

CRS Report for Congress

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New U.S. Dollar Coin

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Summary

A new 1-dollar coin was authorized by P.L. 105-124, enacted on December 1, 1997. An earlier dollar coin (the Susan B. Anthony dollar) introduced in 1979 was not accepted by the public and was never widely used. Congress remained interested in creating a successfully circulating dollar coin. Legislation was introduced several times over the next two decades but no action was taken. P.L. 105-124 provided for a redesign of the coin that would avoid mistakes made with the 1979 dollar: the coin was to be golden in color and have a distinctive edge. The law authorized the Secretary of the Treasury to design the new coin. The Secretary established a Dollar Design Advisory Committee to select a specific design concept. In January 2000 the first "golden dollars" were issued with an eagle on one side and the image of Sacagawea, the female Native American guide for explorers Lewis and Clark, on the other.

Critics of P.L. 105-124 have noted the law did not provide what they consider an important step, taking the 1-dollar note out of circulation. They doubt the coin will circulate successfully without a phase out of the dollar note. Unless it replaces the 1-dollar note, the possible savings associated with the dollar coin will not be realized. Concern has also been expressed that an advertising campaign promoting the "golden dollar" will lead some consumers to believe the coins contain gold. This report will not be updated.

Background

The concept of a small 1-dollar coin for general circulation was introduced in the early 1970s. At that time, a nonsilver dollar (the Eisenhower dollar) was minted for general circulation. The Eisenhower dollar is 1.205 inches in diameter and weighs 22.68 grams. A smaller, lighter coin was supported as a commercially useful and economically practical alternative. All U.S. coins have a design, weight, composition and fineness fixed by statute. The Secretary of the Treasury is responsible for the production of coins and currency. Money gets into circulation through the Federal Reserve Banks, and annual production is based on public demand. P.L. 95-447, enacted on October 10, 1978, authorized the Susan B. Anthony dollar coin and discontinued the minting of the

Eisenhower dollar coin. The Anthony dollar is 1.043 inches in diameter and weighs 8.1 grams. A total of 847.5 million Anthony dollar coins were minted for circulation in 1979 and 1980.

The Anthony coin program was not successful. Negative public reaction and the decision not to eliminate the 1-dollar note are given as the two major reasons for the failure.¹ A major criticism of the Anthony dollar was that it resembled the quarter too closely in size, appearance, and color. Two countries with coinage and currency systems similar to the United States – Australia and Canada – initiated successful dollar coin programs in the 1980s. In both countries the dollar coin was distinguished by a different color. The two countries phased out the dollar note when they created the dollar coin. In addition, both countries had a successfully circulating 2-dollar bill. While the Anthony dollar failed, the economic and practical interests supporting a U.S. dollar coin program remained.

Advantages of a Coin

Cost Advantages

A major savings component of a successfully circulating dollar coin stems from the life expectancy of a coin versus a paper dollar. The 1-dollar note has an average circulation life of 17 months while the circulation life of a coin has been estimated at 30 years. The cost of producing the coin is greater – \$.08 verses \$.035 – but the durability of the coin would outweigh the difference because of the public demand for the dollar.² In FY 1999 the Treasury produced 4.5 billion 1-dollar notes which accounted for 40 percent of the total production of all denominations of currency for the year. From FY 1980 to FY 1999 the number of 1-dollar notes printed annually more than doubled from 1.9 billion to 4.5 billion.³ Treasury production costs would be greatly reduced if a dollar coin gained widespread circulation and significantly reduced the demand for 1-dollar notes.

Additional savings would be realized from reduced processing costs. The Federal Reserve System incurs the costs associated with servicing circulating currency and coin. When Federal Reserve Banks receive deposits of currency from financial institutions they must distinguish these on a note-by-note basis. Counterfeit and unfit currency is identified and destroyed. Notes fit for reintroduction into circulation are used to fill future currency orders. Coin operations consist primarily of storage and distribution but not processing because coins are not generally “piece verified.” Rather, coin bags are weighed to verify the value of the coin received.

¹ *Limited Public Demand for New Dollar Coin or Elimination of Pennies*. General Accounting Office. May 1990, p.14

² *1-Dollar Coin: Reintroduction Could Save Millions if Properly Managed*. General Accounting Office. March 1993, p.35

³ <http://www.bep.treas.gov/figures.htm>

In 1992 the Federal Reserve, using a model it had developed, calculated a savings estimate for a dollar coin program. Savings were estimated over a 30-year period. For this estimate it was assumed that the 1-dollar note would be phased out and completely replaced by the 1-dollar coin. In addition, based on experience in other countries, it was assumed that 25 percent of the demand for 1-dollar notes would be replaced by a demand for 2-dollar notes and two 1-dollar coins would replace each remaining 1-dollar note. A General Accounting Office report discussed their findings.

A May 1992 Federal Reserve study indicated that the United States government could save \$395 million per year on average over 30 years by substituting a 1-dollar note with a 1-dollar coin. The annual average savings would consist of (1) \$109 million from not having to print 1-dollar notes, (2) \$47 million in lower Federal Reserve processing costs of notes in circulation, and (3) \$430 million in interest avoided from the decreased government borrowing resulting from seigniorage recognized on a dollar coin, less (4) \$20 million in start-up costs, and (5) \$171 million in lost earnings on 1-dollar notes.⁴

The Federal Reserve provided an updated savings estimate during 1995 hearings on the 1-dollar coin question. The new estimate was \$460 million per year on average over 30 years.⁵

A major portion of this savings would come from anticipated seigniorage. Seigniorage is the difference between the face value of a coin and the coin's cost of production. These costs include the metal used, coinage processing operations, transportation costs and related overhead. Seigniorage appears as a balance held by the Federal Reserve for the Treasury after newly manufactured coins are deposited with Federal Reserve Banks. Seigniorage is not considered as part of the budget; it does not directly offset expenditures. Instead, seigniorage is used to reduce the amount of money that must be borrowed from the public to finance a deficit and, in turn, interest which must be paid on these borrowings. In times of budget surplus, seigniorage allows the Treasury to redeem more debt than it otherwise could, thus reducing interest which must be paid to the public.

The accounting and budget processes for currency notes are different. The Federal Reserve System is required to hold a portfolio of government securities equal to the value of the Federal Reserve notes outstanding (paper money issued into circulation). The Federal Reserve transfers the earnings on these securities to the Treasury and the Federal budget accounts treat these earnings as a miscellaneous receipt. The Federal Reserve's savings estimate includes a deduction for earnings lost by stopping the production of paper dollars.

⁴ *1-Dollar Coin: Reintroduction Could Save Millions if Properly Managed*. General Accounting Office. March 1993, p.23

⁵ U.S. Congress. House. Committee on Banking and Financial Services. Subcommittee on Domestic and International Monetary Policy. *The One Dollar Coin*. Hearing, 104th Congress, 1st session. May 3, 1995, p.168

Practical Advantages

Supporters of a dollar coin have stated that a coin would be more efficient and convenient than a paper dollar in many commercial situations.⁶ Circumstances where a coin could be useful included pay phones, vending machines, municipal transit systems, and toll booths. The Mass Transit Administration of Maryland, where the Anthony dollar has been used as a token for the Baltimore subway system, is often cited as an example. In addition, in the mid-1990s, the U.S. Postal Service's stamp machines began to give change using the Anthony dollar.

Many proponents of a U.S. dollar coin have argued that the 1-dollar note must be eliminated from circulation if the 1-dollar coin is to achieve widespread circulation. In addition, proponents have urged a vigorous marketing and public education campaign to promote public acceptance of the changes. Past experience with the Anthony dollar and the 1976 2-dollar bill (neither of which achieved wide circulation) has shown the resistance of the American public to changes in coin and currency. In addition, co-circulation of the coin and note could prove troublesome to retailers. Judging customer demand for 1-dollar notes and coins could be a problem as well as arranging space in the cash drawers.

New Dollar Coin

The "United States \$1 Coin Act of 1997" was enacted on December 1, 1997 as Section 4 of P.L. 105-124. Section 4 was adopted as an amendment to S. 1228 during markup by the Senate Banking Committee. The Act authorized the Secretary of the Treasury to design a new dollar coin. The statute required that the new coin be golden in color and have a distinctive edge. The Secretary was authorized to select new designs for both sides of the dollar coin. The law directed the Treasury to create a marketing program to promote the use of the new coin. The Act did not address the issue of withdrawing the 1-dollar note.

In a major departure from previous discussions concerning the need for a U.S. dollar coin, the major support for the 1997 coin legislation focused on "reinvigorating" the current circulating coinage and the fact that a renewed demand for Anthony dollars was exhausting the Treasury's supply. P.L. 105-124 also created a program to issue quarters commemorating each of the 50 states.⁷ Supporters argued that the new coins would be educational and would encourage coin collecting. In addition, the Treasury was reporting that the government's supply of Anthony dollars was dwindling because of demand from the Postal Service and several mass transit authorities. Opposition to redesigning the 1-dollar coin without taking the 1-dollar note out of circulation was raised during floor debate but the legislation passed with no provisions for a phase-out of the paper dollar.

⁶ ----The United States \$1 Coin Act of 1997, H.R. 2637. Hearing, 105th Congress, 1st session. October 21, 1997. 171p.

⁷ U.S. Library of Congress. Congressional Research Service. *Five New U.S. Quarter Coins for 1999*, Pauline Smale. December 23, 1998. 4p

In May 1998, the Secretary of the Treasury established a Dollar Coin Design Advisory Committee to recommend a design concept. The Secretary decided the obverse side of the coin should depict one or more women and that the design should not include a living person. According to longstanding law and tradition the reverse side of any coin larger than 10 cents must depict an eagle. The Committee recommended a design of a Native American woman inspired by Sacagawea. Sacagawea was a member of the Shoshone tribe. From 1804 to 1806 she helped guide the Lewis and Clark expedition from the Northern Great Plains to the Pacific Ocean and back. A final design for the dollar coin was announced May 4, 1999. The coin bears the image of Sacagawea carrying her infant son. The reverse side of the coin has an American eagle surrounded by 17 stars; one for each state of the Union at the time of the expedition. The 1-dollar coin is a clad coin with a three layer composition (similar to the Anthony dollar). The interior is copper and the two outside alloy layers are composed of manganese brass to provide the golden hue. The new coin has the same diameter (26.50 mm), thickness (2.00 mm) and weight (8.10 grams) as the Anthony dollar, allowing it to be used in coin operated machines that accept the Anthony dollar.

In November 1999, the Treasury Department's Bureau of the U.S. Mint started production of the new dollar coin. The first coins were shipped from the Federal Reserve to financial institutions in January 2000. In March 2000, the Treasury initiated a \$40 million advertising campaign to encourage the use of the Sacagawea dollar. The new coin is commonly referred to as the "golden dollar." By the end of March, 500 million golden dollars had been produced and shipped.⁸

Congressional Oversight

Congress is monitoring the progress of the new 1-dollar coin program. Part of its focus will center on how well the 1-dollar coin and the 1-dollar note are co-circulating. On March 28, 2000, oversight hearings were held on *The Production and Protection of the Nation's Money* by the Subcommittee on Domestic and International Monetary Policy of the House Banking Committee. Testimony presented by the Treasury Department provided information on the start-up operations of the dollar coin program. Strong customer demand for the new dollar had caused localized shortages and resulted in some criticism. The Treasury revised its forecasting models and increased their production of the coin to meet demand.

Senator Phil Gramm, the chairman of the Senate Banking Committee, expressed concern over whether the term "golden" dollar might mislead consumers into thinking the coin contained gold. The General Accounting Office (GAO) was asked to conduct a survey regarding the Treasury's advertising campaign. The results of the survey indicated that 13 percent of the adults who had seen or heard the advertising believed the new coin contained gold.⁹ Senator Gramm announced that he intends to ask the Federal Trade

⁸ <http://www.usmint.gov/GoldenDollar>

⁹ *New Dollar Coin: Public Perception of Advertising*. General Accounting Office. April 2000, p3

Commission to examine the GAO's findings and whether the advertising campaign was causing confusion.¹⁰

¹⁰ *Gramm To Ask FTC To Study Ads For New Dollar Coin.* Senate Banking Committee Press Release. April 11, 2000