're actively supporting this also. It's a customer convenience. It's our job, again, as I told you, as a taxpayer, and also from the representative of the transit association, also CTA, that more efficiencies, require less Federal subsidies. Certainly any cost savings involved are really passed on to the ridership.

Senator GRAMS. This may be leading the Witness, but if you surveyed your customers and said, dollar bill, 4 quarters, or a new dollar coin, which do you think they would support or favor?

Mr. BUETOW. I think that once proper marketing is done, I think that a readily identifiable dollar coin would be as easy to use as a token in any transit company.

I realize that the dialogue that has gone on here this afternoon about the surveys that have been done on dollars and the use of dollars and certainly, that is a concern. But I really believe that a marketing issue from the standpoint of transit to support a dollar coin is essential because that is the key to this.

That's the reason a Susan B. did not work in transit. I fully agree with the other testimony, that for us to change over is a minimal cost.

If we had a readily identifiable coin at the present time, relatively the same diameter as the Susan B., it would not cost the agencies hardly any money at all to convert.

Again, I have to keep impressing on you, Senator, that a lot of things that we're talking about, even the production of tokens, is subsidized by the Federal Government.

I've heard a lot of dialogue here today about the use of smart cards and other approaches. My agency alone is on a track now within 2 years to go to automatic fare collection equipment.

Part of that is the smart card approach. It isn't the panacea of solving everybody's problem because no matter what we do in industry, 53 percent of my ridership over the years on the Chicago Transit Authority always use cash.

So the idea of using cash, no matter what you do with smart cards, certainly comes back still to the convenience of an identifiable dollar coin. The smart card, one must not forget, that's not a situation that's given free. Those smart cards and electronic items are a basic cost of about $10 to $25 per card.

I don't think you can sell a consumer on saying that I'm going to give you the issuance of a card or an electronic card at that cost and say they're going to accept that. I think it's more easy for them to accept the dollar bill, new coin.

Senator GRAMS. Mr. Looper, the banks charge stores from 6 to 10 cents for a roll of coins, in handling. But yet, they charge 50 cents or more for a strap of dollar bills. So why would you say, then, that it's going to cost more to handle coins?

By the way, when you're transporting with Wells Fargo or any other security, do they charge you by weight or by the load or the trip?

Mr. LOOPER. Well, by and large, the company we use charges us by the roll for coins. They actually deliver rolled coin to us. If they deliver currency, there is no additional charge. We have one fee for delivery. So they don't charge us for the bills, but we do pay for the coins.

As far as what banks charge for rolled coins, I can only speak for my own bank. We do not charge anything for currency.

Obviously, if a consumer comes in for coin or currency, we don't charge anything. We only charge our commercial customers for coin. In our bank, we do not charge for strap currency.

We charge 2 cents per roll for coin to our commercial customers. Oddly enough, it costs us 3.34 cents per roll from the armored car service to have it delivered to our door. So we're not real smart on making a lot of money on that transaction.

But I would point out that currency and coin is an expensive proposition for the banking industry. It is very labor-intensive for us to handle. We have people standing there all day to handle transactions. The space we have to store it is very expensive and we have to pay for insurance to safeguard it.

When it's sitting in the vault at the bank, we have no earnings from that money. It just sits there idle. The only thing we can do with it is actually satisfy some of our sterile reserves with the Federal Reserve Bank. But we can't make loans with it or invest it.

So handling coin and currency is an expensive proposition for the banks. Oddly enough, most of the money that is in the banking system doesn't come in in the form of coin and currency. It comes through electronic transactions and checks.

So there's a small percentage of the deposits that are related to cash, but a large part of the overhead cost in the bank is associated with that coin and currency.

Senator GRAMS. My one final question to Mr. Leuver. What has been the experience of other countries that have introduced such coinage?

Mr. LEUVER. The perception of other countries at the beginning was that a coin was very difficult to handle because of weight. People, much like they do in the United States, do not like change.

However, my experience as a Treasury official, subsequently as the CEO of the American Numismatic Association, which deals with this type of thing, the foreign countries and foreign people have readily accepted the coins as a replacement to paper.

Senator GRAMS. Any closing comments that any of the witnesses would like to make?

Mr. Ryder, you've got your hand up.

Mr. RYDER. I've got one that I would like to echo from the other side of the table.

This morning, on my way to work, I ride the Metro from my home in Arlington. I talked to one of the station attendants and I asked him about this new go card technology that the Metro service here in Washington and Virginia and Maryland are testing.

He showed me a demonstration. It was very unique. The technology, it allows you to pay rail and bus fares and parking fees with a single card instead of using farecards, dollar bills and coins.

But what was most amazing was as he walked through the turnstile, he didn't have to come out of his pocket with a coin or a farecard or a dollar bill. He didn't have to go to the machine to put a dollar bill in to get a farecard out.

What he did, simply, was to put money on the card. He held it up to the machine, put his money in, walked away. He put it in his pocket and he walked right to the turnstile without stopping, without putting a farecard in that machine. Smart card technology uses a computer chip.

The reason I bring it up is I think, as the House hearing later this month will point out, that this type of technology I think is where we're going to go. By using this kind of technology that makes people's lives easier, whether it be on the Internet, whether it be in other types of farecards, whether it be telephone collections which Europe uses, European countries and Japan uses regularly, I think those are some real serious things that your Committee should also take into consideration while you're considering going back to a one dollar coin.

I simply bring that up and hope that you'll look at that.

Senator GRAMS. You're arguing convenience, which the dollar coin has proposed to help.

Mr. RYDER. Convenience and less cost.

Senator GRAMS. The same. Anybody else have any closing comments?

Mr. BUETOW. I think I'd like to make one closing comment.

Senator GRAMS. Mr. Buetow.

Mr. BUETOW. From APTA, the American Public Transit Association. For you to understand what the total revenue is from transit that we're talking about.

In depository revenue, throughout the 400 agencies in the country, we're talking about almost $4 billion per year. Again, the cost savings again that we've documented to you, I think are fairly accurate.

I'd like to again say that the smart card approach is a cost factor, not a savings. It's a purchase item. It is not a give-away. We must understand this.

So, again, I thank you for letting me appear on behalf of transit and representing both my company and them.

Senator GRAMS. Thank you. Mr. Looper, you've made up your mind.

Mr. LOOPER. Yes. I'd like to make just one comment.

When banks get processed coin from the Federal Reserve, they do charge for that but not for currency.

So, we have an agency or quasiagency of the Federal Government—I know they're not an agency—that is actually going to be making money off the banking industry, again adding costs that we're going to have to pass on to the consumer because of this new dollar coin.

If you take away the charge of the Federal Reserve, then I have less problem with it because it takes away costs that I don't have to pass on.

Senator GRAMS. But you agree that there are going to be pluses and minuses in any system?

Mr. LOOPER. Oh, yes.

Senator GRAMS. And your minuses are pluses for the transit or for the vending machines. So there are giveaways and take-aways.

Mr. LOOPER. Yes, sir.

Senator GRAMS. All right. Thank you. Any other comments?

[No response.]

I just would like to ask that the record be kept open to include any additional written testimony or any other written responses from witnesses to additional questions that might be presented from any of the Members of the Committee.

If there's no objection, this hearing is adjourned.

[Whereupon, at 1:05 p.m., the hearing was adjourned.]

[Prepared statements and additional material supplied for the record follows:]

PREPARED STATEMENT OF CHAIRMAN ALFONSE M. D'AMATO

The Committee today considers an issue that affects everyone—whether we should mint and circulate a dollar *coin* in place of the dollar *bill*.

I would first like to thank my friend, Senator Grams for his leadership and hard work on this matter. Senator Grams has been diligent in bringing this issue to our attention, by introducing S.874, "The United States One Dollar Coin Act."

But, replacing the dollar bill with a dollar coin has been a controversial issue, producing widely different opinions.

Proponents of the Grams Bill would argue that savings to the Government and the positive affect on the budget would be in the millions, even billions. There are also arguments concerning convenience and savings to business.

Opponents of this bill question the estimated savings to the Government, citing huge differences in reported totals. They also cite polls showing that the public is not ready to give up the dollar bill. I understand the motivation of those who wish to "Save the Greenback." The dollar bill is a powerful symbol for America and the world. It represents a lot more than 100 pennies or what it can or can't buy—it represents stability and tradition. And, the dollar bill's significance isn't confined to the United States. It has "Universal Recognition." That recognition translates into security and reliability all over the world.

Another key issue will be public acceptance. For instance, how do we avoid the mistakes of the "Susan B. Anthony" Dollar Coin of the late 1970's?

This Committee has wrestled with these complex issues in the past. For today's hearing we have assembled experts from some industries that would be affected. While we may not be able to address everyone's concerns, I look forward to hearing from today's witnesses on this important matter.

Again, I thank Senator Grams for requesting this hearing.

PREPARED STATEMENT OF SENATOR CAROL MOSELEY-BRAUN

Mr. Chairman, changing the currency or the coinage of the United States always involves an element of controversy. After all, virtually everyone uses money—every day. Americans are very familiar with our currency and coinage, and they understandably and justifiably have opinions on whether to change it.

There are a number of reasons that argue for change. We have a constituent of mine, William C. Buetow, who will talk about what it takes to handle dollar bills at the Chicago Transit Authority. I'm sure that most of us have not thought much about the problems he will describe, but they are very real. Other witnesses will talk about things like the cost of dollar bill changers, and the problems they entail. I'm sure we've all had a run-in with a balky dollar bill changer, one that simply won't take our dollar for a subway ride or a soft drink, no matter how many times we straighten the dollar.

And change can mean real budget savings. The Congressional Budget Office, the General Accounting Office, and the Federal Reserve Board all agree that replacing the dollar bill with a one dollar coin would save the Government literally hundreds of millions of dollars. CBO estimate at least $200 million annually, and the GAO estimate is even higher—$456 million.

Perhaps one of the most important reasons for going to a one dollar coin, however, is related to the fact that the dollar is no longer worth what it used to be. In fact, the dollar's value has declined by over a factor of four in just the last 35 years. When I was a child, you could get a hamburger, fries, and a small Coke at McDonald's for 42 cents. Now the cost is over $2. You could get a Chicago Tribune or a Chicago Sun-Times for 7 cents. Now, the Tribune costs 50 cents and the Sun-Times 35 cents. I could go on and on, but the point is simple—inflation has made the dollar worth less than a quarter when John F. Kennedy was President of the United States.

Perhaps the most telling illustration of the erosion of value of our currency and coinage is the fact that so many stores now have a "penny" dish in front of their cash registers—inviting their customers to take a penny or two or leave a penny or two to make their transactions come out even to the nearest nickel. It is that kind of change in the value of money that led Great Britain to replace the one-pound note with a one-pound coin. And it is that fact that led Canada to replace its one dollar bill with a one dollar coin.

These foreign countries, and many others, understood that they needed to update their currency and coinage to fit present-day economic realities—and that need is no less real in this country. That is why I cosponsored S.874, because I believe that updating our money to reflect current economic realities is long overdue. I think we should act carefully. I think the coin must be designed carefully. We need to learn from our past mistakes, but we should not let those past mistakes keep us from taking the action that is necessary now.

We can make our money more convenient for the American people, and more convenient for American business. We can update our money so that it makes sense again. That is all S. 874 tries to do, and that, in my view, is what this Committee and this Congress ought to do.

PREPARED STATEMENT OF CONGRESSMAN JOHN W. OLVER (MA-1st)

Mr. Chairman, thank you for allowing me to give the Committee my thoughts on the proposal to replace $1 bills with $1 coins.

Put simply, any attempt by the 104th Congress to replace the bill with a coin—for budgetary reasons or otherwise—would be a bad idea.

To begin with, the budget savings attributed to the $1 coin, which have been vastly overstated at times, are minimal. As you know, the U.S. Mint, led by Director Phillip Diehl, has opposed the legislation introduced in the House and Senate to convert to a $1 coin. In the Mint's May 26, 1995 official announcement of its opposition to the $1 coin, it projected a net cost for the proposal of $29 million over a 5-year period.

It is also clear that no savings will be realized in any time frame if the public rejects a new $1 coin, as it did with the Eisenhower and Susan B. Anthony dollars. On this critical issue of public acceptance, the Committee should be aware of the recent national polls which indicate overwhelmingly that the public does not want the Government to replace $1 bills with coins.

Earlier this year, House Budget Committee Chairman John Kasich included the $1 coin proposal in a list of candidate ways to reduce the deficit that he shopped around the country. Kasich's results: only 18 percent of those surveyed supported switching to a $1 coin, even when put into the context of a comprehensive effort to balance the Federal budget.

The most recent poll on the subject was conducted by Gallup in conjunction with USA TODAY/CNN. The results of that poll, which were published June 14, 1995, were that 77 percent of Americans oppose converting to a $1 coin. These numbers represent a formidable red flag which we ignore at our peril. Again, if the attempt to replace the $1 bill with a coin fails by public rejection of the coin, the initiative will not save one penny—but it will cost us many millions of dollars.

As you are undoubtably aware, an 18-month implementation time frame was chosen by the authors of pending House and Senate legislation to convert to a $1 coin because any larger period significantly increases the chances of the coin being spurned by the public. The Mint, however, has made it clear that an 18-month time frame is not feasible given its current capabilities and competing responsibilities.

In response to this problem, some advocates of the $1 coin may suggest "stretching" the implementation time frame. While this might work for the Mint, it runs counter to the need to keep the implementation period brief to avoid rejection. In short, either way leads to failure.

There are other reasons why the $1 coin is not a good idea. Conversion to a coin could lead to a manipulative inflation of prices of goods and services purchased through coin-operated machines. A $1 coin would also result in an increase in environmentally taxing metal ore strip mining. This problem has caused such environmental groups as the Audubon Society and the Sierra Club to oppose the proposal.

Converting to $1 coin, with all its risks and problems, is also particularly unwise when there are other, more prudent budget options available, including some ways for the Mint to increase its revenue through the marketing of new investment coins.

Despite the fact that 24-carat gold and platinum legal-tender investment coins sell extremely well on the international market—especially in the Far East—the U.S. does not offer a product in either category.

While current law directs the Department of the Treasury to produce and market 22-carat gold coins, the Mint lacks direct legal authority to move into the 24-carat gold and platinum arenas. Our absence from these lucrative markets means the Treasury is missing out on millions of dollars in forgone revenue. Estimates of the potential introductory-year profit to the Federal Government from the sale of 24-carat gold coins alone are as high as $80 million.

Accordingly, I am introducing legislation in the House to give the Mint explicit authority to expand the American Eagle gold coin program to 24-carats and to produce investment platinum coins for the first time in our Nation's history, catching us up to countries like Canada, Austria and Australia that have already recognized the prestige and popularity of these high-value coins.

We should seize this non-controversial alternative, and reject the proposal for.a new $1 coin as an idea ridden with a number of serious, inescapable problems and disadvantages negatives that add up quickly and make $1 coin a bad option for the 104th Congress.

Again, thank you for the opportunity to share my thoughts with you.

PREPARED STATEMENT OF EDWARD W. KELLEY, JR.

MEMBER, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, DC

JULY 13, 1995

The Board of Governors is pleased to have the opportunity to present its views on S.874, which would provide for substituting a one dollar coin for the one dollar banknote now in circulation, and on several benefits and costs of making such a replacement.

In summary, a dollar coin would produce a substantial budgetary gain for the Federal Government, provided that the one dollar note is withdrawn from circulation. The Board staff estimates that the gain would be about $2.28 billion, in nominal terms, during the first 5 years after introduction of the new coin and would average about $456 million per year, in real discounted present value terms, over the assumed 30-year life of the dollar coin. The Board believes, however, that the convenience and needs of the American public, as well as cost savings, should weigh heavily in this decision. Experience in Canada and other countries where similar changes have been made in recent years suggests that the public will, over time, find a dollar coin more convenient than the dollar note. Finally, we would note that the significance of the U.S. dollar goes beyond the purchasing power it represents or the utility it provides; for Americans, the dollar is a symbol of economic and political stability and a source of national pride; consequently, any change should be made only for the most compelling reasons. If, after taking account of all these considerations, the Congress is inclined toward replacing the dollar note, it should enact legislation with a reasonably delayed effective date so that all those affected can plan adequately for the transition.

The impact on the Federal budget of issuing coins and currency notes is not widely understood by the public, so it may be useful to devote a part of this statement to reviewing those fundamentals. Although the accounting processes and budget presentations are quite different for notes and coins, in substance:

- Both issuing coins and issuing currency notes lower the Government's effective cost of borrowing from the public, by approximately the value of the coin or currency notes in circulation times the interest rate that the Government pays on its debt.
- There is an offsetting cost to the Government associated with servicing the outstanding circulating coins or notes, which involves replacing "unfit" coins and notes as they wear out and operating the Federal Reserve currency and coin processing facilities that provide the public with good-quality, genuine coins and notes.

Let us start with the following assumptions in order to illustrate the budget and accounting processes: (a) the Treasury's borrowing rate is 5.5 percent; (b) there will be 7 billion $1 notes already in circulation at the time of the changeover; (c) $1 notes have a useful life of 1.5 years and cost 3.8 cents each to produce; (d) $1 coins would have a useful life of 30 years and cost 8 cents each to produce; and (e) $1 notes and $1 coins would cost 75 cents and 30 cents per thousand pieces, respectively, to be processed at Federal Reserve Banks.

In the issuance of *currency notes*, the reduction in **net** governmental borrowing from the public occurs **indirectly**. The Federal Government's **total** borrowing and **total** interest outlays are not affected, but the Federal Reserve System holds a portfolio of Government securities equal to the value of Federal Reserve notes outstanding and, at the margin, the Federal Reserve returns to the Treasury its full earnings on those securities. These earnings are, from the Treasury's viewpoint, a return of its own interest outlays.[1]

- In our simplified model, the $7 billion of outstanding $1 notes provides a **gross** benefit to the Treasury of $385 million per year.[2]
- The cost of servicing the $1 note issue is the cost of replacing each note every 1.5 years, or $177 million per year,[3] and of processing it 1.3 times per year at Reserve Banks, or $7 million per year.[4]

Thus the **net** benefit to the Treasury associated with 7 billion of outstanding $1 notes is $201 million per year.[5]

In the issuance of *coins*, the reduction in net governmental borrowing from the public occurs **directly**. When the Treasury deposits newly minted coins at Federal Reserve Banks, it receives credit to its checking account, and thus the Government is able to make budgeted expenditures without additional borrowing, in the amount of the face value of the newly deposited coins less their production cost (which amount we call "seigniorage").[6]

- Seven billion new $1 coins would reduce the Federal Government's total borrowing by $6.44 billion[7] and total interest outlays by $354 million per year,[8] a **gross** benefit not much different from the **gross** benefit from 7 billion notes.
- But the cost of replacing each coin every 30 years would be only $19 million per year[9] and of processing dollar coins at Reserve Banks 0.2 times only $1 million per year.[10]

Thus the **net** benefit to the Treasury associated with 7 billion of outstanding $1 coins would be $334 million per year,[11] considerably higher than that for an equal number of currency notes.

At this point in the analysis, replacing $1 notes with $1 coins would have a favorable impact on the governmental budget of $133 million per year.[12] However, such a replacement would have a further, and even more significant, benefit. Based on the experience of numerous countries that have made a comparable substitution, as reported by the GAO, the Government can expect to issue at least twice as many $1 coins as it would have issued $1 notes.[13] (This may result partly from the habit of many people to save their pocket change at the end of the day, partly from the stock of uncollected coins in a larger number of vending machines, and partly from a tendency for banking and retail establishments to hold larger quantities of coins than of notes because of higher transportation costs.) In our simplified model, doubling the number of $1 coins in circulation would add another $334 million per year to the Treasury's benefit, for a total benefit of $467 million. These effects are summarized in the following table.

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[1] The Federal Government budget accounts treat Federal Reserve earnings paid to the Treasury as a miscellaneous receipt.

[2] $7 billion × 5.5 percent.

[3] 7 billion notes ÷ 1.5 × $.038.

[4] 7 billion notes × 1.3 × $.00075 ($.75 per 1,000 pieces).

[5] $385 million − $177 million − $7 million.

[6] The budgetary accounting process for coin production sometimes gives rise to the belief that the booking of seigniorage *per se* reduces the Treasury's borrowing requirement. This is not so. It is being able to spend the newly minted coins that reduces the Treasury's need to borrow. Such spending seldom occurs directly, of course; the Treasury ordinarily deposits newly minted coins at Federal Reserve Banks for credit to its checking account. Reserve Banks accept only as many new coins as they expect to need in order to meet the requirements of depository financial institutions in their districts.

[7] $7 billion face value − $560 million production cost.

[8] $6.44 billion × 5.5 percent.

[9] 7 billion coins 30 × $.08.

[10] 7 billion coins × 0.2 × $.00030. Note that $1 notes are typically deposited at Federal Reserve Banks an average of 1.3 times per year. We expect that $1 coins would be deposited only 0.2 times.

[11] $354 million − $20 million.

[12] $334 million − $201 million.

[13] In six countries that replaced a note valued at about one dollar with a coin, the General Accounting Office found coin-for-note replacement rates ranging from 1.6-to-1 to 4-to-1. General Accounting Office, *NATIONAL COINAGE PROPOSALS, Limited Public Demand for New Dollar Coin or Elimination of Pennies*, May 1990, page 39.

	$1 note	$1 coin	Difference
Reduction in net governmental borrowing from the public	$7.00 billion	$6.44 billion	
Reduction in net governmental interest outlays, annually	$385 million	$354 million	$ 31 million (in favor of note)
Cost of maintaining the outstanding issue, annually	$184 million	$ 20 million	$164 million (in favor of coin)
Net benefit based on 7 billion notes vs. 7 billion coins, annually	$201 million	$334 million	$133 million (in favor of coin)
Additional benefit from two-fold replacement rate, annually		$334 million	$334 million (in favor of coin)
Total benefit based on 7 billion notes vs. 14 billion coins, annually	$201 million	$668 million	$467 million (in favor of coin)

Table 1
A Simplified Outline of the Impact on the Federal Government Budget
Of Substituting $1 Coins for $1 Notes

The simplified model, of course, does not fully reflect the real world. There are factors that would both increase and decrease the $467 million annual benefit shown above. In particular, growth in the volume of $1 currency pieces outstanding—historically, over 4 percent per year—would, over time, considerably increase the benefit of substituting coins for notes. On the other hand, some increase in the use of $2 notes by the public seems very likely if the $1 note were no longer issued, and any such increase would reduce the budgetary gain. In addition, the production cost for higher denomination notes would rise because fixed costs at the Bureau of Engraving and Printing would be spread over a smaller production volume. (One dollar notes account for nearly 50 percent of the total annual currency note production.)

Taking account of these additional factors, the Board's staff estimates that, in the first 5 years of the implementation, the Federal Government budget position would be improved by a total of $2.28 billion (in **nominal** terms). The average yearly gain in **real present-value** terms, over the assumed 30-year life of a $1 coin is estimated to be $456 million.[14]

There are other factors that could substantially add to the gains of such a substitution but that are inestimable and so are not included in our calculations. For example, there is likely to be a very considerable numismatic, or sentimental, collecting of $1 notes as a result of an announcement that they soon would no longer be issued (although $1 notes would continue to be legal tender).

These gains would be unlikely to be achieved, however, if the dollar note were not withdrawn from circulation. First of all, many people, at least initially, would continue to prefer the note if given a choice. That being true, the private sector (notably banking and retail establishments), not knowing how extensively the public would use the dollar coin, would be reluctant to make the infrastructure outlays necessary for the coin to succeed (training employees on new cash-register-drawer procedures, ordering of dollar coin inventories, new arrangements with financial institutions, and the like). Likewise, the public would refrain from using the new coin

[14] The 30-year estimate uses an inflation rate of zero, a Treasury borrowing rate of 3 percent, and a rate for discounting future values to the present of 3 percent. The advantage of expressing the longer-run financial impacts in real present-value terms is that it adjusts for inflation and the time value of the magnitudes involved.

if the retail sector were not prepared.[15] In the meantime, the public sector (particularly the Bureau of Engraving and Printing, the Bureau of the Mint, and the Federal Reserve System; perhaps also the Postal Service and mass transit systems), not knowing what the respective demands would be for dollar notes and coins, and wanting to be able to meet any likely demand, would inevitably overinvest in production and processing capacity.

As important as the budgetary gains would be, the Board believes that the convenience and needs of the public also should weigh heavily in this decision. In this regard, opinion surveys indicate that the American public generally is satisfied with the present currency system and may not initially welcome replacing the one dollar note. There is evidence in the experience of other countries including Canada, however, that over time a dollar coin would come to be recognized as more convenient, cleaner, and more efficient than the one dollar note.

If designed properly, a dollar coin may well be able to evoke confidence in the currency system and be a source of national pride to the same extent that the dollar note does now. Market testing, such as with focus groups, can help to achieve this result.

If this Committee decides to move forward with dollar coin legislation, you should be aware that S. 874 would not, in our view, provide enough preparation time for those most involved—the Nation's banking and retail establishments, the Treasury Bureaus of the Mint and of Engraving and Printing, and the Federal Reserve Banks. We have two concerns.

First, any legislation should, in our view, give the Mint adequate time in which to be certain that the coin design will meet the needs of users well into the next century. This has both physical and aesthetic design implications and presumably would require considerable market testing. Closely related is the need for adequate time in which to produce a large stock of new dollar coins once the design is approved. In our view, any legislation should give the Treasury Department a good deal of freedom to set the Mint's production schedule so as to optimize costs and resource usage at the Mint, the Bureau of Engraving and Printing, where the impact on banknote production will be substantial, at the Federal Reserve Banks, which will need to adjust considerably their capacity for processing notes and coins as well as draw down their inventories of $1 notes, and at commercial banks and retail establishments. Eighteen months, as S. 874 provides, would not be enough time for this planning and production. The Board believes that any legislation should provide at least 36 months.

Our second concern is with the requirement in S. 874 that the Federal Reserve discontinue ordering and paying out $1 Federal Reserve notes immediately upon introduction of the $1 coin. The length of time in which the Federal Reserve must pay out both coins and notes would be a function not only of the Mint's production capacity but also of variables, such as the substitution rate of $1 coins for $1 notes and the public's demand for $2 notes, that could not be predicted accurately in advance. The Board believes that any legislation should give the Federal Reserve freedom to adjust the timetable for discontinuing the issuance of $1 notes within a period of 2 years following introduction of the new $1 coin.

Moreover, beginning in 1996, the Treasury and Federal Reserve will begin a multi-year introduction of new designs for Federal Reserve notes that will be completed (with the introduction of a newly designed $5 note) in about 1999. It would be preferable that these important changes not occur contemporaneously with the introduction of a dollar coin.

A reasonable approach may be for the Congress to explore thoroughly the implications—for the Federal budget, for the convenience and needs of the public, and for the public's feelings toward the currency—of replacing the $1 note with a coin. If the Congress judges that the balance of considerations weighs in favor of replacing the note, it should adopt legislation as promptly as possible that would establish dates in the future for introducing the new $1 coin, say in about 3 years, and for no longer issuing $1 notes, say within two years after that. In that way, both the public and private sectors would have a sound basis for beginning immediately to plan for the change.

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[15] See *The Susan B. Anthony Dollar and the Theory of Coin/Note Substitutions*, by John P. Caskey and Simon St. Laurent, *Journal of Money, Credit, and Banking*, Vol. 26, No. 3 (August 1994, Part I), for an excellent treatment of "network externalities" in currency systems.

PREPARED STATEMENT OF PHILIP N. DIEHL

DIRECTOR OF THE UNITED STATES MINT, WASHINGTON, DC

JULY 13, 1995

Mr. Chairman and Members of the Committee: Thank you for your invitation to present the Treasury Department's position on S. 874, legislation eliminating the one dollar note and mandating production of a new one dollar coin.

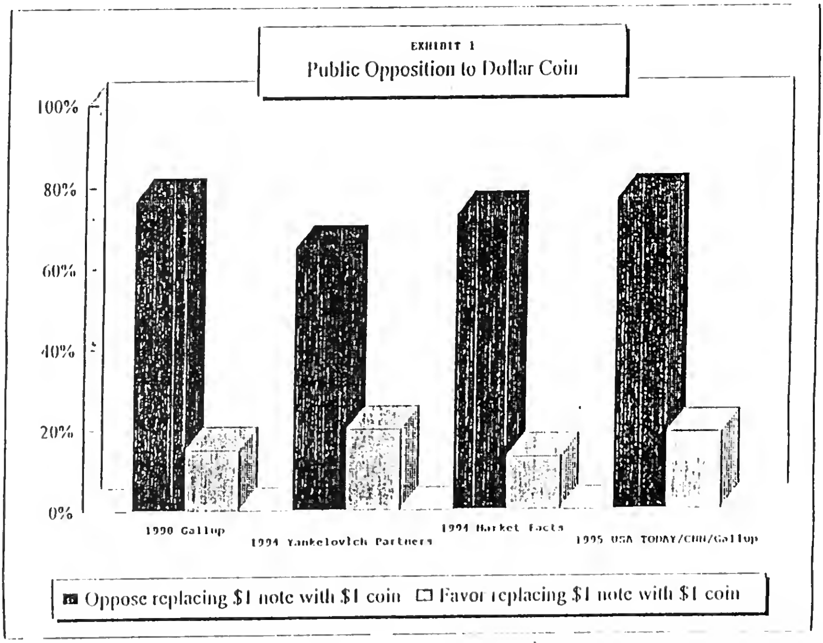
Mr. Chairman, the Treasury opposes this legislation for three reasons:

- The American people overwhelmingly reject the substitution of a dollar coin for the dollar note, and for that reason they are likely to resist the attempt to force its circulation.
- Proponents have greatly overstated potential savings and have ignored potential risks associated with substituting the coin for the dollar note.
- The United States Mint cannot produce the specific dollar coin required by this legislation in the time allowed.

Public Opposition

I begin, Mr. Chairman, by reminding this distinguished Committee that the Treasury Department has mounted two unsuccessful attempts to launch dollar coins in the past 25 years: The Eisenhower dollar of the early 1970's and the Susan B. Anthony dollar in 1979. After 15 years, the Mint and the Federal Reserve still have more than 280 million of the original 857 million Susan B's in their vaults.

Since the failure of the Ike and the Susan B., the American consumer has not warmed toward a dollar coin. Public opposition to eliminating the dollar note is ardent. Repeated polls show that Americans prefer a dollar note over a dollar coin by a margin of four-to-one. (SEE EXHIBIT 1)



S. 874, like similar measures in recent years, eliminates the dollar note. Sponsors of this legislation know Americans will reject a dollar coin for a paper dollar if allowed a choice. And they know the Susan B. failed to circulate primarily because Congress persuaded Treasury not to eliminate the dollar note, as initially planned. I recognize the arguments set out by proponents of this idea and believe that sponsors of S. 874 are to be commended for stepping up to the plate with their ideas when they know the unpopularity of abolishing the greenback.

However, abolishing the dollar note will not be sufficient to force circulation of the dollar coin over broad public opposition, because there's an alternative to a dollar coin—the $2 note, which the Federal Reserve will return to circulation upon eliminating the dollar note. Whether through inertia, preference, or outright defiance of an unpopular Government mandate, the American people can simply substitute $2 notes for dollar notes and continue to use quarters as they do today.

And there's clear evidence that's exactly what they will do. An Opinion Research Corporation survey conducted this year for the National Consumers League found that 64 percent of respondents would use $2 notes over dollar coins. Only 21 percent would use the dollar coin.

Moreover, there is a lesson to recall from our experience with the Susan B. Anthony. During the launch of the Susan B., Congress's will to abolish the greenback faded when it heard from angry consumers, constituents, and media who opposed the attempt to force circulation of an unwanted coin by denying people the dollar note. In turn, Congress persuaded Treasury not to proceed with withdrawal of the dollar note, and the Susan B. failed as a result.

The American people do not want this coin. Congress's resolve to abolish the note is not fixed in the stars. And—contrary to conventional wisdom of dollar coin advocates—there is a convenient alternative to the dollar coin in the form of the $2 note, an alternative that will doom the attempt to force the acceptance of the $1 coin.

Overstated Savings

In addition, Mr. Chairman, we believe that advocates have overstated claims about cost savings and other benefits resulting from replacing the note with a dollar coin. Their claims are based on lower production and recycling costs over a coin's 30-year lifespan compared to a lifespan of 17 months for the note.

GAO studied this issue in 1990 and 1993. GAO's latest estimate is that over a 30-year period average annual savings would be $395 million in mostly off-budget revenue by substituting a dollar coin for the dollar note. Multiplying this figure times five has led proponents of a dollar coin to claim potential 5-year savings of $2 billion or more.

We agree that in the very long run this proposal could produce savings if the American people could be forced to accept a dollar coin. However, given the public's well documented resistance to a dollar coin, there's substantial evidence that this effort will fail. Not only would the Government realize no savings, it would incur substantial expenses in producing the coin—and in disposing of them once this experiment fails.

Moreover, we are concerned that proponents have greatly exaggerated even the near-term, 5-year savings potential of a dollar coin. Because of frontloaded costs and backloaded savings over the first 5 years, CBO concluded that total scorable savings over the first 5 years would be only $100 million—no savings in the first 2 years, $20 million in the third year, $30 million in the fourth year, and $50 million in year 5. It should be noted that the CBO estimate does not reflect the production timetables and other specifications mandated in S. 874. Rather, the estimate is based on a "generic" dollar coin proposal.

We believe that even this low CBO estimate probably overstates 5-year savings attributable to a dollar coin. The CBO estimate overlooks several significant appropriated costs related to production of a new dollar coin and return flow of circulating Susan B's. For example, the CBO estimate does not reflect a $20 million public relations campaign to support elimination of the dollar note, an estimated $23.4 million in capital expenditures needed in the first year in preparation to produce new dollar coins, $25 million in production costs for the first 5 billion coins, and the cost of returning Susan B's to our vaults and melting them down. All of those expenses must be funded with appropriations in order to produce a new dollar coin.

To put this into perspective, please note the attached cost estimate. (EXHIBIT 2) Our analysis indicates that under current law the Mint would require additional appropriations of $23.4 million in fiscal 1996 and $72.2 million over the next 5 years for production of a new dollar coin within 30 months of enactment. Costs of complying with S. 874 would be much higher, since its timetable for compliance is much shorter.

Exhibit 2

New Dollar Coin
(30 Month Lead Time)

If legislation is passed on October 1, 1995 (FY 1996), assume production of new dollar coin would begin 30 months later on April 1, 1998 (FY 1998).

Fiscal Year	1996	1997	1998	1999	2000	Cumulative Five-Year
Expense:						
New Equipment	$ 21.4	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 21.4
Tooling and Supplies	$ 2.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 2.0
Public Awareness Campaign	$ 0.0	$ 10.0	$ 5.0	$ 5.0	$ 0.0	$ 20.0
Production New Dollar Coin *	$ 0.0	$ 0.0	$ 5.0	$ 10.0	$ 10.0	$ 25.0
Production (billions of coins)	[0]	[0]	[1]	[2]	[2]	[5]
Melt SBAs	$ 0.0	$ 0.0	$ 1.9	$ 1.9	$ 0.0	$ 3.8
Total Mint Appropriated Costs	$ 23.4	$ 10.0	$ 11.9	$ 16.9	$ 10.0	$ 72.2

* Excludes metal and fabrication costs, which are funded through the Coinage Metal Fund and do not require an appropriation. Assuming a coin comparable to the current quarter, the cost of metal and fabrication would be approximately $135 million over five years for the production of 5 billion $1 coins.

[ ] Indicates non-add item.

Compliance

Our third objection, Mr. Chairman, is one of physical compliance. S. 874 calls for the Treasury to introduce a new dollar coin and to cease issuing dollar notes within 18 months of enactment. The coin is required to be golden in color with metallic and anti-counterfeiting properties similar to existing clad coinage.

The Mint simply *cannot* produce sufficient quantities of this particular coin to assure a smooth transition in 18 months as required by S. 874. We will require at least 30 months to buy and install necessary coin production and material-handling equipment. But the Federal Reserve has called for an even longer transition—4 years—citing the complexity of introducing a new dollar coin, uncertainty in gauging its public demand, and the importance of not issuing a dollar coin at the same time the Fed is completing issuance of new designs for paper currency. We also doubt whether private sector coin-strip manufacturers have adequate capacity to produce the quantity and quality of strip needed by the Mint within the 18-month timeline.

Moreover, we will need a new alloy for the golden color. This requirement extends our production timetable while we research and develop the optimum alloy and test its wear, suitability for coining, and compatibility for vending machines.

Additionally, the period in which this legislation requires the Mint to produce and launch a new dollar coin could not be less favorable. Congress has enacted the largest commemorative coin program in our history for 1995 and 1996—18 million coins to raise funds for the 1996 Summer Olympic Games in Atlanta. This massive effort—a $200 million program—requires us to convert what traditionally has been a mail order firm into a nationwide retailer serving such partners such as Wal-Mart and J.C. Penney. And we must do so in half the time a private sector enterprise would take while also marketing and distributing these coins in 34 other nations.

Besides huge production, marketing, and distribution challenges with commemorative programs, the Mint faces booming demand from Federal Reserve banks for circulating coinage. Over the next 2 years, demand for circulating coinage is expected to equal or exceed 1994, when we produced more than 19 billion coins, the second-highest number on record, and narrowly avoided a national coin shortage.

The Mint is also undertaking multi-year initiatives to improve accounting and management in compliance with the Chief Financial Officers Act . . . to streamline operations and meet a Presidential order to reduce FTE's by 13 percent . . . to reform our ailing commemorative business . . . and to enhance profitability and marketing. It is not feasible to launch a new dollar coin and manage these initiatives successfully while operating at peak capacity.

Underestimated Risks

Mr. Chairman, proponents of the dollar coin have not only exaggerated the savings potential of a dollar coin, they have ignored substantial risks and costs of failure inherent in this proposal.

When the Susan B. failed 15 years ago, the Mint had produced 857 million of them, and we carried over 500 million in our vaults for many years. S. 874, however, requires a much faster ramp-up of production for a new dollar coin than was the case with the Susan B., for the dollar note would be eliminated simultaneously with introduction of the dollar coin.

For example, under the provisions of S. 874 we estimate that the Mint will need some 3 billion dollar coins in stock 18 months after enactment in order to fill the pipeline, and we further estimate we will need 6 to 9 billion coins within 36 months of enactment to replace the current stock of 4 billion dollar notes. If the attempt to force circulation of the dollar coin fails, we will not know it until late in this 36-month period. Therefore, we will not have 500 million unwanted dollar coins on our hands as we did 15 years ago—we're likely to have more than 10 times that number.

Failure to force circulation of the new coin will not only mean there will be no savings from eliminating the dollar note, it will also mean there will be no opportunity to recover the costs of producing the dollar coin. Moreover, neither the Mint nor the Federal Reserve Bank has storage capacity for billions of dollar coins. We will be forced to rent private, secure storage vaults to warehouse the unwanted coins until a decision is made to melt them down or otherwise dispose of them.

Finally, if Americans reject the dollar coin and simply substitute the $2 note for the $1 note, we may see a rapid increase in demand for quarters for change-making purposes to augment the $2 note. With our production capabilities stretched to the limit meeting production schedules for the new dollar coin, the Mint would find it very difficult to meet a sudden increase in demand for quarters. As a result, it is possible that regional or national shortages of quarters could ensue.

Historical Note

Mr. Chairman, I close with a historical note that may shed some light on why I believe the future of our Nation's currency lies elsewhere than the dollar coin.

In the decades before the Civil War, U.S. coinage alone became inadequate to meet the demands of commerce in our growing Nation. As a result, a multitude of local and State banks issued their own currency, which traded at face value in the vicinity of the issuer and at deep discounts, if at all, elsewhere. By 1860, the currency market was in chaos, and financial requirements of the war led Lincoln's Administration to issue our first national currency.

Today, a multitude of financial houses issue their own high-tech and low-tech forms of currency—debit cards, smart cards, and similar types of "E-cash"—creating an electronic Tower of Babel in the market. These cards "trade" only on the technology of the issuing institution and cooperating institutions. There is no universal form of E-cash.

Unlike Lincoln, we face no urgent national crisis today. But we are approaching the point at which market efficiency may well demand the production of a universal card that can be used as a substitute for coinage. Yet here we are, at the end of the 20th century, attempting one final time to force circulation of the oldest technology of commerce known to mankind.

This is not how we should be investing the leadership and financial resources of this great Nation. Instead, we should be identifying the American people's interest in emerging "Third Wave" forms of currency and defining the appropriate role of the Federal Government in the evolution of this technology. We should be looking to the future of money in our economy, Mr. Chairman, not repeating the mistakes of the past.

Thank you again for this opportunity to present our views on the proposed legislation. I would be pleased to answer any questions you may have.

ms
Jac K

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220

DIRECTOR
OF THE
MINT

July 26, 1995

The Honorable Alfonse M. D'Amato
Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In my testimony of July 13, 1995, regarding S-874, I state that the CBO estimate for savings resulting from substitution of a dollar coin for a dollar note is overstated because it "overlooks several significant appropriated costs related to production of a new dollar coin..." (p.6).

The intent of this letter is to bring to your attention a discussion contained in the testimony of Mr. James L. Blum, Deputy Director, Congressional Budget Office, which is relevant to this matter. In a section entitled "The Effects on Deficit Reduction of Converting to Coins," Mr. Blum describes the disparate accounting treatment accorded coins and notes under BEA scoring conventions. He notes that the "disparate treatment of the cost of coins and notes, <u>which has no apparent economic justification</u>, arises from a series of decisions by the 1967 President's Commission on Budget Concepts" (p. 5, emphasis added).

The disparate treatment Mr. Blum describes is at the heart of my testimony that CBO's estimate of $100 million in scorable savings in the five-year budget window overstates the true savings offered by S-874. Mr. Blum states that under these scoring conventions, "the cost of producing and handling Federal Reserve Bank notes is reflected in the budget deficit, but the increase in the cost of producing coins is not." (p.5). Mr. Blum acknowledges that "the costs of producing coins are real" (p.6), but under these scoring conventions, those costs are not included in CBO's estimate of costs and savings from S-874.

It is in this context that I testified the CBO estimate overstates the real savings from S-874. The scoring conventions under which this estimate was made require recognition of the savings from eliminating the dollar note but exclude the $72 million in estimated expenses the U.S. Mint will bear to produce the dollar coin. As Mr. Blum acknowledges, these costs are real. Under current law Congress must appropriate these funds, and the American taxpayer will bear the costs. It is only through scoring conventions which have "no apparent economic justification," in Mr. Blum's words, that the $100 million in savings is not offset by $72 million in additional costs.

In summary, Mr. Chairman, the actual savings attributable to S-874 over the first five years of its implementation are closer to $28 million than the $100 million estimated by CBO under current scoring conventions. But given those conventions, CBO does not count the $72 million in additional expenditures the Mint will bear to comply with S-874.

Thank you again for the opportunity to present the Treasury Department's position on S-874. I hope you will make this letter part of the record of the hearing of July 13, 1995.

Sincerely,

Philip N. Diehl
Director
United States Mint

cc: Senator Paul S. Sarbanes
James L. Blum
Congressional Budget Office

United States General Accounting Office

GAO

Testimony

Before the Committee on Banking, Housing and Urban Affairs
U.S. Senate

For Release
On Delivery
10 a.m. EDT
Thursday, July
13, 1995

A DOLLAR COIN COULD SAVE MILLIONS

Statement of L. Nye Stevens
Director, Federal Management and
Workforce Issues
General Government Division

GAO/T-GGD-95-203

A DOLLAR COIN COULD SAVE MILLIONS

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

[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).

with Federal Reserve officials. We believe that the Federal Reserve's updated estimate is reasonable.

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.

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.

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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-gilder 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.

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.

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

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

CBO TESTIMONY

Statement of
James L. Blum
Deputy Director
Congressional Budget Office

on
Creating a New One-Dollar Coin

before the
Committee on Banking, Housing, and Urban Affairs
United States Senate

July 13, 1995

NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EDT) on Thursday, July 13, 1995.

CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Mr. Chairman and Members of the Committee, I appreciate the opportunity to discuss the cost savings and budgetary impact from the proposal to eliminate the one dollar bill and replace it with a new one dollar coin. In my statement, I will make four points:

- Savings to the Government in production and processing costs from substituting the more durable dollar coin for the Federal Reserve dollar note would be on the order of $150 million per year when the change is completed.
- Conversion would also have a favorable effect on the budget deficit. The Congressional Budget Office (CBO) estimates that over the 1996–2000 period, budgetary savings would total $100 million as a direct result of reduced production and processing costs. That estimate is based on a generic proposal that contains several key assumptions, including a 30-month lead time before new coins would be placed into circulation, a 60-month conversion period, and an increased circulation of two dollar notes. After the switch to coin is complete, budgetary savings could exceed $200 million per year—an even larger amount than the Government's saving on production and processing costs. Those savings, however, would occur well beyond the 5-year window used by CBO to estimate budgetary effects.
- Differences between estimates of savings to the Government by CBO, the General Accounting Office (GAO), and the Federal Reserve arise from measuring different items over different time frames, not from significant discrepancies over basic assumptions.
- Switching from one dollar bills to one dollar coins could also have secondary effects that could produce additional budgetary savings. Those effects consist of reductions in the interest costs on the Government's debt and are not scorable under the Budget Enforcement Act (BEA). They would result only if the public was willing to hold a higher value of coins than notes; for example, if the public was willing to hold two one dollar coins for each one dollar note formerly held.

Cost Savings to the Government

The total cost of producing and processing coins and currency could be reduced by substituting dollar coins for dollar notes because the long-run annual cost of a coin is lower than the corresponding cost of a note. A dollar coin would cost about 8 cents to produce, which is more than twice the 3.8 cents that it costs to produce a dollar note. The higher initial cost of the coin is more than offset, however, by its significantly longer useful life (30 years versus 1.5 years). In addition, the costs to the Government of maintaining the quality and integrity of coins are lower than they are for notes, which must be inspected individually for fitness and counterfeits. By contrast, coins can be checked by weight.

One way of expressing the savings is to compare the average yearly cost to the Government of meeting the public's need for a dollar of coin or currency over the expected 30-year life of a coin. If the Government meets that need by furnishing a note, it will have to produce 20 one dollar notes over the 30-year period to replace continuously those that wear out in order to keep a single one dollar note in circulation. Thus, the average annual production cost for notes is about 2.5 cents (3.8 cents divided by 1.5 years) per dollar in circulation. By contrast, if the Government meets the public's need for one dollar currency through coins, the average annual production cost is only 0.27 cents (8 cents divided by 30 years) for each dollar in circulation. In addition, the more frequent and higher processing cost of notes adds to the cost of keeping a dollar note in circulation. Therefore, the Government saves between 2 cents and 3 cents per year for each dollar coin that replaces a dollar note. That would add up to a savings of $120 million to $180 million a year if $6 billion in notes were replaced by an equal amount in coins.

However, other factors could affect the total cost savings of replacing the one dollar note. Most important, if the assessments of GAO and the Federal Reserve are correct, two coins will be needed to replace each dollar note. In addition, a more precise calculation of the savings to the Government in production and processing costs in any particular future year requires a large number of assumptions and projections. Those include the projected year-by-year growth in the demand for dollar notes under current policy; the 30-year outlook for the cost of producing and handling notes and coins; the extent to which the costs of production and processing are variable over the long run; the speed at which the Mint's capacity for coin production can be increased; the rate at which the public will be willing to accept coins for notes; the increase in demand for other denominations of notes that will result from withdrawing the one dollar note; the effect of that change on the demand for other denominations of coin; and the appropriate discount rate for converting fixture costs to present·values.

Both the Federal Reserve and GAO have developed spreadsheet models of those cost processes. The Federal Reserve, for example, estimates that the steady State savings to the Government in production and processing costs from converting to a one dollar coin would be $164 million per year (in 1994 dollars). The General Accounting Office has stated that those average annual savings would be $135 million.

The Effects on Deficit Reduction of Converting to Coins

Under BEA scoring conventions, the budgetary and cost savings from substituting dollar coins for dollar notes are not identical. In fact, replacing notes with coins would reduce the budget deficit by more than the total savings to the Government in production and processing costs for the 1996–2000 period. That difference arises because the reduction in the cost of producing and handling Federal Reserve Bank notes is reflected in the budget deficit, but the increase in the cost of producing coins is not.

The disparate treatment of the cost of notes and coins, which has no apparent economic justification, arises from a series of decisions by the 1967 President's Commission on Budget Concepts. The commission decided to exclude the Federal Reserve Banks from the budget and to count the payment to the Government of Federal Reserve earnings as a Governmental receipt—that is, a Federal revenue. Those earnings cover the costs of operations for the Federal Reserve, including the costs of purchasing and processing currency. Consequently, a reduction in the cost of producing and processing Federal Reserve notes is reflected in higher Federal Reserve earnings and budget receipts. By contrast, the cost of producing coins is reflected in the budget as an outlay. But it is offset, dollar for dollar, by counting a portion of the value of the coinage produced as offsetting receipts in the budget. Therefore, although the costs of producing coins are real, those costs do not increase the budget deficit.

Preliminary figures from the Mint indicate that changing to one dollar coins would require spending $72 million over the 1996–2000 period. That amount includes $21 million for new equipment, approximately $20 million for the Mint to carry out its one-time public awareness campaign, and $3.8 million for melting down the remaining Susan B. Anthony dollars. By established budget convention, those costs would be financed from the "profits," or seigniorage, that accrues to the Government from the difference between the cost of producing coins and their exchange value. Thus, the added costs of producing coins would not affect net budget outlays or the reported deficit.

It should be noted, however, that start-up and initial production costs at the Mint for new dollar coins would lead to small increases in Federal borrowing and interest costs. At first, the seigniorage to offset the costs of new coins would derive from coins manufactured under current law. Net seigniorage, which is used as a means of financing the budget deficit in lieu of borrowing from the public, would be reduced as a result. In later years, introducing the dollar coin would produce gains in seigniorage. BEA conventions, though, preclude scoring the interest effects of Federal transactions.

Consequently, the scorable budgetary savings from substituting one dollar coins for one dollar notes is simply the Federal Reserve's lower cost from producing and processing a smaller volume of notes. The savings would be reflected in the increase in the Federal Reserve's net income that is paid to the Federal Government each year. Those reductions in Federal Reserve costs and the increased Federal receipts are projected to total $100 million during the next 5 years under the generic proposal examined by CBO (see Table 1). That estimate assumes a 30-month lead time for new dollar coins to be placed into circulation, an annual production capacity at the Mint of 2 billion new coins, a phaseout of dollar notes over a 5-year period, and increased production of two dollar notes.

TABLE 1. ESTIMATED BUDGETARY IMPACT FROM THE ONE-DOLLAR COIN (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	Five-Year Total
Increased Federal Reserve Earnings (Revenues)	0	0	20	30	50	100
Increased U.S. Mint Costs (Outlays)	23	3	10	22	14	72
Increased Offsetting Receipts (Outlays)	-23	-3	-10	-22	-14	-72
Net Savings	0	0	20	30	50	100

SOURCE: Congressional Budget Office.

Budgetary savings above those recognized in the CBO estimate would occur if the proposal were analyzed for years beyond the 5-year budget window. Because of the 30-month lead time to produce new coins, no budgetary savings would occur in 1996 or 1997. Further, in 1998, the Federal Reserve would reap the benefits of lower costs from substituting coins for only half a year. Even by 2000, the Federal Reserve would still be incurring some costs from purchasing and processing dollar bills. Therefore, the average annual budgetary savings over the first 5 years are much lower than they would be over the long term.

Different budgetary savings would result if the Congress shortened the phaseout period of dollar notes. Shortening the phaseout period would also affect the time-pattern of budgetary savings.

The experience of other countries suggests that the One Dollar Coin Act of 1995 (S.874) may require revisions in its timing to become more workable. That experience indicates that a quick transition from notes to coins increases the likelihood of public acceptance. A speedy conversion, however, requires that a large stock of new coins be minted before the changeover. Although S.874 would phase out dollar notes over about 18 months, it would not allow sufficient lead time for the Mint to produce the coins to replace those notes. The Mint has stated that it needs a 30-month lead time. The legislation, however, requires that new dollar coins be placed into circulation within 18 months of the date of enactment. Thus, if the $6 billion in dollar notes now in circulation were phased out within 18 months of the introduction of new coins, the Mint would be able to supply only 3 billion replacement coins.

Even with a 30-month lead time to produce dollar coins, the Mint's limited annual production capacity of 2 billion coins would almost certainly create shortages of one dollar currency. Those shortages would be likely to slow the conversion and raise public resistance to the changeover. That resistance could prompt lawmakers to allow dollar notes to remain in circulation or even worse to reconsider the changeover during midcourse. Those developments could lead to the failure of a new dollar coin similar to that of the Susan B. Anthony dollar, but on a much larger scale.

One solution would be to extend the lead time to produce new coins. That would enable the Mint to create a preconversion stockpile of several billion coins. Another solution would be to expand production capacity at the Mint to accommodate, for example, the manufacture of 3 billion or 4 billion coins per year. Both alternatives could substantially reduce the likelihood of currency shortages and the risk of failure, but would involve a large up-front investment and change the budgetary savings from the proposal.

Differences Between Estimates of Savings

The General Accounting Office and the Federal Reserve have projected much larger budgetary savings to the Government from substituting the one dollar coin for the one dollar note than has CBO. Those larger estimates, however, are not the result of disagreements over basic assumptions, such as the cost to produce coins or process notes. Rather, the dissimilarities stem from different approaches, items of measurement, and time frames.

CBO's estimate covers only the direct budgetary savings from replacing dollar notes with coins over the 5-year budget window—that is, the reduced purchasing and processing costs at the Federal Reserve. Although the Mint would incur new costs, they would be offset by seigniorage and net to zero in the budget. Further, gains in seigniorage from the new coins do not factor into calculations of the Federal budget deficit. In accordance with the President's Commission on Budget Concepts, seigniorage is treated as a means of financing; that is, it helps only to finance—not reduce—the budget deficit.

By contrast, the savings estimates of the Federal Reserve and GAO measure the long-run impact from substituting dollar coins for notes over a 30-year period. Consequently, those estimates incorporate items that do not have direct budgetary effects. For example, additional costs at the Mint for start-up and operations, reduced portfolio earnings to the Federal Reserve System, and diminished Government borrowing costs are netted out in their estimates of savings. In particular, the lower Federal Reserve earnings and reduced Government borrowing costs are large items in those estimates, and consequently, anticipated average annual savings balloon to upward of $400 million.

The fundamental source of those additional savings cited by GAO and the Federal Reserve is an assumption that the public will choose to hold more than a single one dollar coin for each one dollar note that is withdrawn from circulation. Specifically, once the conversion to coins is complete, the Federal Reserve and GAO assume that:

- Twenty-five percent of the value of one dollar notes in circulation will be held in two dollar notes; and
- For the remaining one dollar notes formerly in circulation, the public will choose to hold two coins for each note.

Therefore, the Federal Reserve and GAO estimate that $9 billion in one dollar coins and $ 1.5 billion in additional two dollar notes would replace the $6 billion in one dollar notes now held. As a result, the public's total holding of coins and notes is assumed to increase by $4.5 billion.

The General Accounting Office and the Federal Reserve cite the experience of other countries that have converted a currency note to a coin to support their assumption that the replacement rate will be much higher than one-to-one. In the cases studied, a replacement rate of 1.6 to 4 coins for each note withdrawn was reported. Whether those estimates and the experience of other countries would be directly applicable to the experience of the United States in a transition to a one dollar coin is uncertain. Further, an increase in demand for one denomination of coin may have an offsetting effect on the demand for other denominations of coin. At the same time, an increase in demand for coins could happen here. Explanations for high replacement rates of coins for notes include:

- The apparent cross-cultural practice of setting aside one's pockets full of coins, but retaining notes, when dressing and undressing;
- The tendency of coins, to a much greater extent than notes, to remain for long periods of time in vending machines awaiting collection where they are unavailable to meet public demand for coinage;
- A shortage of notes before the coins are introduced; and
- The weight of coins that raises their explicit and implicit transportation costs. Their heaviness tends to delay their movement—whether by commercial shipper or personal portage—relative to notes from places where they are in surplus to places where they are in demand. Delayed shipment translates into an increased demand for coins compared with the notes they replace.

Other Possible Budgetary Effects

If the public chooses to hold two coins for each note in circulation, significant secondary effects would have a positive impact on the Federal budget. That development would permit the Government to finance $4.5 billion of Federal debt by issuing non-interest-bearing coins rather than interest-bearing debt. At a 6 percent rate of interest, the Federal Government would save $270 million in interest a year by substituting $4.5 billion in Treasury coins for Treasury securities. With reduced interest costs in the first year, borrowing from the public would be lower in all subsequent years and the interest savings would snowball into an ever larger sum.

That assumption about cumulative interest savings explicitly presumes that lower debt-service costs would be reflected in lower deficits. CBO does not score those potential indirect effects because of the scoring convention of not counting debt-service costs or savings for specific legislative proposals. Moreover, replacing two coins for one note could not happen within the 5-year or even a 7-year window in which CBO estimates the budgetary effects of legislation. Given the Mint's required lead time and production capacity constraints, an annual rate of currency growth that hovers around 5 percent, and the increased circulation of two dollar notes, we estimate that a replacement ratio of two coins for one note could not occur before 2005.

Thus, it may be that the replacement rate of coins for notes will be greater than one-for-one. However, we regard those effects and the impact on the cost of Government borrowing as far from assured. If so, it will increase the portion of Federal obligations held by the public in non-interest-bearing form, thereby reducing net interest outlays and leading to further budgetary savings.

Conclusion

Although replacing the one dollar note with a new one dollar coin would clearly reduce the costs of producing and processing currency for the Federal Government, resulting in budgetary savings, other factors are worth taking into consideration before enacting any proposal. The importance of a convenient currency, an efficient payments system, and a coin that is well-accepted by the public need to be considered in an informed and reasoned decision to change our national system of currency.

PREPARED STATEMENT OF WILLIAM C. BUETOW

TREASURER & SENIOR VICE PRESIDENT, FINANCE, CHICAGO TRANSIT AUTHORITY

JULY 13, 1995

Mr. Chairman and Members of the Committee, my name is William Buetow, I am the Treasurer and Senior Vice President, Finance, for the Chicago Transit Authority. I am also here on behalf of the American Public Transit Association which represents over 400 transit properties across the Nation. I am here to speak in favor of Senate Bill 874, which allows the U.S. Government to issue a fully identifiable one dollar coin in place of the current dollar bill.

The Chicago Transit Authority is one of the largest processors of one dollar bills in the Nation. On an annual basis we collect and process approximately $123 million in paper currency. Our ability to collect and process one dollar bills has improved over the years. However, the issuance of a one dollar coin will eliminate the labor intensive problem of processing dollar bills and save the Chicago Transit Authority $2–4 million annually in these costs alone. On the national level, research has shown that $124 million in cost savings would result if the dollar coin replaced the dollar bill. I feel that this amount accounts for the processing cost savings alone and is understated.

More cost savings within the transit industry can be achieved when other expenses, such as, equipment purchases and token sales, are added to the cost of accepting and handling one dollar bills are considered. First, I would like to explain the potential for savings in the area of processing dollar bills. The cost to process one thousand dollars worth of one dollar bills at the CTA's Counting Operations facility costs approximately $22.00. The cost to process the same amount in coin falls dramatically to $1.65.

The reason for the large cost difference in processing is due to the fact that handling paper currency is much more labor intensive. Coin processing is more efficient due to the higher degree of technology and availability of counting machines. To date, our experience has shown that no technology exists to fully process paper currency. The difficulty is enhanced by the Federal Reserve's requirement to have all paper currency "faced" when stacked—by this I mean all one dollar bills must be stacked with the portrait of George Washington facing the same direction. Again, there is no technology available, so our money handlers must stack and face the bills by hand.

With the general philosophy of deficit reduction becoming more evident in the Federal Government, transit authorities, like the Chicago Transit Authority, must look at new ways to get the most out of our limited resources. The issuance of the dollar coin will not only provide processing cost savings, it will give transit properties the flexibility to provide better fare structures.

Over the years, the Chicago Transit Authority has been limited in its own fare structure because it has taken a number of steps to avoid the problems associated with dollar bills. The problem with dollar bills first became a monumental problem when our fares were raised to 95 cents in 1982. Customers flooded the fareboxes with dollar bills and we encountered a multitude of jammed fareboxes. Our solution was to increase the level of technology of our fareboxes so dollar bills could be accepted. This required a capital investment of $15 million. The cost of purchasing, maintaining and updating this technology over the years is a capital expense that is shared by the Federal Government.

As a result of the increased dollar bill usage, the Chicago Transit Authority began emphasizing the use of our transit token. It has been our board's policy to make the tokens available at a discount as a means of enticing customers away from using one dollar bills. Again, keeping in mind that tokens, like coins, are less expensive to process. Unfortunately, we have also incurred other costs associated with token usage, such as commissions for private sales outlets and the periodic resupply costs. The ability to substitute dollar coins is an important factor that many transit properties using tokens would consider.

Finally, if the issuance of a dollar coin becomes a reality, the ability of the Chicago Transit Authority to assume its usage in fareboxes and turnstiles will not be a significant problem. There will, of course, be some minimal costs associated with the change, but the savings in handling and processing costs would more than make up for any initial changeover expenses. An added benefit is that use of a coin increases the ability of passengers to board versus those with dollar bills.

I fully believe that at this point in time, an identifiable dollar coin is an absolute necessity in order for us to exist in the world today. Transit properties in other countries, especially Canada, have had success with the dollar coin. The transit industry, including the Chicago Transit Authority, fully supports the issuance of a fully identifiable dollar coin to replace the dollar bill. It is smart, it is efficient and it needs to happen.

Additional documentation and letters of support will be included with the Chicago Transit Authority's written statement for the record.

STATEMENT

OF

TOMMY E. LOOPER

EXECUTIVE VICE PRESIDENT/CFO
THE ANCHOR BANK

FOR

THE AMERICAN BANKERS ASSOCIATION

ON

S. 874, THE U.S. ONE DOLLAR COIN ACT OF 1995

BEFORE THE

SENATE BANKING COMMITTEE

UNITED STATES SENATE

JULY 13, 1995

Mr. Chairman and Members of the Committee, I am pleased to be here to testify regarding S.874, "The U.S. $1 Coin Act of 1995" on behalf of the American Bankers Association.

The American Bankers Association (ABA) is the only national trade and professional association serving the entire banking community, from small community banks to large bank holding companies. ABA members represent approximately 90 percent of the commercial banking industry's total assets, and about 94 percent of ABA members are community banks with assets less than $500 million.

The Anchor Bank is a $380 million community bank with 15 branches headquartered in Myrtle Beach, South Carolina. My duties at the bank encompass oversight of the operations area including all teller functions.

If enacted, the currency reform proposal under discussion (S.874) would create a new circulating $1 coin as a replacement for the circulating $1 bill. Proponents of the legislation believe that eliminating the $1 bill would be sound governmental policy. They maintain that there are substantial governmental budget savings to be gained by minting $1 coins and eliminating the $1 bill. They also maintain that ending production of the $1 bill would free the printing capacity of the Treasury's Bureau of Engraving and Printing and allow a rapid introduction of secure, high-value bills as a defense against a growing counterfeiting problem.

We agree that these are worthy goals. But they will not be realistically advanced by S.874, and the ABA cannot support the proposal. Further, the savings to the Government are vastly overstated if not totally illusory. The lack of validity of the savings claim has recently been addressed by the Director of the Mint, Philip Diehl, and others. In addition, these budget calculations do not take into account the substantial private sector costs which would be incurred and new operational problems created for banks and others. We have serious concerns that the introduction of a new coin would place a financial and operational burden on banks and our customers, and that the American public would again reject a $1 coin to which they are opposed.

The Requirements for Successful Implementation

It is possible to ameliorate some of the projected cost increases created by a new coin, by working with the Congress and the Treasury Department to minimize the possibility of failure of a new $1 coin, and to reduce the operational impact to a manageable level. The requirements are tough. Unless they are met, the introduction of a new coin would impose significant operational and financial burdens on banks, commercial entities and the public at large.

The necessary requirements for successful introduction of the new $1 coin are:

- that the coin replace all $1 bills in production and especially all $1 bills within the Federal Reserve System,
- that $1 coin production and stockpiles are sufficient to accommodate demand before the $1 bill is discontinued,
- that the $2 bill be printed and stockpiled in sufficient quantities to accommodate demand before the $1 bill is discontinued, and
- that the $1 coin be the same diameter, thickness, and weight as the Susan B. Anthony $1 coin, but with distinguishing characteristics from the Susan B. Anthony $1 coin.

Primary Issues for the Banking Industry

There are three primary issues for the banking industry, the expected rejection of the proposed coin by the public; the cost of retrofitting or acquiring coin handling equipment; and the ongoing operational issues related to the weight of the proposed coin.

The Expected Rejection of the Proposed Coin by the Public

Mandating the termination of the $1 bill, against the public's wishes would be viewed as one more example of big Government in Washington dictating to the American public.

A CNN/Gallup poll done for *USA Today* shows that 77 percent of the American public opposes this proposal. There are many reasons for this opposition. There are widely held fears that vending prices will rise after the new coin is introduced. And the $1 bill has a symbolic value for the general public.

It is also dear that there would be some economic impact on the retail economy because of the increased transportation costs associated with moving the heavier coins around. These costs could be passed through to retail institutions who use these coins, and ultimately to the public.

Surveys and common sense show that the average person does not want to carry around a large number of $1 coins. Even coin proponents acknowledge that most people would be compelled to choose the historically unpopular $2 bills as a replacement. As far as we can determine, the budget impact analysis does not fully reflect this shift. The budget savings to the Government are largely illusory, while the costs to the public are real. The chances for a successful introduction are also lower than $1 coin proponents acknowledge.

According to the 1990 GAO report, "National Coinage Proposals":

> "Mint, BEP, and Treasury officials said they believed foreign experiences may not be valid indicators of the prospects the United States would have in mandating a $1 coin in view of (1) the parliamentary form of government characteristic of these countries, which makes it easier to impose unpopular changes on the public; (2) the central banking systems most of these countries have, which increases the amount of control the government has over the banks; and (3) the smaller scale on which these countries produce currency and coins. *Mint, BEP, and Treasury officials all agreed that because of these basic differences it would be much harder for the United States to have success in substituting a $1 coin for a note."* [Emphasis added]

Bankers most of all fear a replay of the Susan B. Anthony fiasco in which the new coin would be withdrawn after the banking industry incurred significant expenditures to accommodate it. In fact, banks still have to deal with the not infrequent appearance of the huge Eisenhower $1 coin. Asking banks, retailers, and the public to face a third modern $1 coin is unfair.

When the Susan B. Anthony was introduced, teller lines grew longer due to customer complaints and education efforts on this new coin. While there were a few who stood in line specifically to get Anthony Dollars, most customers refused them when offered the coin in transactions.

When the U.S. Postal Service placed more than 1,000 self-serve stamp machines in Post Offices last year, it acquired equipment that could accept and dispense the Susan B. Anthony $1 coin. Customers who insert a $20 bill to purchase a book of stamps are rewarded with 16 Anthony Dollars, 3 quarters and 1 nickel. Bank branches near Post Offices see an increased volume of these dollar coins, as the public rejects them and exchanges them for bills.

THE COST OF RETROFITTING OR ACQUIRING COIN HANDLING EQUIPMENT

Banks use electronic and mechanical coin sorting, coin counting, and coin wrapping equipment to process coins. Some of the existing equipment is capable of accepting Anthony Dollars; some can be retrofit to accept the Anthony Dollar, but not coins of other dimensions. Some alternative $1 coin designs would not work in any coin handling equipment. Even the members of the Coin Coalition insist that the new coin be of the same dimensions and weight as the Anthony Dollar.

Today, the volume of Anthony Dollars in most banks is small enough that without the equipment to count and wrap these coins by machine, that processing can be done by hand. At the American Bankers Association's 1993 National Operations and Automation Conference, attendees (primarily community banks) were asked whether their coin handling equipment could accommodate the Susan B. Anthony Dollar coins. Less than 20 percent of attendees indicated that their bank had the necessary infrastructure in place. Some of the equipment, notably drum coin sorters, cannot be retrofit to accommodate new coins. Should a new $1 coin be minted, expensive new coin handling machines would be required.

According to a survey of several ABA Committees and several coin handling equipment vendors, the average community bank may be required to spend between $6,500 and $9,500 to replace their coin sorting and wrapping equipment, cash drawers and coin racks if a new $1 coin begins to circulate widely. For the Nation's 10,000 community banks these start-up costs might easily top $80 million.

No one can predict what the full impact of wider circulation of the Susan B. Anthony Dollar would be on the public or on the operations of banks, but their expanded circulation would raise concern in our minds. Circulating $1 coins of any design creates operational problems for the back room operations of banks and the front lines of tellers. We oppose the minting for circulation of any $1 coin.

Due to an increase of usage by the Postal Service and some vending machine operators and a corresponding decrease in stockpiles, the Mint, at some point, may be asked to produce more Susan B. Anthony coins to accommodate the specialty use of these coins.

We will cooperate fully with the Treasury and the Federal Reserve if dollar coin legislation passes, but we believe that this Congress should be looking toward the future. Americans began with coin money, then adopted paper money, and are moving in the direction of electronic money. Expenses incurred in a coinage retrofit would divert money away from investments in more innovative retail payment delivery methods.

Business Week had a cover story last month devoted to electronic money, showing that banks are hard at work developing new secure and efficient payment systems. Today the Mint is looking at the question of whether they should "mint" electronic money. We are grateful the Mint has begun to publicly oppose this coin legislation as ill-considered and counterproductive.

THE ONGOING OPERATIONAL ISSUES RELATED TO THE WEIGHT OF THE PROPOSED COIN

In addition to the capital expenditures required to handle a new coin are the variable costs that banks would incur if a $1 coin began to circulate widely. The transportation costs of currency would rise dramatically because of the significant difference (7+ times) between the weight of a Susan B. Anthony $1 coin and a $1 bill. Beyond the increased costs of armored car transportation fees it is also likely that the greater weight will cause an increase in workers compensation claim costs.

An informal study, of the ABA's Corporate Operation Committee and Community Bank Operations Committee, revealed that, on average, 25 percent of the number of coins and bills flowing through their bank consisted of the $1 bill. The total weight of coins and currency flowing through their banks would approximately double if the production of the $1 coins is set at the same volume as the current production level of the $1 bills. In fact, the GAO study, mentioned previously, indicated that the replacement would be closer to two coins produced and handled for every $1 bill produced and handled today.

At my bank the tellers carry only paper currency and quarters from the vault to the teller line. The smaller coins remain locked up under the counter next to the teller because of their weight and small value. The pennies alone weigh nearly 75 lbs. The $1 coins would also be locked up in the vault at night If the $1 bill is replaced by a $1 coin of the same weight as the Anthony Dollar on a one for one basis, the weight carried by the tellers at my bank would increase from 51.8 lbs to 75.81 lbs.

Conclusion

In summary, the ABA opposes S. 874. However, if a new $1 coin is created, the Congress and the Treasury should adopt all of the difficult steps we consider necessary to ameliorate the pain of the introduction of a new circulating $1 coin, and to ensure it is workable.

NAMA
NATIONAL
AUTOMATIC
MERCHANDISING
ASSOCIATION

Serving the Vending / Foodservice management industry

July 13, 1995

To The Committee on Banking, Housing and Urban Affairs
United States Senate

STATEMENT OF THE NATIONAL AUTOMATIC MERCHANDISING ASSOCIATION

IN SUPPORT OF A CIRCULATING $1 COIN

James A. Rost, President and CEO

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N A M A is the national trade association of the merchandise vending and contract food service management industry. It is incorporated in the State of Illinois as a non-profit organization, and maintains its principal office at 20 N. Wacker Drive, Chicago, Illinois. NAMA also has offices in Reston, Virginia; Encino, California; and Marietta, Georgia. Its membership includes approximately 1,800 vending and food service management companies including branches, 65 vending machine manufacturers and 600 companies that supply products and services to the industry. NAMA was founded in 1936 to promote the common business interests of the merchandise vending and contract food service management industry.

Why the Vending Industry Needs the Dollar Coin

Inflation has made a higher denomination coin an absolute necessity, not only for the merchandise vending industry but for other coin-sensitive businesses and organizations and for consumers who have historically relied upon the convenience of coins for the purchase of low-priced goods and services. In the early 1960's, *one* coin (a quarter) was enough to purchase a beverage and a snack. Today that same purchase requires *four to five* quarters—a dramatic loss of consumer convenience, which often means customers can't make the purchase because they don't have enough pocket change. Additionally, demand has grown for larger sized refreshments, entrees and even full meals in vending machines. As a result, many food items like these sell for well over $1 today.

Without a widely circulating $1 coin, vending operators have been, and continue to be, forced to install bill acceptors costing up to $400 on most of their machines. Handling and service costs have also risen, while customer service has slowed due to the difficulty of "feeding" paper bills into the acceptors. This problem is growing due to the increasingly poor condition of circulating $1 bills.

Under present circumstances, most machines that give change must return large quantities of quarters when customers insert higher denomination bills. As a consequence, a vending machine can be quickly emptied of quarters and prematurely put out of service while *weighing down the customer with quarters*. For example, a customer using a $5 bill to purchase a 75¢ item will receive 17 quarters in change!

For these and other reasons, bill acceptors on vending machines are not the solution to the absence of *realistically valued U.S. coinage*. A widely circulating $1 coin would sharply reduce these costly additional equipment investments and handling costs. It would also shorten transaction times and restore consumer convenience.

Vending Machines are Ready for the New Coin

Beginning in the early 1980's, in anticipation of the eventual circulation of the Anthony $1 coin, the vending industry began manufacturing and installing coin mechanisms capable of accepting the Anthony coin. As new vending machines were purchased, most included the Anthony coin capability in the belief that a widely circulating $1 coin must eventually become a reality.

Encouraged further by the proposed legislation calling for a new coin and the phase-out of the $1 bill, vending companies continued to acquire and place into service vending equipment capable of handling the Anthony dollar, anticipating that the new coin would work in existing Anthony coin mechanisms. Electronic coin mechanisms sold to the vending industry since the mid-1980's are models that are designed and tuned to take the present $1 coin. Our industry's cumulative *investment for this capability is enormous*, since most machines on location today were purchased since that date.

Accordingly, it is *critical* to our industry *that the proposed new coin has the same technical operating specifications as the Anthony dollar.*

Size of the Vending Industry

Industry surveys report roughly 4,800,000 vending machines on location throughout the 50 States, providing a convenient 24-hour unattended point-of-sale, commonly where no other service can feasibly be made available. Of these machines, about *80 percent are capable of accepting the Anthony $1 coin*. Industry sales, predominantly food and refreshments, are reported to exceed $28 billion. Vending customers average 125 million such purchases every day.

The merchandise vending industry is essentially part of the *small-business community*. Of the firms that provide vending services, the majority have 5 or fewer employees. These small enterprises, together with the national and regional vending companies and vending equipment manufacturers, *employ in excess of 250,000 people*. Hundreds of other companies sell goods and services to the vending industry, adding many thousands more to the number of people whose families depend on the economic health of the vending industry.

The Claim that Vending Machine Prices will be Raised

The introduction of a new, well-designed dollar coin of the same size as the Anthony dollar will not lead to higher vending machine prices. If anything, it will help to hold down vending machine product prices.

Most machines manufactured after the new coin circulates *will not require a bill acceptor*. This will reduce the cost of these machines and thus help to hold down vending machine product prices. Because vending machines will no longer need bill acceptors it will not be necessary to modify existing dollar coin mechanisms to give back one dollar coins in change.

As previously stated, an estimated 80 percent of the Nation's merchandise vending machines are capable of accepting an Anthony-sized dollar coin. So the claim that the vending industry will experience significant retooling costs is simply untrue. The capital investment has already been made.

As for the suggestion that vending machine prices will be raised to $1, this is also untrue. Most vending machines already accept dollar bills. Why haven't products sold through these machines already been raised to $1? Because of *competition!* During the past 10 years, the period during which bill acceptors came into prominent use, the price of canned soft drinks rose an average of 2.9 percent per year (from 50¢ to 65¢) compared to an annual CPI increase of 3.8 percent. Obviously, the installation of bill acceptors during this period had no influence upon the selling price of the product. The fierce competition in the vending industry, as well as from outside the industry—from convenience stores, mobile snack trucks and from workers who can always carry their lunch to work in a brown bag—will always protect the American consumer from artificial price increases.

Conclusion

In summary, the vending industry and its customers are heavily dependent upon widely circulating coins with values that relate realistically to today's prices of relatively low-cost products and services. Today the convenience and ease of making a purchase from a vending machine is at an all time low! The industry has been preparing for the $1 coin for more than a decade. Paper bill handling has been a costly stopgap measure and offers no solution to the problems caused by *grossly undervalued circulating U.S. coins.*

America is the only major country that does not have a *circulating* coin with a value above the cost of most vended products. Germany, England, France, Japan, Canada, Australia and many other countries have made coin and currency corrections to reflect the reality of decades of inflation. They have created coins that are far more appropriately valued for vending and other cash handling businesses. In each case they have *eliminated the paper bill* of equivalent value. A widely circulating $1 coin, combined with the essential removal of the $1 bill, will give the United States a much more efficient monetary system. It will provide far greater convenience and significant savings for consumers and small businesses across the country.

James A. Rost, President and CEO

PREPARED STATEMENT OF LINDA F. GOLODNER

PRESIDENT, NATIONAL CONSUMERS LEAGUE

JULY 13, 1995

Mr. Chairman and Members of the Committee, my name is Linda Golodner. I am president of the National Consumers League, a national nonprofit consumer organization founded in 1899 to represent consumers in the marketplace and workplace. We appreciate the opportunity to testify today on the issue of a dollar coin.

There have been few issues on which consumers have more clearly expressed their opinion than on the dollar coin. They do not want it. I would like to enter into the record the summary of five polls conducted over the past year on this subject. Americans consistently oppose switching to a dollar coin by a three to one and four to one margin. In a poll conducted on behalf of Representative John Kasich and the House Budget Committee, 82 percent of those surveyed nationwide oppose the dollar coin—even if it would help reduce the budget deficit.

To be perfectly sure that polls we had seen were current and reflecting American public perception without bias, the National Consumers League on June 8, 1995, commissioned Opinion Research Corporation to conduct a national random sample survey of three questions on the dollar coin. The survey asked:

1. Congress is considering legislation that would abolish the dollar bill and replace it with a dollar coin. Do you favor or oppose abolishing the dollar bill and replacing it with a one dollar coin?

2. Proponents of coin legislation want to eliminate the one dollar bill, replace it with the one dollar coin and reissue the two dollar bill. If given the choice, do you think you would prefer to use. . . . One two dollar bill. . . . Two one dollar coins?

3. If the one dollar bill is replaced with the one dollar coin, do you think prices on such things as vending machines, laundromat washing and drying machines, and parking meters would increase . . . decrease stay the same?

In summary, Opinion Research found the following:

- Respondents opposed legislation to replace the $1 bill with a $1 coin by a margin of 72 to 19 percent.
- Nearly six of every ten respondents thought prices of vending machine products were likely to increase if a $1 coin became mandatory.
- Sixty-four percent of the respondents, if given a choice, would prefer using one $2 bill over two $1 coins. Only 21 percent would prefer to use coins.

To my knowledge, the National Consumers League was the first to pose this last question in a national survey, and the results raise the obvious question: If people will simply switch to $2 bills, what have we accomplished by eliminating the $1 bill? The likelihood that people would prefer $2 bills over $1 coins also raises the possibility that the Government could find itself with billions of unwanted dollar coins on its hands, much as it already has with the Susan B. Anthony coin.

Coin proponents argue that public opinion is simply irrational and that forced to use dollar coins, people would soon acquiesce to the change. But this ignores several important facts.

First, the American Government is not like that in Canada or Britain. Those countries can much more easily impose an unpopular decision than can the U.S. Congress. The General Accounting Office has discussed this in detail in its 1993 report on the dollar coin.

Second, as noted above, a majority of the respondents believe that prices would likely increase if the dollar bill is replaced by a dollar coin. I would ask that I be allowed to enter into the record a University of New Haven study conducted by Dr. Darryl Jenkins. To summarize this study, Dr. Jenkins found that if the average price of vending machine products rose by only *1 percent*, this would mean approximately $230 million a year in higher prices to the public. He also found that price increases would most severely impact low-income families, who often rely disproportionately on vending and laundromat machines.

I do not represent myself as an expert on the impact of the dollar coin on the U.S. Treasury. However, it is my understanding that the Congressional Budget Office (CBO) estimates the dollar coin would save an average of $20 million a year over the first 5 years, while the Mint estimates it would *cost* the Government about $22 million over the first 5 years. Even if the CBO estimate is accurate, one can see that every dollar saved by the Treasury would come at the expense of many more dollars *lost* by the public. If vending machines prices would increase by only 1 percent, that would mean the average American would lose $10 for every $1 saved by the Treasury.

The vending machine and soft drink industries, which appear to be the prime movers behind the dollar coin legislation ask us to believe that the dollar coin would require no substantial retrofitting of their machines. They say for example that vending machines would no longer have to have a $1 bill changer. That is correct. But it is equally correct that they will have to add a *two* dollar bill changer—for the very reason they now have one dollar bill changers: because they will sell more products if their customers can use the lowest denominated bill in purchasing products.

They also state that many machines today already accept the Susan B. Anthony coin and that the new dollar coin will be the same size and weight. They fail to add, however, that it will be necessary not only to *accept* dollar coins, but to *dispense them as change*. This will require another retrofit to the five million vending machines in the country.

Why would vending machine operators and soft drink manufacturers favor legislation that would require them to make expensive changes to their machines? Presumably because they feel they can raise prices sufficiently to cover their investments and increase their profits.

Vending machine operators believe that people see coins as inherently less valuable than paper currency. As a result, some in the vending machine industry believe they can raise prices to a dollar with impunity. For example, a vending machine operator recently stated: "There's a psychological barrier against using four quarters, even if there's a bill changer right next to the game." That is why the editor of a video arcade magazine wrote recently: "The video game industry would like a chance to boost play pricing across the board, so for the last several years their top lobbying priority in Washington has been convincing Congress to get rid of dollar bills and replace them with dollar coins." I would like to submit for the hearing record the articles from which these quotes are taken.

When the public holds strong and well-documented feelings in opposition to a piece of legislation, it seems to me that Congress must find an extraordinarily compelling argument to override that public opinion. I would suggest that no such compelling argument exists. Congress should not try to impose this unpopular coin on an unwilling public. Thank you.

PREPARED STATEMENT OF THE COIN COALITION

"ONE DOLLAR COIN ACT OF 1995" (S. 874)

JULY 13, 1995

Introduction

The Coin Coalition supports the One Dollar Coin Act of 1995 (S. 874) as introduced by Sens. Rod Grams and Carol Moseley-Braun. The Coalition represents a diverse group of transit authorities, trade associations, and other organizations.

A well-designed $1 coin would help reduce Government spending, eliminate the need for costly mass transit fare-box conversions, and help hold down the cost of vending machine products. It also would remove various hidden costs of the $1 bill and numerous inconveniences from modem life.

With $1 coins, we could more easily make a long-distance call on a pay phone, buy a Sunday paper from a street box, use a coin basket in a highway toll booth, or use a long-term parking meter. Lines at subway fare machines would move more quickly because coins are accepted more easily than bills.

"GAO recommends that the Congress authorize the introduction of a new, well-designed 1-dollar coin and simultaneously provide for elimination of the dollar note." General Accounting Office, March 1993.

Summary

Passage of The One Dollar Coin Act supports deficit reduction. The Government saves at least $395 million annually, on average over 30 years. Coins remain in circulation 30 years; cost 8¢. Bills last 17 months; cost 4¢.

Local governments would save money on transit expenses and would not have to replace mechanically operated parking meters. Mass transit would save $124 million annually. Bills cost up to 3¢ each to count and are easy to steal. Buses would spend less time idling at curbs waiting for passengers to board.

The visually impaired would be able to make small purchases conveniently and would be able to easily distinguish the $1 coin from other coins.

Most vending machines are already equipped to process the Anthony (or similar) $1 coin without further capital outlay. Replacing the $1 bill with a coin will make future purchases of costly bill acceptors (up to $400) unnecessary and customer purchases from machines much more convenient and faster.

The public will have the option of carrying $2 bills, because cash retailers will have room for them in cash drawers once $1 bills are eliminated.

Every other major foreign country has successfully introduced high-denomination coins. The United States has coins with the least purchasing power of any major country.

A new $1 coin should (1) be golden in color, (2) have a distinctive edge and surface features to aid the visually impaired, (3) have the same dimensions as the Anthony dollar. Changing dimensions would require retrofitting transit fare boxes, vending machines and other coin-operated equipment. The Canadian "loon" $1 coin, which has replaced Canada's $1 bill, is an excellent prototype.

I. Government Savings—Federal

The Congressional Budget Office, General Accounting Office, the Federal Reserve and private studies agree that replacing the $1 bill with a $1 coin would save the Government billions of dollars. Each has used different assumptions to calculate the savings. Rules governing the CBO have limited its ability to calculate the entire spectrum of governmental savings.

1995 FEDERAL RESERVE SYSTEM:
$2.28 BILLION IN FIRST 5 YEARS OF IMPLEMENTATION

The Fed estimate (presented at the May 3 hearing before a House Banking Subcommittee) is almost 9 times greater than the CBO's for two reasons: (1) the Fed assumes that two $1 coins will replace each $1 note that is returned and (2) the Fed includes interest avoided on the National Debt resulting from the interest free loan that coins provide to the Government.

1995 CONGRESSIONAL BUDGET OFFICE (CBO):
$260 MILLION SAVINGS, 1996 THROUGH 2002

The CBO only calculates the net Federal budget impact for the next 7 fiscal years. Because the One Dollar Coin Act is phased in and has start up costs, the budgetary savings are small initially. Savings in years 1 and 2 (FY96 and FY97) are zero because the Mint requires 30 months for planning and production of initial inventories. In the third, fourth, and fifth years, savings are small because the efficiencies of the coin are not yet realized.

Looking at only a 7-year frame is like making a decision on paper plates versus china plates based on 5 days of use. Paper wins every time!

1993 GENERAL ACCOUNTING OFFICE:
$395 MILLION AVERAGE ANNUAL SAVINGS OVER 30 YEARS

The General Accounting Office (GAO), using a Federal Reserve model, includes interest avoided on the National Debt resulting from the profit ("seigniorage") on sales of coins to the public.

Interest saved on the National Debt is not included in the CBO estimate. However, the $380 billion worth of Federal Reserve notes and $20 billion worth of coins in circulation fund about 8 percent of the National Debt interest free—much as uncashed travelers checks and transit tokens kept as souvenirs provide an interest free loan to American Express and transit authorities. In 1994, the Federal Reserve rebated $20.7 billion to the U.S. Treasury as interest on Federal Reserve notes. Assuming a 5 percent interest rate, an additional $1 billion in interest was avoided through seigniorage on coins.

1991 PROF. GEORGE MCCANDLESS, UNIVERSITY OF CHICAGO:
$862 MILLION AVERAGE ANNUAL SAVINGS OVER 30 YEARS

Only McCandless has factored in savings resulting from $1 bills that are never returned to the Federal Reserve. The GAO estimate assumes a 100 percent return rate of the $1 bill. However, in Australia and Canada, between 44 percent and 48 percent of all $1 bills were never returned for redemption. Federal Reserve notes that are not returned earn interest for the Government like uncashed travelers checks. If only 25 percent of the 6 billion $1 bills now in circulation were never returned, that $1.5 billion would continue to save the Government $75 million annually in perpetuity, assuming a modest 5 percent interest rate.

Conclusion: The McCandless study assumed (1) a lower level of usage of $2 bills and (2) a smaller coin handling cost to the Federal Reserve, both of which tend to overstate his savings estimate. The CBO study only considered production and handling costs for the first 4½ years following introduction of the coin so that an analysis of the long-term impact is impossible. The Coin Coalition believes the actual **savings will be in the $500 to $600 million** range, on average, over 30 years—or at least $15 billion total savings.

None of the estimates include the $124 million annual savings to mass transit systems.

II. Mass Transit Would Save $124 Million Annually

Processing $1 coins instead of $1 bills would save the mass transit industry over $124 million annually in equipment purchases, maintenance, and processing of $1 bills. The American Public Transit Association supports S.874 as introduced by Sens. Grams and Moseley-Braun. The transit systems of Chicago, Los Angeles, Atlanta, San Antonio, New Orleans, Philadelphia, and Washington, DC are among those strongly supporting the $1 coin and phase out of the $1 bill.

The New York City bus system has an easy solution to the paper-dollar problem: It doesn't accept them. Potential passengers with no token or change cannot ride—in spite of the phrase "legal tender for all debts" printed on all U.S. bills. According to the MTA New York City Transit, more than half of the express bus riders between Staten Island and New York City pay a $4.00 fare each way, quarters only. Thus, 32 quarters are needed for the round trip.

Thomas Rubin, then treasurer of the Southern California Rapid Transit District, testified before a House Banking Subcommittee on November 6, 1991.

Adding it all up, We believe that we can save approximately $3,500,000 per year if the dollar bill is replaced by a dollar coin. We can use these extra funds to expand our service by about 1 percent, adding about 24 buses to our schedule without one extra dollar of additional taxes or fare increases. Given that the SCRTD operates the most overcrowded buses of any large transit operator in the United States, these 24 buses will be most welcome—they will carry about 4,200,000 extra passengers each year. That's a lot of extra transit services that are vitally needed for not one extra cent from either the taxpayer or our transit riders.

William C. Buetow, Vice President Finance/Treasurer of the Chicago Transit Authority, writing in the May 27,1992 issue of "Passenger Transport":

Bills are counted at a cost of $22 per thousand. Coins can be counted for $1.64 per thousand coins. To reduce cash handling cost, a "deep discount" was instituted in April 1990. The cash fare was raised from 95 cents to $1.25, but token packs were sold in units of 10 for $9.

The quantity of $1 bills received daily now averages 285,000 [down from 485,000 before the change]. Although no demographic studies have been performed on who uses tokens and/or cash for payment of fares, it is possible that low-income passengers do not have the financial resources to spend $9 for tokens on any given day.

The Chicago Transit Authority now processes about 400,000 $1 bills daily. They would save $2.4 million annually with a $1 coin. Using an industry standard, an additional $11 million in theft reduction could be realized.

III. Visually Impaired Support the $1 Coin

The visually impaired support the introduction of a $1 coin proposed by Sens. Grams and Moseley-Braun, which begins to address their concern about the ability to distinguish between various paper currency denominations. A circulating $1 coin would reduce the chance of accidentally spending a large bill or of being cheated when receiving change.

To address the concerns of the visually impaired, S. 874 says "The dollar coin shall be golden in color, have a distinctive edge, have tactile and visual features that make the denomination of the coin readily discernible. . . ."

IV. A $1 Coin Will Not Be Inflationary

Federal Reserve System, March 26, 1993. "It is our understanding that vending machines produced in recent years are already able to accept a $1 coin and dispense change, so we would not expect any significant cost pressures on suppliers of vended products. Even if a new $1 coin were to have size and weight characteristics different from those of the Susan B. Anthony coin, and therefore require adjustments to some machines, those would be one-time costs and probably not so great as to justify appreciable increases in the prices of vended products. In summary, we do not believe that there would be any discernible microeconomic or macroeconomic effects stemming from the issuance of a new $1 coin and the more or less simultaneous withdrawal from circulation of the $1 note."

Research Triangle Institute, September, 1976, p. 7–44. "The illusion that the introduction of this coin will imply a corresponding price increase in products sold through automatic merchandising is not based on sound economic reasoning. The one dollar coin will serve to expand the market for vended products and will make some purchases more convenient. . . . the existence of the additional coin alone would not cause a price increase in the market."

Ford Motor Co. v. *NLRB, U.S. Supreme Court, J. White, May 14, 1979.* "Holding: In-plant cafeteria and vending machine food and beverage prices and services are 'terms and conditions of employment' subject to mandatory collective bargaining under Secs. 8(a) and 8(d) of the NLRA . . . to require employer to bargain ever in-plant food-service prices is not futile. Although prices are set by a third-party caterer (vending company), employer retains right to review and control such prices."

General Accounting Office, GAO/GGD–93–56 1 Dollar Coin, page 22. The Canadian Automatic Merchandising.Association reported that the coin has resulted in 15- to 35-percent increases in vending sales without price increases.

Further information on vending prices.

(a) EQUIPMENT COST SAVINGS—The introduction of a widely circulating dollar coin will substantially reduce the need for costly bill acceptors (up to $400) on millions of vending machines to be purchased in the future. Additionally, most vending machines, transit fare boxes, and coin-operated machines manufactured since the mid-1980's have the capability of accepting Anthony dollars.

(b) COMPETITION—The merchandise vending industry is a highly competitive industry, with an estimated 6,000 companies competing vigorously in the food and refreshment vending market. Companies that raise prices, for any reason, frequently find competitors offering their customers lower prices. Furthermore, the vending industry competes in the sale of food and refreshment with fast food outlets, convenience stores and other non-vending sources. These competitive forces would prevent opportunistic price increases associated with the use of dollar coins.

Greater consumer convenience will lead to increased vending sales.

V. Today's Dollar is the Quarter of the 1960's

	1965	1995
Daily newspapers (most)	$0.10	$0.50
Soft drink, 12 oz., vended	.10	.65
Pay phone, local call	.10	.25
First Class postage stamp	.05	.32
New York City subway fare	.15	1.25
Bread, 1 pound	.21	.78
Milk, 1/2 gallon	.47	1.43
Ground beef, 1 pound	.49	1.39
Gasoline, all types, 1 gallon	.31	1.51
9 item average	$0.22	$0.90
All Item Consumer Price Index Base years 1982-84 = 100	31.3	151.4

Conclusion: In 1965, the average "small item" could be purchased with a single coin. in 1995, three or more quarters are needed for most purchases.

Sources:

American Newspaper Publishers Association
American Petroleum Institute
Vending Times
U.S. Bureau of Labor Statistics

Prepared by: The Coin Coalition, April, 1995

VI. Seigniorage & Portfolio Earnings

The savings to the Government from a $1 coin come mainly from the fact that the Government makes a significant profit on every coin that is put into circulation. "Seigniorage," the technical name for this profit, has been criticized as "smoke and mirrors" accounting. In fact, it represents proper, conservative, and very logical accounting conventions.

U.S. coins today are essentially tokens that have little intrinsic value. However, when coins are put into circulation, the public pays the Government the face value. Seigniorage is the difference between the face value of a coin and its cost. In the case of a $1 coin, which costs 8 cents to make and distribute, the profit or seigniorage is 92 cents.

This profit is not considered revenue, because in theory, at some point, the coin might be redeemed (although redemptions are a minor factor), and the Government would then have to refund its face value.

The receipts from coinage amount to an interest free loan from the public to the Government. Issuing 10 billion new $1 coins would produce $9.2 billion in receipts, which would flow into the Treasury's general fund. Treasury would spend the money in lieu of borrowing. This would save Treasury the interest it would otherwise pay to borrow that amount and hold down the national debt. The savings are large, since interest on Treasury 30-year bonds is over 7 percent today.

The coin assumes value at the point when the coin is swapped for its face value with the public, because the Government stands behind it and will refund its face value on demand. After the transaction with the public occurs, the Government has the face value of the coin in its possession and can use the money to finance the deficit. These interest savings, in addition to savings from printing, paper, and processing, should be counted when computing the savings to the Government from issuing a new $1 coin.

Paper Notes. Receipts from paper money also are used to finance the deficit, but the procedure is somewhat different. When Federal Reserve notes are placed into circulation, the Federal Reserve receives their face value from the public. The receipts are invested in Treasury securities, which earn interest. Each year the interest earned on those Treasury securities (called "portfolio earnings") is rebated to the Treasury, thus financing that portion of the deficit. In 1994, the Fed rebated the $20.7 billion it earned on about $360 billion worth of Federal Reserve notes outstanding. Most economists use "seigniorage" when talking about paper money, too.

Replacing a Federal Reserve note with coin is a wash, from an accounting standpoint. The Government saves money from The One Dollar Coin Act *because three $1 coins will be needed for each $1 bill removed from circulation* (based on the Canadian experience). $1 coins tend to "pool" in vending machines, pay phones, etc. more than $1 bills, so more coins are needed. This "increase" would *not* be inflationary, because the money supply (M1) would not change; each $1 coin would have to be purchased with existing money. A greater percentage of M1 would be held as $1 coins, from which the Government would profit, just like American Express would by having more uncashed travelers checks in circulation.

The Private Sector. Similar transactions are common in the private sector. When an individual buys a travelers check, gift certificate, or subway token, the issuer has the use of the buyer's money until the check, certificate, or token is redeemed. The money may be invested to earn interest or be used for current cash flow needs—just as the Government does.

VII. Why the $1 Note Must Be Phased Out

The Coin Coalition strongly agrees with the U.S. Mint and the GAO that the $1 Federal Reserve note must be replaced if a new $1 coin is introduced. The reasons are numerous.

Reason #1: *Cash retailers.* Most cash registers have ten position drawers, five for paper and five for coins. The five paper positions are often used for $1, $5, $10, $20 notes, with the fifth position used for checks, charge slips, food stamps, etc. The coin slots are used for 1, 5, 10, 25-cent coins, with the fifth position often used for spare rolls of coins.

Under the proposed changes, a cashier must find places for both the $1 coin and the $2 note. The current space for the $1 note is the logical place for the $2 note. The $1 coin would go in the fifth position used for coins. Checks, or $20 notes would have to go under the drawer to make room for spare rolls of coins, or another location must be found for spare rolls of coins.

Continued use of the $1 note would create a space problem in the cash drawer. Having to handle both a $1 coin and $1 bill would be the worst case scenario. For that reason, the Coin Coalition supports a $1 coin *only* if the $1 note is removed from circulation.

Reason #2: *Flow of currency.* Cash retailers must pay out $1 coins in change in order for the public to have them for purchases that would be facilitated with coins.

Large bills ($20's and $10's), which enter circulation at Automatic Teller Machines (ATM's) and at bank teller windows, are carried by individuals to cash retail establishments: grocery, convenience, drug stores, quick service restaurants, movie theaters, etc.

Cash retailers accept these bills, and give $1 bills and coins in return. The individual now has the $1 bills and coins necessary to use in vending machines, parking meters, pay phones, and mass transit fare-boxes. These industries "vacuum" up the coins and $1 bills. The coins and $1 bills are counted and sorted, then returned to banks where they are recycled to cash retailers.

For example, the Mass Transit Administration of Maryland (MTAM) uses Anthony $1 coins like a token in the Baltimore subway system. But it must go to the bank, stock the coins, and process the $1 notes it receives for Anthony dollars. The Baltimore system would save over $300,000 annually if the public entered the system with $1 coins in hand.

VIII. Phase-In Period of $1 Coins

The GAO study assumes a 5-year phase-in period for the dollar coin and the removal of the $1 note. The Coin Coalition believes this is too long. After studying various international scenarios, it appears that the optimum time period for phase-in is between 12 and 18 months.

The Federal Reserve System should begin withdrawing $1 notes as soon as possible following the coin's introduction. The total phase-in should last no longer than 1 year.

Example: The Canadian $1 "loon" coin was introduced in July 1, 1987, and the last $1 note was issued on July 1, 1989. The phase-in was virtually complete by the end of 1989. During the phase-in, there was a perception by the media that the coin was failing because it did not circulate in large numbers initially. This problem would not have happened with an earlier phase-out of the Canadian paper dollar.

IX. Industry Preparedness

Most vending machines, transit fare boxes, and coin-operated machines manufactured since the mid-1980's have the capability of accepting Anthony dollars. This was done at the urging of the U.S. Treasury Department to support the Susan B. Anthony. Changing the diameter or thickness of a new coin would cause more than 80 percent of the Nation's 4.5 million vending machines to have to be refitted with new coin mechanisms.

Many bill acceptors currently used on vending machines are designed to take $1, $2, $5, $10, and $20 bills. A device can be set to determine which bills will be accepted. Thus, most of the industry is ready to handle a new Anthony-sized coin and higher-denomination bills.

There are several reasons why S. 874 does not amend existing law regarding the size of the proposed $1 coin. (A change to a coin such as the British 1-pound coin *would be a disaster*.)

(1) The existing infrastructure is ready to handle an Anthony-sized coin. Vending machines, transit equipment, and coin-separating machines placed into service after 1980 are ready to handle a new coin *now*.

(2) Nickels, dimes, and quarters are narrower than the British pound. Wider coin slots and shoots needed inside the coin mechanisms to accommodate a wide coin would cause these nickels and dimes to wobble or jam. The British pound coin is more than twice as thick as the U.S. dime.

(3) British pound coins cannot be easily machine wrapped into rolls. The alternative (small bags of coins) are easier to steal from cardboard containers, and bags of coins must be counted by hand. A thick coin would render virtually all coin separating/counting machines obsolete, because an additional step would have to be added to the hardware to "strip" dimes that are stacked on top of each other.

X. Public Opinion

Virtually all public opinion polls have been conducted by the zinc industry (which opposes elimination of the penny) and by Save the Greenback. In no survey, has the public been informed that a circulating $1 coin would save the Government billions of dollars over time. Nor have they been informed that the $2 bill would be provided as a paper alternative. Public opinion polls consistently show that people want to balance the budget, cut Government waste, and retain public assistance programs that are efficiently run. If questions about the acceptance of a $1 coin were put in the context of these other programs, the Coin Coalition believes the results would be different. The GAO survey of the Canadian experience seems to bare this out.

XI. Effects on Production Levels at the Bureau of Engraving & Printing

The Coin Coalition believes the impact of a $1 coin on these entities will be nil because the productive capacity should be used to make $2 bills and to quickly introduce the next generation of Federal Reserve notes to discourage the continued counterfeiting of high-denomination bills in the Middle East and Columbia. The natural growth in the use of Federal Reserve notes in the U.S. and in developing countries will make up for any drop in production of the $1 bill over the long term.

Failure to keep the U.S. legal tender system convenient for the U.S. marketplace and safe from counterfeiting will hasten the decline of profits for Crane and SICPA and the loss of jobs for the Printers Union. The evidence of this decline already has begun. See the following articles:

"Overseas Counterfeiters . . ."—*Washington Post*, April 18, 1994

"Saving $100 Bills? Maybe you shouldn't"—*National Journal*, July 2, 1994

"High-Tech Counterfeiting"—*US News & World Report* (cover story), December 5, 1994

"Conspiracy Against the Dollar"—*Reader's Digest*, March 1995

"What if the Dollar Doesn't Stay on Top?"—*Wall Street Journal* (page one), March 20, 1995

"The Future of Money"—*Business Week*, June 12, 1995

XII. Fighting Counterfeiting with New Currency

The Treasury Department announced on July 13, 1994 "a comprehensive program to modernize the design of U.S. currency." Production design will be finalized in 1995 and $100 bills will be issued "about a year later." Treasury claims the plan is "not a response to a crisis" or to any current counterfeiting case. (Experts disagree on this point.) All notes through the $1 Federal Reserve Note (FRN) would be replaced by the year 2000.

Eliminating the $1 Federal Reserve Notes (FRN) would free capacity at the Bureau of Engraving & Printing to speed introduction of new notes. Currently, 49 percent of BEP capacity is used printing $1 FRN's.

	In Circulation at 12/31/94	FRNs printed (in billions) '89	'90	'91	'92	'93	'94	'94 %	6-year%
$1 FRNs	6.1	2.861	3.149	3.213	4.090	3.514	4.563	49%	45%
$5 FRNs	1.5	.835	.912	.979	.787	1.126	1.005	11%	12%
$10 FRNs	1.6	.771	.771	.813	1.037	.641	.794	9%	10%
$20 FRNs	4.0	1.526	1.802	1.926	1.760	2.170	2.253	24%	24%
$50 FRNs	0.9	.134	.128	.128	.557	.259	.115	1%	3%
$100 FRNs	2.3	.201	.240	.957	.218	.323	.605	6%	5%
		6.328	7.002	8.016	8.449	8.033	9.334		

Printing of $100 FRN's now constitutes about 5 percent of annual BEP production, on average. Replacing 80 percent of all $100 FRN's in circulation within 8 months would require using *30 percent of BEP's capacity* during that time frame. (80 percent × 2.3 billion × 1.5 / 9.3 billion)

Alternatives. (1) Sen. Patrick Leahy introduced on January 31, 1995, S. 307, the Counterfeiting and Money Laundering Deterrence Act of 1995, which would demonetize $100 FRN's after 6 months and would call for domestic and non-domestic versions of the note. Others in Congress are talking about recall and demonetization, also. Treasury opposes these ideas with good reason. (2) A rapid replacement of all notes (one denomination at a time) could create the impression that old notes are not as secure. Under this scenario, *the marketplace would, de facto, render old notes nonlegal tender.* The One Dollar Coin Act makes this scenario possible.

Treasury is concerned about making too many changes at once and is focusing on currency redesign at this time. Treasury may be making some assumptions based on the experience of introducing the Series 1990 notes with micro-engraving and security thread. These changes were not obvious to the public, and the 1990 notes easily co-circulated with the old. Treasury must be convinced that a rapid deployment serves many positive purposes *and* that a strong demand for new FRN's without the capacity to meet that demand could create the panic they are trying to avoid.

Budget Savings. While replacing most $100 FRN's quickly would cost more money, those costs could be offset by drug dealers and other criminals not being able to launder all old notes in their possession.

XIII. Foreign Experience

Every other major industrial country already has switched to high-denomination coins. The paper currency of the same value was removed or phased out in every case.

Country	Circulating Coins	U.S. dollar equivalent
Japan	500/100-yen	$5.76/$1.15
Switzerland	5/2 Swiss francs	$4.32/$1.73
Spain	500/200-peseta	$4.13/$1.65
France	20/10/5-franc	$4.12/2.06/$1.03
Denmark	20/10-krone	$3.69/$1.84
Germany	5/2 Deutsche Mark	$3.59/$1.44
Singapore	5-/1-dollar	$3.57/$0.71
Israel	10-Shekel	$3.38
Mexico	20/10/5-new pesos	$3.24/1.62/$0.81
Norway	20/10/5-krone	$3.23/$1.62/$0.81
Netherlands	5/2.5-guilder	$3.21/$1.60
Belgium	50-franc/20-franc	$1.74/$0.70
Ireland	1-pound (Punt)	$1.63
United Kingdom	1-pound	$1.60
Australia	2-dollar/1-dollar	$1.43/$0.72
Sweden	10/5-krona	$1.38/$0.69
New Zealand	2-dollar/1-dollar	$1.36/$0.68
Finland	5-markka	$1.17
Austria	10-schilling	$1.02
Canada	1-dollar	$0.74
Italy	500-lira	$0.31
United States	quarter dollar	$0.25

(exchange rates at 7/7/95)

The Canadian $2 Coin. In 1996 the Canadian government will replace their $2 note with a $2 coin. This will create a six-coin set: penny, nickel, dime, quarter, $1 coin, $2 coin. This will be awkward for cash retailers. The Coin Coalition would not support a currency system that employs six different circulating coins.

XIV. Summary Environmental Analysis: 10-YEAR TOTALS*

Replacing $1 bill with $1 coin; possible elimination of penny

From	Copper	Nickel	Zinc	Cotton	Linen	Ink
$1 coin: first five years @ 1.5 billion	+56.9	+10.0				
second five @ .5 billion	+19.0	+3.3				
Quarter reduction, years 3-10	-44.8	-3.8				
Materials from $1 bills, years 2-10						
5.5 billion/year @ 490/pound 75% cotton, 25% linen				-37.8	-12.6	-21.8
Materials for $2 bills, years 2-10 1.6 billion/year				+11.3	+3.8	+6.5
Pennies elimination, 10 years						
@ 12 billion/year	-8.3		-322.4			
Aggregate Changes	+22.8	+10.8	-322.4	-26.5	-8.8	-15.3

Thousands of tons (2,000 lbs), post manufacturing weight

Cotton: Cotton is a pesticide intensive crop. According the Bureau of Engraving & Printing "the cotton fiber . . . comes from post-industrial sources such as textile factories. No post-consumer cotton fibers are used in the paper finish."

Note: While the claim of post-industrial use of cotton is true, the opposition to S. 874 by some in the cotton industry suggests that use of this cotton expands markets for virgin cotton. No substantiation has been provided for the claim that most of the cotton fiber is diverted directly from the solid-waste stream.

*The analysis assumes no growth due to economic expansion or inflation. The purpose of this analysis is to identify variables and demonstrate the magnitude of materials usage resulting from changes in U.S. coins and notes. Assumptions are based on Government and Coin Coalition estimates.

Copper/Zinc/Nickel: Complete coinage reform would result in a 90 percent reduction in the use of metal. Only nickel is not domestically mined. The 50 percent reduction in quarter demand is based on the experiences of Norway, Netherlands, Great Britain, Canada, Japan, and Australia.

Ink: The inks used for paper money are petroleum-based and have metal content to give the ink magnetic properties for counterfeiting deterrence.

OTHER MATERIALS/CONSIDERATIONS

Disposable payment (plastic/paper) cards for telephones, parking meters, transit systems. Increased production of private sector tokens for mass transit, game machines. Batteries needed to operate parking meters, newspaper racks. Replacement of fare boxes, parking meters, telephones to accept other payment systems. Increased fuel use resulting from increased "dwell times" by buses waiting at the curb. Increased cost of mass transit fares, resulting in fewer passengers.

LIFE CYCLE COMPARISON

One $1 coin weighing 8.1 grams does job of 21 $1 bills weighing 30 grams, counting fresh ink.

Recycling. All worn and mutilated coins returned to the Mint are recycled into new coins. Even though some paper notes are recycled into roofing shingles and stationery, 89.9 percent of notes returned to the Federal Reserve were landfilled in 1994.

XV. Weight in the Pocket

The average American carries three $1 bills. Three $1 coins will weight less than one ounce. A more technical analysis shows that complete coinage reform would actually *reduce* the average number of coins and notes needed per transaction. Note that the weight reduction does not take into account the decreased use of quarters in coin laundries, parking meters, vending machines, mass transit, pay phones, etc.

Two variables determine how much weight you carry in coins and paper: (1) The weight of the individual piece of currency; (2) The *average* number of coins and notes you receive in each transaction.

Below is a comparison of the current system and an alternative system.*

Current System

Average Number per transaction		Weight	
Penny	2.0 coins	5.0 grams	(@ 2.5 g/coin)
Nickel	.4	2.0 grams	(@ 5.0 g/coin)
Dime	.8	1.8 grams	(@ 2.27 g/coin)
Quarter	1.5	8.5 grams	(@ 5.67 g/coin)
$1 bill	2.0 bills	2.0 grams	(@ 1.0 g/bill)
	6.7 coins/bills	19.3 grams	

Alternate System
(drop: penny, $1 bill; **add:** $1 coin, $2 bill)

Average Number per transaction		Weight	
Penny	none		
Nickel	.4	2.0 grams	(@ 5.0 g/coin)
Dime	.8	1.8 grams	(@ 2.27 g/coin)
Quarter	1.5*	8.5 grams	(@ 5.67 g/coin)
$1 coin	.4	3.2 grams	(@ 8.1 g/coin)
$2 bill	.8 bills	.8 grams	(@ 1.0 g/bill)
	3.9 coins/bills	16.3 grams	

*If the public shunned the $1 coin and used only quarters and $2 bills (a scenario suggested by the Director of the U.S. Mint), the number of quarters need per transaction would jump to an average of 3.5—more than *double* the weight of the proposed $1 coin in S. 874.

The number of coins needed is based on a simple computation of the total number of coins required to complete 99 transactions priced from 1¢ through 99¢, then dividing by 100.

XVI. Lessons Learned From the Anthony Dollar

The last time a $1 coin was introduced in the United States—the Susan B. Anthony in 1979—it did not circulate. The GAO studied the experience of the Anthony dollar, and concluded that "One of the major causes was the failure to eliminate the $1 note." Cash retailers were reluctant to count and store both paper and coin dollars.

Additionally, the coin was confused with the quarter, because of its similar silver color and feel, including an identical reeded edge. The Coin Coalition advocates a golden-colored coin that has a distinctive edge (like a nickel), as opposed to a reeded edge like the quarter. These two changes are sufficient to insure easy differentiation from quarters. The Coalition opposes changing the physical dimensions of a new $1 coin, as this would require the vending/coin-operated industries, as well as the mass transit authorities, to retrofit all the machines that have been designed to handle the Anthony dollar. Any change in the dimensions would cost these industries hundreds of millions of dollars.

With the golden color and smooth edge, the quarter and $1 coin should be *easier* to tell apart than pennies/dimes or quarters/nickels.

	Weight	Diameter	Thickness	
Penny	2.50 grams	19.05 mm	1.57 mm	**(30% larger than dime)**
Dime	2.27 grams	17.91 mm	1.35 mm	
Nickel	5.00 grams	21.21 mm	1.98 mm	
Quarter	5.67 grams	24.26 mm	1.70 mm	**(12% larger than nickel)**
Anthony dollar	8.10 grams	26.50 mm	2.00 mm	**(40% larger than quarter)**

Canada successfully introduced in 1987 the golden-colored "loon" $1 coin, which is the same diameter as the Anthony $1 coin.

Even though the Anthony dollar currently does not circulate among the U.S. public at large, it is an important coin in many localized operations. Following are some of the mass transit systems and vendors currently using the Anthony dollar:

Chicago Transit Authority, Chicago, IL
Dallas Area Rapid Transit, Dallas, TX
Metro-Dade County Transit Agency, Miami, FL
Mass Transit Administration of Maryland, Baltimore, MD
MTA Long Island Railroad, Jamaica, NY
MTA Metro North Railroad, New York, NY
New Jersey Transit, Newark, NJ
Port Authority Trans Hudson (PATH), Port Authority of NY and NJ
Port Authority Transit Corporation, Lindenwold, NJ
St. Louis Metro-Link, St. Louis, MO
San Francisco Municipal Railway System, San Francisco, CA
Southeastern Pennsylvania Transit Authority, Philadelphia, PA
U.S. Postal Service, stamp vending
Over 75 vending companies, (names available from National Automatic Merchandising Assn.)

Anthony Resurgence. Inventory of Anthony dollars at the US Mint and the Federal Reserve:

12/31/93	363.5 million	
6/30/94	338.7 million	24.8 million drop in six months
12/31/94	310.1 million	28.5 million drop in six months
6/30/95	273.0 million	37.0 million drop in six months

At the current rate of depletion, the Mint will be forced to start minting Anthony dollars in less than four years, unless Congress approves S. 874.

XVII. Editorial Support

These newspapers and columnists support the $1 coin and, in most cases, expressly endorse the phasing out of $1 bills.

Anderson (SC) Independent	3/20/93
Annapolis Capital	6/24/90
Ashland (OR) Tidings	6/29/91
Baltimore Sun	7/4/91
Bangor (ME) News	11/18/91, 3/22/93
Bartlesville (OK) Examiner	10/17/89
Bay City (MI) Times	3/25/93
Boston Globe	1/10/89 and 12/28/93
Bridgewater (NJ) Courier-News	6/19/90
Camden (SC) Chronicle	3/12/93
Canadaigua (NY) Daily Messenger	10/20/94
Canton (OH) Repository	6/25/90
Centralia (WA) Chronicle	7/22/94
Cheyenne (WY) State Tribune	3/12/93
Chicago Tribune	2/20/88, 11/12/91, 5/10/95
Chicago Sun Times	12/26/90, 5/8/95
Cincinnati Enquirer	9/24/94
Columbus (OH) Dispatch	5/29/90, 11/9/91, 3/5/92, 3/21/93, 5/21/94
Dallas Morning News	6/20/90 and 7/27/91
Davenport, IA Quad City Times	5/4/95
(Denver) Rocky Mountain News	5/4/95
Des Moines Register	7/13/88, 7/1/89, 9/28/89, 3/3/92, 7/18/94
Detroit News	5/4/95
Duluth News-Tribune	5/1/95
Elkhart (IN) Truth	3/28/95
Fort Wayne Journal-Gazette	9/22/87 and 8/4/89
Fresno Bee	7/7/89
Grand Junction Daily Sentinel	11/5/91
Harrisonburg (VA) Daily News	3/30/93
Hickory (NC) Daily Record	10/1/87
Huntington (WV) Herald	10/21/90 and 11/9/91
Jacksonville (FL) Times-Union	12/26/93, 3/2/95
Joliet (IL) Herald-News	7/21/94
Joplin (MO) Globe	6/21/90, 8/10/91, 4/16/93
Kalamazoo Gazette	5/3/95
Kent (WA) Valley Daily News	8/7/94
Kingsport (TN) Times-News	4/11/90
Lewiston (ME) Sun-Journal	10/17/89, 6/25/90, 11/6/91, 5/8/93
Lincoln (NE) Star	7/3/90 and 11/14/93
Los Angeles Daily News	4/16/88 and 11/17/91
Los Angeles Times	3/24/93
Louisville Courrier-Journal	7/28/91
Lynn (MA) Daily Evening Item	4/30/88
Mamaroneck (NY) Times	6/25/90
Minneapolis Star Tribune	9/29/89, 7/18/94
Mt. Clemens (MI) Macomb Daily	3/19/93
New York Times	3/9/89, 9/24/89, 6/3/90, 7/15/94
Norwalk (CT) Fairpress	6/28/90

Ottawa (IL) Daily Times	7/26/94
Owosso (MI) Argus Press	3/14/93
Owensboro (KY) Messenger	6/27/90
Palm Springs (CA) Desert Sun	6/8/92
Pensacola News Journal	5/18/90
(Phoenix) Arizona Republic	3/10/95
Philadelphia Inquirer	4/24/95
Pittsburgh Post-Gazette	7/11/90
Portland (ME) Evening Express	5/29/90
Portland (ME) Press Herald	6/22/90 and 9/4/91
Portland Oregonian	7/4/91, 3/16/93, 9/13/94, 5/3/95
Roanoke Times & World	12/14/87
Rochester (NY) Times-Union	9/28/94 and 4/21/95
Royal Oak (MI) Daily Tribune	3/17/93
Sacramento Bee	7/9/89, 6/5/95
St. Cloud (MN)	3/8/95
St. Louis Post-Dispatch	7/20/89
Salt Lake City, Deseret News	10/5/87, 11/22/88, 6/26/90, 8/4/92, 4/20/93
Salt Lake City Tribune	11/8/91 and 7/20/94
San Francisco Chronicle	2/25/89 and 5/26/90
San Gabriel Valley Tribune	4/21/91
Scranton Tribune	8/ 8/94
Scripps Howard Newspapers	4/11/88
Sharon (PA) Herald	4/29/95
Springfield (MA) Union News	3/16/93
Sunbury (PA) Daily Item	3/28/93
Tacoma (WA) News Tribune	8/6/94
Texarkana Gazette	6/27/90
Temple (TX) Daily Telegram	10/9/89
Toledo Blade	11/16/91 and 5/11/95
Trenton Times	11/6/91 and 3/14/94
Tucson Citizen	4/14/95
Tyler (TX) Morning Telegraph	3/29/92
USA Today	5/4/95
Wakefield (MA) Item	10/11/89
Wichita Eagle	3/12/93
Wilkes-Barre Citizens' Voice	4/2/91
Wilmington News Journal	6/22/90 and 2/13/95
Winston-Salem Journal	5/2/95

<u>Columnists</u>

William F. Buckley, Jr.	11/28/89
Stephen Chapman, Chicago Tribune	11/7/91, 5/11/95
James J. Kilpatrick	1/23/88
Michael Kinsley	7/12/90
Gus Carlson, Miami Herald	6/25/90
Thomas Gephardt, Cincinnati Enquirer	3/11/90
Larry Hicks, York Dispatch	3/31/93
Bob Moos, Dallas Morning News	10/20/89
Berry Rascovar, Baltimore Sun	6/25/89
Richard Roeper, Chicago Sun Times	6/25/91
Harry Themal, Wilmington News Journal	9/18/90 and 1/30/95

Complete copies of articles are available from The Coin Coalition.

PREPARED STATEMENT OF DAVID RYDER

PRESIDENT, RYDER COMPANY &
FORMER DIRECTOR, UNITED STATES MINT
WASHINGTON, DC

JULY 13, 1995

Mr. Chairman and Members of the Committee, I appreciate the opportunity to come before you today to discuss proposals to eliminate the one dollar bill and replace the bill with a one dollar coin, as embodied in S.874.

As you know, Mr. Chairman, I had numerous discussions about the dollar coin with Members of this Committee and others during my tenure as President Bush's Mint Director. During those years, as well as now, I have never waivered in my belief that the dollar coin is a bad idea for many reasons. It is worth noting that five Treasury Secretaries in the last three Administrations have also said the dollar coin is a bad idea. In late May, the current Treasury Department announced its opposition, noting that the proposal is "a violation of Americans' choices and fraught with illusory savings and underestimated risks."

I believe that the first and most important reason that a dollar coin is a bad idea is that the American people, by huge numbers, do not want it, and if they don't want it, they won't use it. Thus, in our demand-based currency system, non-use means failure and you can be assured that a failure this time around will have enormous costs far in excess of the costs of the Susan B. Anthony failure.

A couple of years ago, in testimony before the House Treasury Appropriations Subcommittee, I was asked why the Susan B. Anthony failed; my answer was simple—"There is not a market for it." That fact has been validated by several polls over the years, including House Budget Chairman John Kasich's 1995 Budget Deficit Tour Poll which found 82 percent of Americans opposed to replacing dollar bills with dollar coins. A recent Opinion Research poll found 72 percent of Americans opposed to a dollar coin, and that if given a choice between using a two dollar bill or two one dollar coins, 64 percent of Americans would use the two dollar bill. A 1994 Yankelovich Poll found 75 percent of Americans opposed to a dollar coin; a 1994 Market Facts Poll found 73 percent opposed to a dollar coin; in June, 1995, a CNN-Gallup Poll found 77 percent opposed to a dollar coin; the list goes on. These findings indicate, clearly, why a dollar collar coin will likely fail.

Despite the findings of these polls, the same proponents of the failed Susie B. dollar coin continue to lobby for eliminating the one dollar bill and replacing it with a dollar coin; their campaign is now in its 10th year. I believe it is worthwhile to ask "Why?" And I don't believe that the answer has anything to do with any real or imagined Federal budget savings.

Mr. Chairman, the dollar coin budget savings argument has been found to be deficient, with estimates of savings all over the spectrum, and highly exaggerated as former FED Governor Andrew Brimmer has noted, and as a July 1994 Price-Waterhouse study notes. Incidentally, the Price-Waterhouse Study, which was done under Federal budget scorekeeping rules, notes that the various other studies often cited by the Coin Coalition do not adhere to such rules. Finally, the Conference Agreement on House Concurrent Resolution 67, the 1996 Budget Resolution, notes "the conference agreement does not assume additional revenues from replacing the one dollar bill with a one dollar coin." In other words, it assumes no savings.

Mr. Chairman, you will hear this morning that certain elements of the transit industry support a dollar coin because it will save money relative to the costs of counting and processing dollar bills. First of all, the public transit industry is a relatively small sector of the U.S. economy so such savings are minimal relative to the huge cost disruptions of this proposal. Apart from that fact, I would encourage the transit industry to be more visionary in its thinking and recognize that we are moving toward a cashless society where coins will be a thing of the past, particularly when it comes to public services such as toll roads and transit systems.

You will hear this morning from the vending industry which knows that a dollar coin will be good for its business, particularly for the big vending machine manufacturers since they'll manufacture new, upgraded machines. The big vending retailers will be able to easily raise prices for vending products by rounding up to a dollar. However, these big vending interests will not tell you about small vending companies such as Eastern Vending Corporation in Linden, NJ, or American Vending in Mount Freedom, NJ. The reason is that these little vending companies and others could well be forced out of business because of the costs of machine modifications if the dollar coin bill passes.

You have heard that vending machines already accept a dollar coin the size of the Susan B. Anthony dollar coin. What you have not been told is that these machines cannot return that dollar coin in change. This means that if the dollar bill is replaced by a dollar coin, and the two dollar bill becomes the lowest paper denomination, the vending companies will have to re-tool machines to not only accept dollar coins, but disperse dollar coins as change. Additionally, the Dollar Bill Acceptor now on the machines of many small vendors will be eliminated or modified to a $2 bill acceptor. The modifications will cost too much for many small companies to stay in business.

In short, Mr. Chairman, the overhaul costs in the vending industry will run well into the hundreds of millions, if not into the billions. This information comes from CONLUX USA in St. Louis, the Nation's second largest manufacturer of vending machine bill and coin acceptors.

Given the cost of retrofit or replacement efforts to conform to a dollar coin, you have to ask why the vending industry wants to incur this cost? The answer is that for manufacturers and big vending retailers the profits are huge and will more than cover costs—but at what cost to the public in general, small vendors and lower income people, the latter being the ones who traditionally are the largest users of vending machines for products and for services such as laundromats.

Mr. Chairman, I am not going to get into a contest with the Coin Coalition as to the numbers of groups or interests which support a coin versus the numbers in opposition. They have been at this game for many years since the last dollar coin failed. I would suggest a few thoughts in closing, however:

—The huge amounts of energy and money the Mint would spend to produce a dollar coin would be better spent in R&D on technically advanced forms of money, rather than going backward toward a policy which has failed, and which the public does not want.

—Consider why the last three Administrations have not considered it necessary to seek authority to mint a dollar coin.

—Consider the decision a business might make in deciding to manufacture a product if, in the last 18 months, every market research poll taken showed the public overwhelmingly opposed to the product and unwilling to buy it as is the case with public surveys on the dollar coin.

—Consider that the U.S. Mint will have to add people, machines, and plant capacity at a time when we say we want to *reduce* outlays and eliminate unnecessary Government activities.

—Consider that if the CBO, GAO and Price-Waterhouse estimates are put on the same footing, and *if* the public accepts the coin, the best case savings assumption is *maybe* $20–$30 million per year—an amount which will pay the interest on the public debt which will accrue during this hearing.

—Consider that the Coin Coalition is now all of a sudden quietly promoting the stretching out of the implementation timeline for introducing a dollar coin from 18 months to 36 months when this would reduce the already minimal savings—you have to ask yourself "why?"—particularly when such a move would further reduce already questionable savings.

The issue is not how long we should take to implement this legislation; the issue is why we are thinking about spending a lot of money to produce something our citizens overwhelmingly do not want. And then how we will pay the enormous costs of a likely failure, including the storage and meltdown costs for *billions* of unused coins, not to mention the logistics and recall costs banks will incur.

Mr. Chairman, not long ago, CBS aired a news broadcast in which the dollar coin's chief sponsor in the House said that the only way for a dollar coin to work is to "force" it on the American people This interview gets to the heart of this issue. The coin proponents want to "*force*" the dollar coin on people because the coin proponents also read the polls. I would ask the chief sponsor if he thinks his constituents elected him to force things on them, particularly policies which are not necessary for the country, and which will cause disruption in daily commerce.

I have tried to note a few facts which are important policy considerations but are not discussed by those who seek passage of S. 874. Their hope has been that this proposal would be quietly slipped into budget reconciliation on grounds that it will save huge sums of money. When those savings numbers were shown to be inaccurate and highly inflated; the proponents conceded there would be some losses in the first few years. Now they want to stretch out the timeline to 36 months from 18 months, saying that the big savings will come later. Don't be deceived by this tact. The savings are not there.

I urge you to look at this proposal for what it is—a special interest bill which is widely opposed by the citizens of this country, who have expressed their collective wisdom time after time in reliable polls. Send this dollar coin proposal to the storage vaults where it can die alongside its failed predecessor—the Susan B. Anthony dollar coin. We'll all be better off, and you will have made the right decision.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF JEANNE EPPING

PRESIDENT AND CEO OF THE AMERICAN SOCIETY OF TRAVEL AGENTS

JULY 13, 1995

Mr. Chairman, I represent the American Society of Travel Agents (ASTA). Our mission is to enhance the professionalism of travel agents through effective representation in industry and Government affairs, education, and training, and by identifying and meeting the needs of the traveling public. ASTA is the world's largest and most influential travel trade association with over 25,000 members in 136 countries. I appreciate this opportunity to comment, on the record, regarding the necessity to maintain the One Dollar Bill in its current form.

As an organization which seeks to promote the interests and convenience of travelers, we feel that forcing the public to carry coins instead of dollars will be both unnecessary and very inconvenient. We are also concerned that a dollar coin may not be readily accepted overseas, particularly in remote regions of the world. Travelers have enough problems today without worrying whether they can exchange U.S. currency. *To chance from the Dollar Bill to the coin will require a very extensive (and expensive) publicity campaign not only in the United States but throughout the world.*

We are particularly concerned with the language of S.874 which seeks to force acceptance of the Dollar Coin, without regard for the opinions and preferences of the American people. As a large public organization, which like Congress is very sensitive to its constituency, we feel that actions contrary to our members' interest are inevitably doomed to failure.

I am aware that dollar coin bills have been introduced in every session of Congress since 1988 and have never passed the House or Senate. In our opinion, there is nothing in this latest version of the dollar coin Bill which merits additional consideration from its predecessors.

We are not alone in this opinion. Within the past year, there have been three national polls asking Americans if they wanted a dollar coin. All of them have been overwhelmingly negative toward eliminating the One Dollar Bill in favor of a coin.

I would like to cite one poll in particular, conducted by the well-respected firm of Yankelovich Partners. Last year, they undertook a nationwide survey with 1,000 individuals representing a full range of-economic and ethnic backgrounds.

The survey results overwhelmingly indicate that the American people do not want to be forced to switch from the One Dollar Bill to a coin.

A few of the highlights are very illustrative of this point:

- 65 percent of those questioned oppose eliminating the one dollar bill.
- 88 percent feel that the one dollar bill is easier to use than a coin.
- 75 percent are satisfied with the one dollar bill and do not want a change.

In addition, the poll indicates a very real concern by 71 percent of the American people that if the coin bill becomes law, the price of items purchased from vending machines such as food and cigarettes will rise. They also expect to see increases in the costs of other everyday items such as parking meters and pay telephone calls.

The Yankelovich Poll also asked the American people if they wanted Government funds used to promote use of a dollar coin as called for in the 1993 GAO Report.

An overwhelming 86 percent responded that they opposed using Government funds to support the promotion of the coin. The public is clearly aware of more urgent priorities.

The coin legislation will be an excuse by the vending machine interests to raise prices on everyday items—a future sales tax to be levied on all Americans but falling hardest on those who can afford it the least.

The burden of proof is on the coin coalition and its allies in the vending machine industry to demonstrate that the public will not lose more than just the One Dollar Bill.

It is very important to note that S.874, the Bill designed to eliminate the One Dollar Bill in favor of the coin, does not allow the American people a choice, but instead imposes on them a coin that they do not want.

None of us really want to see a repeat of the Susan B. Anthony drama in which the dollar coin was overwhelmingly rejected by the public. It did not save us a nickel when it was minted, although officials said at the time that savings would be realized.

At this moment, there are over 300 million dollars in Susan B. Anthony coins currently sitting idle in the U.S. Mint. Will we have to make room in a few years time for another dollar coin, because we didn't heed the lessons of the past?

It is not enough to blame the failure of the Susan B. Anthony dollar on its design alone. The people overwhelmingly rejected it as part of the currency system. The people had a choice and they made it—clearly.

It is true, as often cited by the coin coalition, that countries such as Canada and Australia switched to the dollar coin. It is also true that the public in those countries was not given the opportunity to make a choice.

When Canada switched from their Dollar Bill to the Loonie in 1985, they claimed that there would be a savings. I recently heard the Canadians announce that they were introducing a $2 dollar coin since the old dollar coin had lost its purchasing power. To a traveler, purchasing power equals in inflation. I'm afraid that a dollar coin will do the same thing in this country. We do not believe that the coin's advocates have taken this fully into account in their claims that the Bill will save money.

Finally, the prospect of having to carry ten $1 dollar coins in our purses or wallets does exactly appeal to most travelers. People who travel are faced with enough inconveniences and certainly don't need to bring additional problems with them from home.

On behalf of our membership and the traveling public, we urge you not to force this change on the American people. We hope that you will continue to keep your attention focused on the real problems that lay before us and not be diverted into a dead-end issue by special interests seeking to promote their personal agenda at the expense of the public.

II

104TH CONGRESS
1ST SESSION

S. 874

To provide for the minting and circulation of one dollar coins, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 26 (legislative day, MAY 15), 1995

Mr. GRAMS (for himself, Ms. MOSELEY-BRAUN, Mr. HARKIN, and Mr. KOHL) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To provide for the minting and circulation of one dollar coins, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "United States One Dollar Coin Act of 1995".

SEC. 2. ONE DOLLAR COINS.

(a) COLOR AND CONTENT.—Section 5112(b) of title 31, United States Code, is amended—

(1) in the first sentence, by striking "dollar,"; and

(2) by inserting after the fourth sentence, the following: "The dollar coin shall be golden in color, have a distinctive edge, have tactile and visual features that make the denomination of the coin readily discernible, be minted and fabricated in the United States, and have similar metallic, anticounterfeiting properties as United States clad coinage in circulation on the date of the enactment of the United States One Dollar Coin Act of 1995.".

(b) DESIGN OF COIN BY SECRETARY.—Section 5112(d)(1) of title 31, United States Code, is amended by striking the fifth and sixth sentences and inserting the following: "The Secretary of the Treasury shall select appropriate designs for the reverse and obverse sides of the dollar.".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Not later than 18 months after the date of enactment of this Act, the Secretary of the Treasury shall place into circulation the one dollar coins authorized under section 5112(a)(1) of title 31, United States Code, in accordance with the requirements of subsections (b) and (d)(1) of such section (as amended by subsections (a) and (b) of this section).

(2) NUMISMATIC SETS.—The Secretary may include the coins described in paragraph (1) in any numismatic set produced by the United States Mint before the date on which the coins are placed in circulation in accordance with such paragraph.

SEC. 3. CEASING ISSUANCE OF ONE DOLLAR NOTES.

(a) IN GENERAL.—Except as provided in subsection (b), beginning on the date on which the coins described in section 2(c)(1) are placed in circulation in accordance with such section, a Federal reserve bank may not issue any $1 Federal Reserve note.

(b) LIMITED PRODUCTION PERMITTED.—

(1) IN GENERAL.—Beginning on the date on which the coins described in section 2(c)(1) are placed in circulation in accordance with such section, the Secretary of the Treasury shall produce only such Federal Reserve notes of $1 denomination as the Board of Governors of the Federal Reserve System may order from time to time to meet the needs of collectors of that denomination.

(2) ISSUANCE.—Notes produced under paragraph (1) shall be issued by one or more Federal reserve banks in accordance with section 16 of the Federal Reserve Act and sold by the Secretary, in

whole or in part, under procedures prescribed by the Secretary.

SEC. 4. GENERAL WAIVER OF PROCUREMENT REGULATIONS.

(a) IN GENERAL.—Except as provided in subsection (b), no provision of law governing procurement or public contracts shall be applicable to the procurement of goods and services necessary for carrying out the provisions of this Act.

(b) EQUAL EMPLOYMENT OPPORTUNITY.—Subsection (a) shall not relieve any person entering into a contract under the authority of this Act from complying with any law relating to equal employment opportunity.

○

Potential Impact of Dollar Coin Legislation on Low-Income Families in New York and Boston

July, 1994
By Darryl Jenkins, PhD[1]
UNIVERSITY OF NEW HAVEN

Abstract: The Canadian experience suggests that if Congress enacts legislation to replace the $1 bill with a $1 coin, the price of some goods and services sold through coin-operated machines could increase. An average increase of only 1% would mean that the cost of machine-dispensed merchandise would rise approximately $228,000,000 yearly. Such an increase would have the most serious impact on senior citizens, those living on a fixed income, and individuals living at or below the poverty level. Poverty-level families have no disposable income, and therefore an increase in one budget item requires a decrease in another. For example, the yearly cost of a 10% rise in the price of coin-operated laundromat machines would equal the amount of cash a poverty level family spends on groceries over seven days.

If Congress enacts legislation to replace the $1 bill with a $1 coin, there may be far-reaching effects on those living below the poverty level, as well as senior citizens and others on fixed incomes. Even a slight increase in vending machine products can have a substantial impact, due to the size of the vending machine industry. In 1992, the last year for which figures are available, sales of vending machine merchandise totaled $22,800,000,000 ($22.8 billion).[2] Therefore, an average increase of only 1% would translate into a $228,000,000 rise in the price of merchandise sold through vending machines (assuming the purchasing rate remained steady). This figure does not take into account *services* sold through coin-operated machines, such as road tolls, parking meters, coin-operated laundromats, and so forth.

Based on the Canadian experience (the "Loonie" dollar coin was introduced in 1987), it is likely that the introduction of a dollar coin in this country would be followed by, at the very least, a modest increase in prices.[3] Vending machine operators could cite the costs of retrofitting their machines to accept a new coin as the reason for price increases.

Annual Vending Machine Sales

Total Annual Sales	$22.8 billion
Sales by Category	
Cold beverages	34%
Confections	27%
Food products	24%
Hot beverages	7%
Cigarettes	3%
Dairy Products	3%
Miscellaneous	2%

Note: All data is for 1992, the most recent year available

Source: Automatic Merchandiser, a trade publication in Fort Atkinson, Wis.

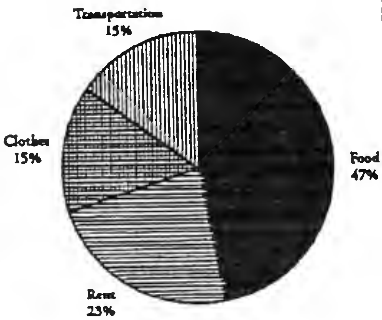
Any increase in the price of vending machine products (as well as services such as mass transit and toll collection) would have a disproportionate effect on low-income individuals, because a a larger percentage of their budget is spent on vending machine products and services.

For the purposes of this study, we conducted an economic study of persons living in the 15th New York Congressional District and the Roxbury neighborhood of Massachusetts' 8th Congressional District. (See Attachment #1.)

We then reviewed the typical budget for a family of four living at the poverty level ($14,687). Using numbers obtained from the Department of Commerce's 1991 Consumer Expenditure Survey, we arrived at the following breakdown of that family's living expenses:

$6,902 (47%) for food
$3,378 (23%) for rent
$2,203 (15%) for clothes
$2,203 (15%) for transportation

TYPICAL BUDGET FOR FAMILIES LIVING AT THE POVERTY LEVEL



Source: 1991 Consumer Expenditure Survey

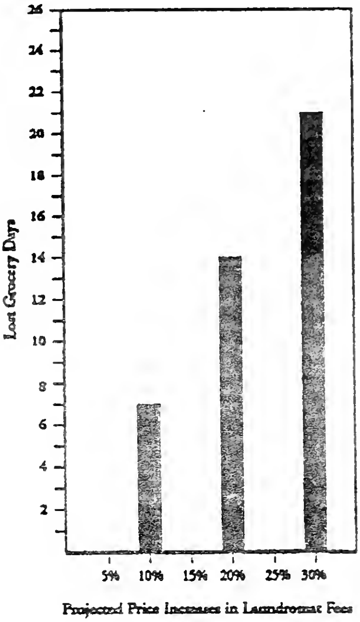
We isolated one aspect of the clothing budget to determine how much this family would spend on laundry. We assumed that a family below the poverty level does not own a washer and dryer and uses coin operated laundromat facilities. A random survey of 10 laundromats, five in New York's 15th District, and five in Roxbury, indicated that the cost of a coin-operated washing machine ranged between $1.25 and $1.75 per load, with a median cost of $1.50. (See Attachment #2.) Dryers averaged $1 per load. Based on an estimate of eight loads of laundry (a conservative estimate for a family of four), a family would pay approximately $20 per week, or $1,040 a year to use coin operated laundromats.

If the average cost of washing and drying were to increase by only 10%, the impact on low income families would be substantial. This is because families living at, or below, the poverty level have no disposable income. Therefore, an increase in one of the budget items listed here means a proportionate decrease in one of the other necessities.

To give a sense of what an increase in coin-operated laundromats would mean, the graph on the following page shows the effect of coin-induced price increases in terms of grocery money. For example, if prices of coin-operated laundromat machines were to go up an average of only 10%, this would equal over a year the cash the average poverty family spends on groceries in 7 days. An increase of 33% would equal the amount of cash spent on groceries over 25 days, or nearly a month. Even taking into consideration government assistance in the form of food stamps, increases in the cost of cleaning clothes will negatively impact poverty level families.

It should be noted that this study focuses only on the impact of price increases in laundromat machines. We have not looked at the impact of price increases for other goods and services purchased through coin-operated machines.

Impact of Price Increases on Grocery Budget of Low-Income Families



Source: U.S. Commerce Department 1991 Consumer Expenditure Survey

Conclusion

It is quite clear that given the large amount of dollars spent on vending machines (22.8 billion in 1992, excluding the amount spent on game machines), even small amounts of coin-induced price inflation would have the potential to cause adverse economic effects in the case of individuals below the poverty line, and senior citizens and others living on a fixed income. We therefore believe that even a preliminary analysis of the data indicates that further research is indicated. Estimates need to be developed with regard to the possibility of economic dislocation due to vending machine price increases. If prices do go up in conjunction with re-tooling of machines to accept a new $1 coin, this would amount to a government-induced price increase at the expense of low-income consumers.

[1] For reprints, write Dr. Jenkins at 6106 MacArthur Blvd., Suite 104, Bethesda, MD 20816 (301-229-0134).

[2] Source: Automatic Merchandiser (a trade publication in Fort Atkinson, Wis.)

[3] A member of the Canadian Parliament made the following observation after the "Loonie" was introduced. "There are vending machines in senior citizen residences and it has been found that there is a movement toward dollar coins in machines away from smaller denominations. For example, washing machines which used to cost 50 cents and 75 cents to run, now cost one dollar. It is much more convenient to stuff a dollar coin into a machine, and this has meant a 25% increase in cost to senior citizens in my area." (Member of Parliament Raymond Skelly, Commons Debates, 9/15/87).

ATTACHMENT #1 (NEW YORK/15TH DISTRICT)

NEW YORK 15TH CONGRESSIONAL DISTRICT

Zip Code	Postal Area	Population	Number of Households	Households Below Poverty	Number of Workers in Household	Number of Renters	Number Using Public Transportation
10025	CATHEDRAL	102,160	49,329	11,188	3,425	46,425	35,809
10026	MORNINGSIDE	25,812	9,525	5,185	2,039	9,354	4,202
10027	MANHATTANVILLE	51,075	21,054	8,123	2,906	20,085	11,232
10029	HELL GATE	69,641	25,479	2,632	5,841	23,907	21,952
10030	COLLEGE	19,840	9,116	11,055	3,482	18,298	14,905
10031	HAMILTON GRANGE	66,943	18,966	6,617	2,906	21,088	12,955
10032	AUDUBON	58,094	21,617	7,153	2,313	18,422	14,986
10033	WASHINGTON BRIDGE	49,715	18,397	5,507	2,104	14,748	12,710
10034	INWOOD	56,021	15,100	4,924	1,210	10,693	10,343
10035	TRIBOROUGH	24,274	8,327	4,315	1,224	8,506	4,119
10037	BRYANT	19,195	10,858	4,520	2,350	4,902	10,247
10039	COLONIAL PARK	18,350	8,824	4,070	1,443	15,361	23,044
10040	FORT GEORGE	57,419	15,718	5,674	1,788	5,998	10,321
TOTAL		557,067	232,810	80,963	32,991	217,787	186,823

Source: U.S. Census 1990

ATTACHMENT #1 (BOSTON/8TH DISTRICT [ROXBURY])

MASSACHUSETTS 8TH CONGRESSIONAL DISTRICT

Zip Code	Postal Area	Population	Number of Households	Households Below Poverty	Number of Workers in Household	Number of Renters	Number Using Public Transportation
02118	CATHEDRAL	19,212	8,852	2,341	833	7,811	3,089
02119	ROXBURY	23,900	8,508	2,503	1,568	6,899	3,438
02220	ROXBURY CROSSING	10,450	4,118	1,207	616	3,690	1,256
TOTAL		53,512	18,478	6,051	2,817	18,400	7,783

Source: U.S. Census 1990

ATTACHMENT #2

New York 15th Dist.	Location	Cost per wash
Super Wash 4	2391 8th Ave.	1.25
Maurice Laundromat	301 W. 141st St.	1.50
M.P. Ventures	303 E. 92nd St.	1.25
C&C Laundromat	2394 7th Ave.	1.50
Coin-O-Rama	30 Lenox Ave.	1.50

Roxbury	Location	Cost per wash
Bailey's Coin-Op Laundromat	1135 Harrison Ave.	1.75
Norton's Maytag	1846 Washington	1.00
Gramma's Laundry Inc.	223 Grove, W. Roxbury	1.25
Spring Street Laundry	7 Spring, W. Roxbury	1.50
Bubbles Coin Laundry	1239 VFW Pkwy. W. Rox.	1.50

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