

TESTIMONY OF
EDMUND C. MOY
DIRECTOR, UNITED STATES MINT

BEFORE

THE SUBCOMMITTEE ON DOMESTIC MONETARY POLICY AND TECHNOLOGY

UNITED STATES HOUSE OF REPRESENTATIVES

JULY 20, 2010

Chairman Watt, Ranking Member Paul, Members of the Subcommittee, thank you for inviting me here today. I welcome the opportunity to appear before this subcommittee to provide you with this report on the operations and programs of the United States Mint. I will also provide you information today that will clearly demonstrate the need for immediate passage of the "Coinage Materials Modernization Act," the Administration's legislative proposal that has the potential of saving over a billion dollars in the next ten years by adopting suitable and acceptable lower-cost materials for the Nation's circulating coinage.

OPERATIONS AND PROGRAMS OF THE UNITED STATES MINT

At the conclusion of Fiscal Year 2009, I reported that the United States Mint:

- transferred \$440 million in seigniorage to the Treasury General Fund through the sales of circulating coinage to the Federal Reserve Banks (the lowest seigniorage over the most recent five years because of low circulating coin demand and higher costs of metal);
- transferred \$35 million in numismatic net revenues to the Treasury General Fund (this amount is the FY 2008 net revenues, less protection expenses returned);
- minted and issued 5.2 billion circulating coins to fill orders from the Federal Reserve Banks (during an average year, the Federal Reserve would order, and the United States Mint would mint and issue, 15 billion circulating coins);
- reported \$440 million in numismatic revenues (lower than the average of the last three fiscal years by 19 percent);

- minted and issued 27.6 million ounces of gold, silver and platinum bullion coins (triple the amount of recent years).

I will now discuss more fully the major forces behind these results and the programmatic consequences resulting from them.

Circulating Coinage

The primary mission of the United States Mint is to mint and issue circulating coinage to meet the needs of the United States. Circulating coin production was at a 45-year low in 2009 because of low coinage demand and high inventories of coins in the Federal Reserve Banks. Total circulating coins shipped to Federal Reserve Banks decreased 47.8 percent – to only 5.2 billion coins in 2009 – and continued the decline in orders that began in 2008 when 10 billion circulating coins were ordered. Our most recent orders from the Federal Reserve Banks show increased demand for the next 12 calendar months at 7 billion.

As the Subcommittee knows, the United States Mint does not use appropriated funds for its operations and programs, but instead retains receipts from the sale of circulating coins to the Federal Reserve Banks to fund the bureau's circulating coinage costs. The United States Mint is committed to the goal of keeping the unit cost of production of each coin as low as practicable. However, the cost of the metals and alloys that Federal law requires us to use for our circulating coinage has become significant, affecting the circulating financial results. In fiscal year 2009, the United States Mint transferred to Treasury \$427.8 million in seigniorage from circulating coins. The \$1 coin

accounted for 74.5 percent, the quarter-dollar coin for 30.9 percent, the dime coin for 3.6 percent, the 5-cent coin for -0.5 percent, and the one-cent coin for -4.6 percent of total Fiscal Year 2009 seigniorage.

Implementing 2010 Circulating Coin Programs

Since inception of the various \$1 coin programs, the United States Mint has issued 3.9 billion \$1 coins, of which the Federal Reserve Banks hold 1.1 billion \$1 coins in their inventories. These include the Susan B. Anthony Dollar, the Golden Dollar featuring Sacagawea, the Presidential \$1 Coin and the Native American \$1 Coin.

Of the 3.9 billion, the United States Mint has distributed 1.7 billion Presidential and Native American \$1 Coins since 2007. We have continued to encourage the awareness and use of these coins, spending about \$30 million on these efforts since the Presidential \$1 Coin Act of 2005. These efforts have resulted in some successes, which include use by transit systems in New York and Washington, D.C. and general acceptance of the \$1 coin; however, most Americans are not using \$1 coins often in their daily transactions.

We have fulfilled our statutory requirement to aggressively and cost effectively promote the use of the \$1 coin. This has included identifying, analyzing and removing obstacles to the robust circulation of the coin. However, despite these efforts, the Federal Reserve Banks have an inventory of approximately 1.1 billion \$1 coins. This inventory level is of great concern to us. Generating robust \$1 coin circulation and drawing down

existing coin inventories depend on far greater utilization where most consumer cash transactions occur—at the cash register. While we continue to explore innovative, yet cost-effective ways to encourage sustained use of the \$1 coin at the retail level, we are unsure as to whether we can cost effectively achieve significant and sustainable increases in \$1 Coin circulation.

In 2010, the United States Mint began a new 12-year circulating commemorative coin program authorized by Congress and approved by the President in December 2008, known as the America the Beautiful Quarters™ Program. These coins will commemorate a national park or other national site in each state, the District of Columbia and five U.S. territories. Under this program, the United States Mint will issue quarters at the rate of five new reverse designs per year in the order in which the featured site was first placed under Federal conservancy as a national park or site. We seek to ensure that this new program will generate the same financial success, interest from the public, and benefits to children and educators that we experienced with the 50 State Quarters Program.

Thus far, production levels are a fraction of those for the 50 State Quarters Program—in part attributable to low demand from both the economic conditions and the Federal Reserve Banks' existing inventories of previously issued quarter-dollar coins. As of June 22, we have sold 97 bulk bags of the Hot Springs National Park and Yellowstone National Park Quarters, totaling 19.4 million quarters, through this bulk purchase program. Later this year, we also will make available for sale to Authorized Purchasers

the three-inch five-troy ounce .999 fine silver bullion quarter-dollar coins bearing the designs that duplicate each of the America the Beautiful Quarters Program coins.

Gold, Silver and Platinum Bullion Coin Programs

Uncertainty surrounding traditional investments and concerns about inflation drove investor demand for bullion precious metals in all forms to exceptional highs in 2009. Demand seemed to be subsiding in early 2010 but in May 2010, we again saw an increase in orders for silver bullion coins to over 3.6 million—near a historic high for a month. In Fiscal Year 2009, bullion coin sales approached \$1.7 billion—an all-time high and nearly 80 percent above the previous year's sales. The United States Mint increased both planchet acquisition and production to meet rising demand. We sold 27.6 million ounces of gold, silver and platinum bullion coins, up 9.2 million ounces from Fiscal Year 2008 and a 132 percent increase over average annual bullion coin sales since Fiscal Year 2005. We had no difficulty in obtaining gold, silver and platinum in raw material form, but we experienced considerable difficulty in getting this raw material fabricated into planchets by our vendors in sufficient quantities to meet public demand.

There were three significant consequences for the United States Mint from this increased worldwide demand for bullion. First, orders for gold and silver bullion coins from Authorized Purchasers exceeded supply for all of Fiscal Year 2009. As a result, we established an allocation system under which each Authorized Purchaser received partial fulfillment based on its order history.

Second, sales of discretionary gold and silver proof and uncirculated coins, which use the same planchets as their mandatory bullion coin counterparts, were hurt because we had to divert all incoming planchets in our effort to fulfill our statutory obligation to meet public demand for bullion coins. As a consequence, we did not mint and issue the very popular American Eagle One-Ounce Proof Gold and One-Ounce Proof Silver Coins in 2009.

Third, because we could not produce these popular coin products, those who had become accustomed to purchasing them on an annual basis were very disappointed. As Director of the United States Mint, I appreciate the disappointment of these collectors, but I am encouraged to know that the Subcommittee is exploring the possibility of an amendment to the law that would afford the Secretary the authority to approve the minting and issuance of American Eagle Silver Proof and Uncirculated Coins even when we are unable to meet the public's demand for the bullion versions of these coins. American Eagle coin collectors and our many other customers who purchase these products as gifts would likely welcome such a change. Indeed, such a change would be one of the most positive customer satisfaction measures that could be taken to benefit your coin collecting constituents without having an effect on American's ability to acquire investment-grade silver bullion. We have already provided you technical drafting assistance that your staff have requested to accomplish this change; however, such a change needs to be enacted soon. We can mint 200,000 per month, and if we can begin by September, we will be able to produce about 830,000 one-ounce

silver American Eagle coins to meet collector demand for this product in the remaining months of 2010.

Numismatic Products

Our numismatic programs experienced some rough retail conditions in Fiscal Year 2009 as the economic conditions weakened retail sales across the country, and because we were unable to make the American Eagle numismatic coin products available for sale. Net revenue stood at \$41 million for the year; based on gross revenues of \$440 million, this means we successfully met our mandate that the numismatic program be self-sustaining while keeping our product prices as low as practicable.

The 2009 Ultra High Relief Double Eagle Gold Coin demonstrated the production excellence that can be accomplished using present-day technology to achieve the intent of classic American coinage. In addition, two 2009 commemorative coin programs were executed as authorized by law: the Abraham Lincoln Commemorative Coin Program and the Louis Braille Bicentennial-Braille Literacy Commemorative Coin Program. These commemorative coin programs are authorized, in part, to provide funding, through qualifying surcharges, to their designated recipient organizations. Total sales of the Lincoln Commemorative Coin were \$19.2 million with \$5 million being available to the Abraham Lincoln Bicentennial Commission to further its work. Total sales of the Braille Commemorative Coin were \$8.3 million with \$2.2 million available to the National Federation of the Blind to further its programs to promote Braille literacy.

This year we are carrying out the American Veterans Disabled for Life Commemorative Coin Program and the Boy Scouts of America Centennial Commemorative Coin Program.

2010, 2011, 2012 Coin and Medal Design, Approval and Production

The United States Mint is currently working on approximately 100 distinct coin and medal designs for programs from 2011 through 2013, including five Congressional Gold Medals or other medal programs, and more are expected. This is a large and challenging workload for our staff, artists, sculptor-engravers, die-makers and others who produce multiple designs for consideration by the parties that review this work, including the Citizens Coinage Advisory Committee, the U.S. Commission of Fine Arts, affinity organizations, and medal recipients or their designees. There is an enormous amount of behind-the-scenes planning and creative work by hundreds of individuals to meet the standards of excellence in design, manufacturing, and marketing to make these products successful. I am very grateful for the highly dedicated workers throughout all our facilities nationwide who make our work for the American public and for Congress possible.

COINAGE MATERIALS MODERNIZATION

Since 1982 alone, the taxpayers of this Nation have saved well over \$71 billion through the foresight of our predecessors who, in 1965, had the courage to change the composition of our coins from silver to their current clad composition. Unfortunately, we do not have accurate data (i.e., prevailing market silver prices, clad (cupro-nickel alloy)

prices and mintage volumes from 1965 to 1981). Seventeen years of additional savings are thus unaccounted for. Now, in 2010 we stand at the cusp of an opportunity to achieve additional savings by passing the Coinage Materials Modernization Act.

Fiscal Year 2009 operational results show that all circulating coin denomination per-unit costs—with the exception of the 5-cent coin—have increased from the previous year. The per-unit costs for the one-cent and 5-cent coins continued to exceed their face values in Fiscal Year 2009, as they have since 2006. The chart below depicts the production costs of each circulating coin:

COST OF PRODUCING CIRCULATING COINS – FY 09				
One-Cent	Five-Cent	Dime	Quarter	\$1
\$0.0162	\$0.0603	\$0.0565	\$0.1131	\$0.340

As my staff and I have met with Members of Congress to discuss the spiraling costs of our Nation’s coinage, we have heard only support and encouragement to come forward with a solution to address this problem. I am pleased that the Administration has taken an active interest in this matter and included a proposal in the Fiscal Year 2011 Budget (“Other Savings: Coinage Materials” attached).

The Administration proposal expands the Secretary of the Treasury’s authority to determine the weight and composition of the \$1 coin to all circulating coinage—the one-

cent, 5-cent, dime, quarter-dollar, and half-dollar coins. This approach will fairly and efficiently manage the highly technical evaluations of alternative materials using a transparent, open, deliberative, and market-driven process that will ensure the interests of all those parties that may be affected—be they vending machine operators, coin handling equipment manufacturers, banks, armored carriers, transit officials, or members of the general public—will be considered and appropriately served. Moreover, the proposal is a durable solution that would ultimately result in significant taxpayer savings by providing to the Secretary of the Treasury the flexibility to respond quickly to changing market conditions.

Saving Money

The current situation is unprecedented. Compared to their face values, never before in our Nation's history has the Government spent as much money to mint and issue coins and, with regard to the one-cent and 5-cent coins, never before has the Nation spent more to mint and issue a circulating coin than its legal tender value. This problem is needlessly wasting hundreds of millions of dollars.

However, the Department of the Treasury has decades of proven success in determining the materials for our highest and lowest coin denominations, and now we are proposing to save millions of dollars per year— over one billion dollars in the next 10 years—by determining the materials for the other coin denominations. This measure would affect the seigniorage earned by the United States Mint, revenue which is not included in the Federal Budget. As a practical effect, the savings realized from adopting

new materials for circulating coinage would not provide discretionary or mandatory offsets in the Federal Budget. Instead, the savings would reduce the U.S. government's need to borrow, providing a potential source of deficit reduction.

Congressional Precedent Exists for Delegating the Authority to Select Coinage

Materials to the Secretary of the Treasury.

I want to stress that delegating the authority to test and select alternative materials to the Secretary of the Treasury is a sound, legal, and proven approach to determining the composition of our Nation's coinage.

Twice in the last 50 years, the Government took action to protect our taxpayers from needlessly bearing the increased costs of coinage materials. In 1965, as the value of silver climbed because of industrial demand, Congress approved a change in the composition of the dime, quarter-dollar, and half-dollar coins from silver to cupro-nickel clad. Similarly, in 1974, Congress granted to the Secretary of the Treasury the authority to vary the copper-zinc alloy of the one-cent coin. After several years of rising copper prices, again because of industrial demand, the Secretary exercised this authority in 1982, changing the alloys in the one-cent coin to its present composition of copper-plated zinc. So history and economic reality tell us why we are in the current situation, and also tell us that it will recur in the future if we fail to act. That is why the Administration seeks a durable solution that will substantially reduce the cost our citizens must pay for the Nation's coinage now and in the future.

By delegating the authority to the Secretary of the Treasury to select circulating coinage compositions, Congress can be assured such changes will be made effectively. The United States Mint would accomplish these changes by employing an open, public process to determine new coinage materials. Specifically, we will seek public and industry comment to ensure consideration of all factors relevant to the acceptability of new coinage materials, including physical, chemical, metallurgical and technical characteristics; material, fabrication, minting, and distribution costs; material availability, sources of raw materials, and environmental impact; coinability; durability; effects on sorting, handling, packaging and vending machines; appearance; resistance to counterfeiting; and commercial and public acceptance. Once the agency has a comprehensive inventory of these factors and their relative significance, the United States Mint would then employ an objective, competitive, and public process to solicit and evaluate proposals for new coinage materials.

CONCLUSION

Congress has already delegated the authority to select the composition of some coins to the Secretary of the Treasury, and the United States Mint, has capably coined money under laws passed by Congress since 1792. Thirteen years ago, Congress passed the United States \$1 Coin Act of 1997, which granted to the Secretary of the Treasury the sole discretion to select the materials for the \$1 coin. The Administration's current proposal builds on these precedents established by Congress. Indeed, it does no more and no less than the United States \$1 Coin Act of 1997 did for the \$1 coin.

Thank you, Mr. Chairman and Members of the Subcommittee. I am here to answer any questions you may have.