H.R. 5512, THE COIN MODERNIZATION AND TAXPAYER SAVINGS ACT OF 2008

HEARING

BEFORE THE

SUBCOMMITTEE ON

DOMESTIC AND INTERNATIONAL

MONETARY POLICY, TRADE, AND TECHNOLOGY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

MARCH 11, 2008

Printed for the use of the Committee on Financial Services

Serial No. 110–98

U.S. GOVERNMENT PRINTING OFFICE

41–729 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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H.R. 5512, THE COIN MODERNIZATION AND TAXPAYER SAVINGS ACT OF 2008

Tuesday, March 11, 2008

U.S. House of Representatives,
Subcommittee on Domestic and
International Monetary Policy,
Trade, and Technology
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:33 p.m., in room 2128, Rayburn House Office Building, Hon. Luis V. Gutierrez [chairman of the subcommittee] presiding.

Members present: Representatives Gutierrez; Paul, Castle, Lucas, and Roskam.

Chairman Gutierrez. This hearing of the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology will come to order.

The subject of today's hearing is H.R. 5512, the Coin Modernization and Taxpayer Savings Act of 2008, an important piece of legislation that could save taxpayers well over $100 million annually by granting the United States Mint the authority to alter the content of coins if the cost of minting coins does not exceed each coin's face value.

I want to say good afternoon, and thank you to all of the witnesses for agreeing to appear before the subcommittee. On our first panel we will hear from the Director of the United States Mint, and our second panel includes a representative from the vending machine industry and a former U.S. Mint Director.

We will be limiting opening statements to 10 minutes per side, but, without objection, the record will be held open for all Members' opening statements to be made a part of the record. I yield myself 5 minutes.

Good afternoon. The purpose of today's hearing is to consider legislation that has the potential to save taxpayers over $100 million annually, by reducing the cost to mint $.01 and $.05 coins. Since March of 2003, increasing metal prices caused by high world demand for core metals have driven the cost of copper and nickel up by 300 percent, while zinc has increased by 450 percent. As a result, the cost of producing our Nation's circulating coins has increased dramatically.

In Fiscal Year 2007, it cost nearly $.02 to make each penny, and $.10 to make a nickel, needlessly costing the American taxpayers nearly $100 million last year, alone. These losses will continue to mount unless we act to change the metallic content of our $.01 and $.05 coins.

The penny and the nickel have been in the negative situation since 2006. Prior to 2006, the government had never before spent more money to mint and issue a coin than the coin's legal tender value. The U.S. Mint anticipates that by changing the composition of just the penny and the nickel to less expensive materials, we can save the government hundreds of millions of dollars without compromising the integrity or utility of these coins.

In a July 2007 letter to Congress, the Treasury Department, with the support of the Office of Management and Budget, requested that legislation be put forward granting the Secretary of the Treasury the authority to change the metallic composition of coins. H.R. 5512, the Coin Modernization and Taxpayer Savings Act of 2008, gives the Treasury Secretary the requested authority.

Under H.R. 5512, the Secretary will have the power to change the metallic content of coins: half dollar; quarter dollar; dime; nickel; and penny. The bill requires the Secretary to consult with related industry and consider factors related to the effect the changes in coin content may have on the industry.

In addition, the bill mandates that the Secretary enter into a formal rulemaking when making changes to the content of coin. The bill further requires the Mint to begin production of a steel penny within 6 months of enactment. This should result in immediate and substantial savings to taxpayers.

For coins besides the penny, the legislation requires that production costs for a coin would have to exceed the coin's face value for 5 continuous years before the Mint's authority to change the content is effective. This retroactive 5-year look-back not only makes certain that the trend in rising metal prices is established in the market and not temporary, but also provides some security to companies and their workers who partner with the Mint in creating new coins.

If we continue minting coins with the current metal level, with each new penny and nickel we issue we will also be contributing to our national debt by almost as much as the coin is worth. These losses are mounting rapidly, and with commodity prices forecasted to stay near existing levels for several years, we need to act immediately to give the Mint the flexibility to lower the cost of producing the penny and the nickel.

I believe that H.R. 5512 will give the U.S. Mint the authority it needs to make the necessary changes to our coins without creating an undue burden on the relevant industries or causing a disruption in the minting process. As always, I look forward to a vigorous debate, and I yield 5 minutes to the ranking member, Congressman Paul.

Dr. PAUL. Thank you, Mr. Chairman. Mr. Chairman, I have no objection to changing the content of the penny. But I do oppose H.R. 5512, because it is unconstitutional to delegate the determination of the metal content of our coins to the Secretary of the Treasury. Under Article 1, Section 8 of the Constitution, the Congress is given the power to coin money and regulate the value thereof.

It is a shame that Congress has already unconstitutionally delegated its coinage authority to the Treasury Department. That is no reason to further delegate our power, and essentially abdicate congressional oversight, as the passing of H.R. 5512 would do.

Oversight by Members of Congress who have an incentive to listen to their constituents ensures openness and transparency. This bill would eliminate that process, and delegate it to unelected bureaucrats. The Secretary of the Treasury would be given sole discretion to alter the metal content of coins or even to create nonmetal coins.

Given the history of congressional delegation and subsequent lax oversight on issues as important as the conflict in Iraq, it would be naive to believe that Congress would exercise any more oversight over an issue as unimportant to most Members as the composition of coins.

While I sympathize with the aim of Section 4 of this bill, to save taxpayers' money by minting steel pennies, it is disappointing that our currency has been so greatly devalued as to make this step necessary. At the time of the penny's introduction, it actually had some purchasing power. Based on the price of gold, what one penny would have purchased in 1909 requires $.47 today. It is no wonder, then, that few people nowadays would stoop to pick up any coin smaller than a quarter.

Congress's unconstitutional delegation of monetary policy to the Federal Reserve, and its reluctance to exercise oversight in that arena, have led to a massive devaluation of the dollar. If we fail to end this devaluation, we will undoubtedly hold future hearings as the metal content of our coins continues to outstrip the face value.

H.R. 5512 is a sad commentary on how far we have fallen, not just since the days of the founders, but only in the last 75 to 100 years. We could not maintain the gold standard, nor the silver standard. We could not maintain the copper standard. And now, we cannot even maintain a zinc standard.

Paper money inevitably breeds inflation and destroys the value of the currency. That is the reason that this proposal is before us today.

And, Mr. Chairman, I have a brief unanimous consent request to make here, if I could, sir. Mr. Chairman, I also want to introduce a few items into the record at this point.

I have a letter from the Mint to Congress from 2 years ago detailing the cost of production of the penny and the nickel, and a news story, about 2 months later, that quotes a Canadian mint official as saying its copper-coated steel penny made in the same factory as a U.S. cent costs 7/10 of a cent.

I would also like to request that the Mint supply us with some things that can be made part of the record: The alternative material study referred to in the 2004 Mint annual record, and work papers leading to the production of that report; also, any other Mint internal or public reports since the 1973 report that detailed possible alternative materials.

I believe there was one in 1980, and summaries of Mint contracts with outside firms in the late 1980's and early 1990's, as the Mint sought other sources of coin materials. I believe there were at least three companies involved in that R&D.

Chairman GUTIERREZ. Without objection, it is so ordered.

Dr. PAUL. Thank you.

Chairman GUTIERREZ. Has the ranking member concluded?

Dr. PAUL. You want me to recognize him?

Chairman GUTIERREZ. It is okay, I will. Mr. Castle, you are recognized for 5 minutes.

Mr. CASTLE. Well, I will not take more than 1 minute. I would like to thank you, Mr. Chairman, for the hearing.

I am also very concerned about the cost of making the penny. The gentleman from Texas, Mr. Paul, raises other concerns that we have to think about, as well.

I am also concerned about the cost of making a nickel and I think we do need to address these issues in this country. There is no question in my mind that we cannot pay more to make our coinage than it is worth. It is that simplistic, regardless of how things are going to be changed.

So, I think this is an appropriate hearing and an appropriate subject. I do not know if I know the exact way correct it, but the bottom line is that something clearly has to be done. And with that, I yield back.

Chairman GUTIERREZ. Mr. Roskam, would you like to be recognized, sir?

Mr. ROSKAM. Thank you, Mr. Chairman. Thank you, Mr. Chairman, for holding this hearing, along with Ranking Member Paul.

Recently, the humble penny has created quite a controversy. And why is it that a copper-coated zinc coin has created such a fuss? Well, it's easy. It costs $.017 cents to make each one, actually more than it's worth, as we've heard already. And, at current production rates, the Federal Government spends more than $134 million to produce 8 billion pennies annually, at a cost of $54 million to the taxpayer.

At the request of the U.S. Mint, legislation was introduced last year to transfer congressional authority to determine coin composition and weights to the U.S. Mint. The Mint has argued that Congress is slow to deliberate, and that it currently doesn't have the authority to perform the research necessary, and the development on its potential component modifications.

But the truth is, Mr. Chairman, I think, quite to the contrary. The Mint does have the R&D authority. The Mint research leading to the change in content of the $.01 coin included work in the Research Triangle Institute in North Carolina, and with the Ball Corporation, which had a division in Tennessee, now a separate company that produces penny blanks.

Also, it seems to me that the Mint has been the leader in slowing down changes to coin components. In the 2004 Mint annual report, it was stated that the first comprehensive coinage materials study for circulating coins had begun. The objective was to review and consider cost-effective alternatives or alternative materials for current and future coin denominations. This study, to my knowledge, was never completed.

Additionally, when the Mint sent a letter to Congress in 2006 saying the cost to produce the penny would rise to nearly $.017, no recommendations from the Mint have since followed.

I oppose ceding Congress's constitutional authority, held since 1792, to the U.S. Mint. And so, I introduced H.R. 4036, the Cents and Sensibility Act, last fall, along with the gentleman from Delaware, Mr. Castle. I introduced this bill to ensure taxpayer dollars are saved in the production of the penny by immediately changing the composition of the penny to copper-coated steel, and requiring the U.S. Mint to swiftly make recommendations on a comprehensive reworking of the metallic content of other circulating coins, so that Congress can consider and vote on the proposals.

My bill ensures that this will be done, making sure that no American jobs are threatened by the changes, without simply transferring the cost from the government to business and consumers, and without handing over congressional decision-making powers to entities where it doesn't belong.

In today's hearing, we will be discussing newly introduced legislation that was introduced by our colleague, Zack Space, H.R. 5512, the Coin Modernization and Taxpayer Savings Act of 2008.

I was pleased to discover that a section of my bill was incorporated into this one. Some may call that legislative larceny, but I call that a compliment, and I am delighted to see it. The inclusion of the modification of the components of the penny from copper-coated zinc to copper-coated steel will slash the cost to make the penny, and I look forward to hearing the entire testimony today.

And, with that, I yield back the balance of my time.

Chairman GUTIERREZ. Thank you, Mr. Roskam.

We are pleased to have with us the Director of the United States Mint, Mr. Edmund Moy. Mr. Moy was sworn in as the 38th Director of the U.S. Mint on September 5, 2006. As Mint Director, Mr. Moy leads the world's largest manufacturer of coins, metals, and coin products.

Prior to becoming Director, Mr. Moy was a Special Assistant to the President for Presidential personnel at the White House. Prior to his current public service, Mr. Moy spent 8 years working with venture capital firms and entrepreneurs, including the Wall Street private equity firm Welsh, Carson, Anderson & Stowe.

From 1989 to 1993, he served in the Federal Healthcare Financing Administration at the U.S. Department of Health and Human Services, as Director of the Office of Managed Care. In that position, he was responsible for overseeing $7 billion in annual expenditures to Medicare- and Medicaid-managed healthcare programs.

From 1979 to 1989, he was sales and marketing executive for Blue Cross Blue Shield United of Wisconsin. He graduated from the University of Wisconsin in 1979 with a triple major: economics; international relations; and political science.

You are recognized for 5 minutes, Mr. Moy.

STATEMENT OF THE HONORABLE EDMUND C. MOY, DIRECTOR, UNITED STATES MINT

Mr. MOY. Chairman Gutierrez, Ranking Member Paul, and members of the subcommittee, thank you for inviting me here today to testify on the Coin Modernization and Taxpayer Protection Act of 2008, H.R. 5512.

Chairman Gutierrez, first a personal note. Thank you for your leadership on this issue, to try to save taxpayers money, and I appreciate this opportunity to have a public discourse about it.

Due to the spiraling costs of nickel, copper, and zinc, the United States Mint will lose about $100 million this year on pennies and nickels. High metal costs for these low-denomination coins have become an unsustainable and unnecessary drain on the U.S. Treasury and on taxpayers.

To solve the current problem and prevent it from occurring with other denominations, the Treasury Department has asked for the authority and flexibility to determine the metal content of all of the Nation's coinage, using an open, transparent, and public process. I enthusiastically support legislation that maximizes taxpayer savings, and I am encouraged by several provisions of H.R. 5512.

Congress has proven that by giving the Secretary of the Treasury authority to test and select alternative metals, that is the best solution to the problem of rising metal prices.

In 1974, Congress authorized the Secretary of the Treasury to vary the contents of the penny to save money, authority that the Secretary exercised 8 years later, saving the taxpayers money by changing the penny from a copper-zinc alloy to copper-plated zinc.

Eleven years ago, Congress granted the Secretary of the Treasury sole discretion to select materials for the $1 coin. This has also proven to be cost effective for the taxpayers.

The Department is asking Congress for the same authority for all circulating coins that Congress granted to the Secretary for the $1 coin. Consequently, we object to those provisions of H.R. 5512 that differ from the Department's proposal.

The first provision we oppose mandates sustaining 5 consecutive years of losses before taking action to protect the taxpayers from rising metal costs. In the current case of the penny and the nickel, losses after 5 years would add up to half-a-billion dollars, which is just the kind of taxpayer burden that we're trying to seek to prevent.

A related concern with this provision is that it may hurt the vending and coin handling industries. Under the Treasury proposal, adjustments to vending machines and systems could be accomplished at the same time, rather than denomination-by-denomination.

A second provision of the bill mandates that pennies be made primarily of steel 180 days after the law's enactment. We oppose this provision because it leaves the public out of the process of selecting coinage materials, and because of several practical considerations.

The Treasury Department's proposal would employ an open, transparent, and deliberative public process to consider new material for all of the Nation's coinage, including the penny. What is good for all of the other denominations is also good for the penny.

Also, steel may not be the panacea. It is significantly harder than zinc, so we must test the life of our dies to determine whether the cost can be reduced by switching to steel. It doesn't make sense to reduce the cost of materials used in the penny if they are offset by higher manufacturing costs by replacement dies.

The United States Mint will also need 90 to 150 days to provide specifications to potential vendors for a copper-plated steel penny blank, with the potential of reducing the penny's cost. Potential vendors supplying penny blanks will need at least 18 months to procure steel feedstock, and to make machinery investments. A reasonable timeframe for us to properly implement a steel penny mandate would be 18 to 24 months.

I applaud and thank the subcommittee for seeking to solve the penny issue quickly. I only caution that several other countries have tried to resolve this problem of high metal prices with steel, and it has not proven to be a long-term solution.

The subcommittee and the Treasury Department desire to save taxpayers money, and serve the very best interests of the country. So I am confident that, by working together, we will find the best solutions to the rising cost of our coinage.

The Department of the Treasury and the United States Mint can support H.R. 5512 if two objectionable provisions are removed. And, if they are removed, the United States Mint is poised to begin implementing the legislation the instant it is approved.

So, thank you, Mr. Chairman, for the time provided for me today, and I look forward to discussing this with you and your colleagues.

[The prepared statement of Director Moy can be found on page 35 of the appendix.]

Chairman GUTIERREZ. Thank you, Director Moy. I ask unanimous consent that the following documents be entered into the record: Number one, the memorandum to me from the Congressional Research Service regarding the constitutionality of congressional delegation of the authority to dictate the metallic content of coins; number two, a written statement from Congressman Zack Space; and number three, letters from related industries interested in the bill.

Without objection, it is so ordered. And now I will yield myself 5 minutes.

Director Moy, first, some comments on your testimony. Regarding the 5-year look-back provision, you state that because of this provision, H.R. 5512, "assures that a significant portion of the $782 million in seigniorage we return to the taxpayer in Fiscal Year 2007 will be put at risk over time."

I think that statement could be misleading because it includes, as I read your testimony, the negative seigniorage for the penny and the nickel for 2007. So it may be open to debate to state that a substantial portion of that amount would be put at risk, when it already includes the losses for negative seigniorage.

Furthermore, your statement ignores any savings or positive seigniorage from the penny, and ignores the fact that your provision is retroactive, and that we are already in the third year for the nickel. So, unless the Mint could simultaneously and immediately alter the content of the penny and the nickel—and you have testified that it will take at least 2 years, just to change the penny—I think that statement might not be helpful.

Finally, your assessment of this section of the bill fails to note that nothing in the bill prevents the Secretary from coming to Congress with specific recommendations on changing the content of other coins, prior to the 5-year coin.

We are here to work with you, Director, and I understand that the Mint wants flexibility. But Congress needs to maintain some control over the process, and we believe the 5-year provision allows for some spikes in the metal markets that may not be long-term trends.

Congress isn't giving the Secretary a free ticket to change the content of coins without justification; there has to be substantial justification. And if that presents itself in a period of less than 5 years, then the Secretary can come to Congress to ask for specific changes at that point.

Let me ask the Director, would the Mint support the 5-year loss test if the Mint had research and development authority during the interim? In other words, let us say that the Mint could conduct R&D at any time on new composition of any coin. Then, when the coin goes into negative seigniorage, the Mint is ready. And if the Mint believes that it has the best alternative already for the full production, it requests that Congress waive the 5 years, or whatever is remaining in the 5 years. Is that something that would make you more comfortable, as Director?

Mr. MOY. Thank you, Mr. Chairman. That is a very good point. I am open, as you know, to working through that particular issue.

What we are trying to do—and I have a great respect for Congress, and so, you know, part of what has been institutionally an issue has been whether the Mint has explicit or implicit authority to act on its own in research and development. What you propose helps clear that up. And, as a result, I would be supportive.

But, overall, what I am concerned about is—and I think your point kind of addresses this—not only am I concerned about negative seigniorage, I am also concerned about the erosion of seigniorage. So, I don't want to just wait until the coin begins losing money, meaning it costs more than the face value to make, but, like on the quarter, where it only costs us $.09 to make a quarter, I don't want to see that $.09 go to $.25 and lose that benefit to the taxpayer before making a change.

Chairman GUTIERREZ. Thank you very much. I recognize my ranking member, Congressman Paul, for 5 minutes.

Dr. PAUL. Thank you, Mr. Chairman. I only have one question, and it has to do with who makes the final decision. And you understand the problem, we understand the problem, and I am just concerned about how we do it, and the process.

So, what would be wrong with you just offering your suggestions to the committee, and we put it in a piece of legislation and pass it? That would satisfy me, as far as the responsibility and authority goes. What would be wrong with doing it that way?

Mr. MOY. It has been done several ways throughout history. But, most recently, Congress has given a considerable amount of flexibility to the Mint, and to the Secretary of Treasury, to make these decisions.

What would be helpful to the Mint is if Congress specifically tasked the Mint to address this question. And since I have been Mint Director, I have not been specifically asked to come up with a solution. But once tasked with that, that would then give us the ability to have an open proposal process.

Number one is to get the best ideas in the country to solve that problem within the criteria that we lay out. And then, secondly, once we determine what the best solution might be, then to get the lowest bid for that particular solution, which is why what you're saying is, I think, doable. But what the Mint right now is proposing gives us the most flexibility in getting there.

Dr. PAUL. So what I am suggesting has been done that way in the past?

Mr. MOY. It has.

Dr. PAUL. And, although it has been done in the current—the way you are suggesting, it has been done both ways—technically, I think the responsibility is here.

So, I would strongly urge the committee to consider us, you know, respecting that responsibility, and maybe asking the Mint to actually offer the suggestions, and maybe we can put it in the form of legislation. I yield back my time.

Chairman GUTIERREZ. Thank you very much. Mr. Castle?

Mr. CASTLE. Mr. Director, has there been any study with respect to the elimination of the penny? I mean, I have done my own little surveys on it, but I don't know if anything official has been done.

Mr. MOY. Yes. That is probably a bit above my pay grade—

Mr. CASTLE. A bit above mine, too, by the way.

Mr. MOY. —to talk about the elimination of the penny. But I will say a couple of brief things about this.

First of all, the Mint is a government agency, so we are here to serve the American people. If the American people decide that there should be no penny, then the Mint will do its best to accommodate that.

Second, the purpose of the Mint is to satisfy the demands of the American people. Currently, the American people continue to demand the penny. And so, therefore, our priority, then is—if we have the obligation to make it, we need to make it as efficiently and as cost effectively as possible, which is why we're discussing this in the hearing.

The elimination of the penny would have a minimal impact on the Mint, from a human resources perspective, because most of our circulating coins are run through a very automated process. But it would have an effect on costs, a long-term for the rest of the Mint, because last year we produced 16 billion coins; 8 billion of them, half of them, were pennies. And if we don't make pennies any more, you have a lot of idle presses, of which you have to spread those fixed costs around the rest of the coins you make.

Mr. CASTLE. Let me tell you what I do, and I will bet you 75 percent of the people in this room do it, and 75 percent of the people in the country do it. When I get change, particularly low-level change, I stick it in an old beer mug I have from college, and it sits there. And, you know, maybe after 2 or 3 years, my wife will change it in, somehow or another. But it takes the pennies out of circulation almost as immediately as they are put into circulation.

Do we ever make an effort to try to keep them recirculating so we do not have to make as many pennies, or is that a PR campaign that we just don't want to undertake?

Mr. MOY. You know, one of our observations has been that yes, that is the case. My wife is extremely organized, so I have the penny tube, the nickel tube, the dime tube, and then she packs it up and brings it to the bank once it gets full. But, yes, they're out of circulation for a while, whether for a week or for 3 years—as in your case.

But what we have seen over time, is with coin sorting companies like Coinstar, they have set up and, you know, people can't hold coins forever. And so, eventually, they turn them in. And these coin sorting companies have been for around for a long time now. Eventually, all the pennies out of circulation are getting back into circulation again.

And so, what we have seen, though, is in the past 5 years or so, penny production has been very consistent. We constantly replace about 5 percent of the penny supply out there, which means consistently there is a slight increase in demand from year to year.

Mr. CASTLE. Just a final question. I realize that the cost of producing pennies is higher than their actual value, and the same goes for the nickel, I guess. Is this correct?

Mr. MOY. Yes.

Mr. CASTLE. Where are we with the dime and the quarter? How close are they at this point?

Mr. MOY. Let's see. The dime is probably around $.07 right now, the quarter is about $.10. Why we're also proposing that all coinage be looked at is if there is a possibility of reducing the quarter's cost from $.10 to $.05, and yet not affect the vending industry, etc., that is a greater savings to the taxpayer.

And so—but right now, both the dime and the quarter and the dollar coin are still in positive seigniorage.

Mr. CASTLE. Thank you, Mr. Chairman. I yield back.

Chairman GUTIERREZ. You know, we will be right back. We have one vote. So why don't we go vote, and we will be right back. That way, Mr. Roskam can have his full 5 minutes. I want to be sure that he gets to ask all of his questions.

This hearing is recessed.

[Recess]

Chairman GUTIERREZ. Congressman Roskam, for 5 minutes.

Mr. ROSKAM. Thank you, Mr. Chairman. Director, just a quick question for you.

Can you tell me the nature of your understanding of the authority to do research and development as it relates to the mix of coins? Because it seems to me that there is some ambiguity right now. I am sensing in your answer previously to Mr. Paul that you didn't feel like you had the research and development authority but I am also—you know, it seems like, in the past, the Mint has had that, in terms of aluminum coins, you know, some of those types of things.

Mr. MOY. Yes.

Mr. ROSKAM. Is there an ambiguity in your—in the authority? Has it never been resolved? Or was authority granted by Congress in one instance and not the other? Could you speak to that?

Mr. MOY. Yes, I certainly can. And I think it is all of the above. There certainly is ambiguity—

Mr. ROSKAM. Wrong answer.

Mr. MOY. Okay. But, let's see, maybe the best place to start is we certainly believe that we have the authority to do internal research, which we have done.

We have examined over 70 different alloy combinations that fall roughly into 12 different categories. We have a general idea of what may work and what might not work. Where we don't think we have the authority is to take it to the next step, which is begin the testing on it, which requires us to procure, you know, test blanks, and all this experimentation, which ends up costing a lot of money, doing that.

And then, you also have the issue of, once we start doing that, you have existing suppliers and vendors who may feel threatened about it, don't think we have the authority, and may file to have us slow down, etc. And so, part of this is to help clarify whether we have explicit authority to do what.

I think it is a worthy question for us to be discussing—

Mr. ROSKAM. That makes sense to me. Can you speak to the authority that the Mint has had in the past to do things? In other words, on other mixes of metals, have you had the ability to explicitly—have you explicitly had the authority of Congress, or did you get an opinion from counsel that said, "Hey, we can do this, just go ahead and sin boldly?"

Mr. MOY. No, I tend to be kind of a cautious person, especially when it relates to Congress, because I want to get it done right—

Mr. ROSKAM. Listen, if you are putting nickels, dimes, and quarters in a row, you are very cautious.

Mr. MOY. Yes. And so, regarding taking a look at that authority, our research has shown that there have been a couple of explicit instances where Congress has said, "Mint, you have the authority to vary the metal content."

The first was in 1974, with the penny, which allowed the Mint—which basically said, "Pennies have to be made out of zinc and copper, but the Mint can choose what percentage of each." Originally, it was mostly copper and a little bit of zinc, and, because of the rising price of copper, all the Mint did was reverse the percentages, so it was mostly zinc with the copper plating. So, on that one, Congress specifically said, "Mint, you have that authority."

The second one was with the dollar coin. With Sacajawea in 1999, the legislation that authorized that specifically said it was up to the Secretary of the Treasury to figure out what the best metal content is: "We are even going to throw out the weight and a number of other things, to give you the most amount of flexibility."

Now, in exercising that flexibility, we were very careful to make sure we consulted with industry, tried to make sure there was enough materials, etc., etc., which narrowed the scope of things you can look at. But we did have complete authority.

Mr. ROSKAM. Could you live with just the authority to do that research and development to that next step, not just internal but external, so that is not ambiguous, but with Congress retaining the ultimate authority for what the content is? You could live with that, right?

Mr. MOY. Yes. You know, certainly that—yes, I could live with that, because it moves us in the right direction.

But it is also not optimal, because we have not really had to deal with this issue for a long time, because metal prices have been very stable for 30 or 40 years. They have been relatively a flat line. Really, take a look at the last 3 years. They have gone dramatically upwards, and then spiked a lot.

So, what the concern here is, you know, what might be right today might not even be right 6 months from now. And that is a lesson that we have learned from Canada. Canada has gone to a steel penny, but not exclusively. Canada's mint has the authority to switch to whatever metals.

And they frequently go from zinc to steel, back to zinc again, for two reasons: First, cost—sometimes zinc is cheaper, sometimes steel is cheaper; and second, accessibility, which—plated steel is not easily accessible, or you can't get enough quantities.

Mr. ROSKAM. I got it.

Mr. MOY. Yes, right.

Mr. ROSKAM. Is there a third way, and that would be to come up with an approved—that Congress would give the authority for X, Y, and Z, and then you choose within that mix, but then you don't have the authority to act as a Lone Ranger, and come up with something on your own? You could live with that, couldn't you?

Mr. MOY. Yes. And, again, I—you know, what you have proposed moves us in the right direction. You know, from the Mint's perspective, it doesn't give us optimal flexibility, but it does give us some. And certainly that is better than where we are today.

Chairman GUTIERREZ. The time of the gentleman has expired. Congressman Lucas, you are recognized for 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman, and I appreciate you holding this hearing on this important topic. I apologize for my late arrival, but as always, there are lots of things going on at once here in Congress.

Director, first off, let me say that, as one of the many Members of Congress, and certainly the public out there, I take with great interest the things that you and your staff do at all of the facilities of the United States Mint. And I have been very impressed with the efforts to become more open, to catalog your historic records, and in effect, to open your attic up to America's numismatists. That is a very important thing to do.

Ironically, as we look at this proposed piece of legislation, the Coin Modernization and Taxpayer Savings Act, I can't help but think that perhaps we need to look at the entire picture for just a moment, if you would, Director, about how your agency's function has changed in the last couple of centuries, how our very monetary system has changed.

When your predecessors began in 1793, every coin had that value of metal in it. A one cent piece had one cent worth of as close to pure copper as they could find. Every silver dollar had a dollar's worth of silver in it, or as close as they could possibly get.

But things have changed. After 2 centuries of inflation, the world is not what it once was. We don't make half cents any more, we don't make $.02 pieces, or $.03 pieces. I don't think you make very many $.50 pieces for actual commerce any more. Things have changed.

So, I guess my observation to you is perhaps, Director, maybe in addition to looking at the metal content of our various coins, maybe we need to sit down and reassess what we make, and how it fits in the commerce stream, and whether we should be making certain items or not. And I know that fires up the emotion in certain places around the country.

But, clearly, the $.01 piece that would have been used when my father was born in 1931 doesn't go very far, compared to the purchasing power of a $.01 piece at this day and time. And I am not so sure that those $.50 pieces that the public doesn't want to carry in their pockets would buy what that $.01 piece would have bought the year my father was born.

So, I guess what I am asking you is, looking in your crystal ball, have you considered at the Mint at what point in time certain denominations simply aren't practical to make any more? Have you considered that in your overall scheme of analysis?

Mr. MOY. Yes. I have, from a very informal perspective, but not a very formal studied and researched perspective.

The two comments that I would offer is, you know, one indicator of the demand for coins is how many coins banks order to the Federal Reserve and the Federal Reserve places with us. And currently, there is still demand for all denominations. And so that is at least one indicator that the American people like the current mix of coinage.

But the broader issue that you bring up—which I think is a worthwhile question, and I'm not sure we're going to get to an answer in this particular forum—is like the European Union had a chance to start from scratch, their currency. And what we have seen worldwide is a trend toward higher denomination coins, because they last longer, and a movement away from lower denomination coins.

And so, I think if there is any crystal ball that is relatively accurate, that is a worldwide trend.

Mr. LUCAS. Very good point, Director. I would agree, wholeheartedly. If you look at the things that we have made in the past—and, of course, we didn't start out making this size of a $.01 piece, we certainly didn't start out making something we refer to commonly as a nickel.

And the question not necessarily for you to answer, but the question I think we have to consider as Congress, since it is, as I assume—my friend, Congressman Paul has clearly noted—our constitutional responsibility on these issues, to consider whether we need to make $.01 pieces. Should we return to the half-dime of the days of old, which was half the weight of a $.10 piece, and step away from the nickel? Do we even need to make $.50 pieces any more? Should we be looking at $5 or $10 coins?

I think that that is outside of the realm of this bill, but it is something that this committee/subcommittee/full committee/Congress should be looking at. Do we need to truly modernize the system, as opposed to put Band-aids on, and patch around the edges?

And, with that, I appreciate my chairman's very patient time allocation here, and would note that I would like to, Mr. Chairman, submit some written questions to our friends at the Mint at the conclusion of this hearing. And thank you for having a hearing.

Chairman GUTIERREZ. Without objection, it is so ordered. Thank you very much, Director Moy.

Mr. MOY. You are welcome, Mr. Chairman.

Chairman GUTIERREZ. I appreciate your testimony here today. And maybe we can figure out how the government does like the private sector, you know, they account for fluctuations in the market. They buy futures, and they get stock, and they kind of figure it out.

But, in the interim period, we're going to continue working with you. Thank you so much for your testimony today.

Mr. MOY. I appreciate your leadership on this.

Chairman GUTIERREZ. Thank you. And we have—testifying on our second panel, we have got a change, and thank you so much.

Testifying on our second panel, we have a former Mint Director and former Member of Congress, Jay W. Johnson. Mr. Johnson was appointed by President Clinton as the 36th Director of the U.S. Mint in May of 2000. During his tenure, the Mint set new records for the total amount of coins produced, and total revenue for the U.S. Treasury.

In 2000, Mr. Johnson also served as Chief Advisor to the Executive Director of Marketing for U.S. savings bonds, responsible for nationwide marketing, promotion, and publicity. Previously, Mr. Johnson was Deputy Assistant Secretary for Congressional Relations for the Department of Agriculture. From 1997 to 1999, Mr. Johnson served as U.S. Congressman from Wisconsin's eighth district.

Mr. Johnson currently serves as an independent communications consultant and an advisor on coin and information technology matters. His broadcast media communications experience was garnered throughout his career while working as a television and radio anchorman, reporter, and producer for various stations in Wisconsin, Florida, Indiana, and Michigan—over 30 years, between 1965 and 1996.

Mr. Johnson received his master of arts degree in radio, television, and political science from Michigan State University; a bachelor's degree in speech and radio television from Northern Michigan; and he also served in the U.S. Army from 1966 to 1968. Please, would you give your testimony, Mr. Johnson?

STATEMENT OF THE HONORABLE JAY W. JOHNSON, CONSULTANT, COLLECTOR'S UNIVERSE; FORMER DIRECTOR, UNITED STATES MINT; AND FORMER MEMBER OF CONGRESS

Mr. JOHNSON. Thank you very much, Chairman Gutierrez, and Ranking Member Paul. And, again, other members of the committee, I appreciate very much your having this hearing.

When I was Mint Director in 2000 and 2001, it still cost us less than a penny to make a penny. But even then, the margins were slim. And we all knew that, inevitably, the cost of the minting of $.01 coins would result in negative seigniorage. It hasn't taken long for the cost of metals, materials, and manufacturing to overtake the actual value of the $.01 and $.05 coin.

So, it makes good sense to give the Department of the Treasury and the U.S. Mint the power to make the appropriate coin composition changes, so the Mint will not continue to lose money by minting our smallest coins.

In fact, it has happened many times before, as we have heard in the testimony. In the 1960's, the Mint acted very quickly—in fact, within a matter of months—as it saw the rising price of silver, to change the metal composition of coins to eliminate the costly silver from the current circulating coinage, and replace it with the so-called sandwich metal composition, which we have in use today. Congress passed a bill September 5, 1962, to give authority for the

95 percent copper and 5 percent zinc coins, eliminating tin from the make-up of the coin.

In terms of the $.01 coin, I wanted to quote a recent book, “History of the U.S. Mint and its Coinage,” by David Lange, who writes of a period in the 1970’s as he says, “Inflation continued to plague the lowly cent, as its metallic value periodically approached its face value, though the cost of recovering this copper negated any potential profit. The threat of rising copper prices prompted Congress to grant the Mint permission to change the cent’s composition whenever needed, to avert a crisis. And history has shown that the changes in coin composition can be made quickly and easily when the need and desire to make that change are deemed important.”

Since I left the Mint and the government, I remained in the coin and numismatic business, and I have noted the interest among coin collectors as to the future of the penny and the nickel. Their concern is exactly the same as most citizens, that the government is losing money by continuing to make $.01 and $.05 coins that nearly double their face value to manufacture.

They have also a numismatic interest, in that any change in coinage, whether it be the obverse or reverse design, or metallic make-up, creates a new variety or type of coin, and thus another numismatic change which, perhaps not noticeable by the general public, will become another turning point in the history of the $.01 and $.05 coins.

In fact, what will mark next year the 100th anniversary of Lincoln’s image on the obverse of the $.01 coin, the internal make-up or metal content of this coin has changed many times, all of this of interest to collectors, because every change, even slight ones, create a new type or subset of the penny, which continues to look essentially the same to the average consumer.

As one collector told me, all of the changes in coinage, be they design change, or metal composition changes, enhance the collectability of that coin, and that is good for the numismatic industry. One thing they might not like, they told me, is a metallic change which will change the appearance too much, since collectors, like a lot of folks, appreciate tradition.

They also will not like a metallic composition which will not wear well, or tarnish easily, or not even look or feel like the traditional penny.

All changes in coinage, said another numismatist, are just intriguing to the collector, and another reason for saving them. It is this changing history of the penny that is the so-called Indian Head Penny, or the Wheat Years Penny, or, indeed, the metal composition, which just adds to the numismatic history of the penny.

During a time of war, the Mint had the power and used it to find the most economical and feasible ways to save money by making coins of different materials. Again, the Mint, acting on the wishes of Congress, moved quickly. Congress approved the steel cent December 18, 1942. Production of the new steel cent began less than 3 months later. I brought a visual example of one.

In 1944, because many $.01 coins were still in use for parking meters and other coin operated mechanical devices, the Mint heard the complaints of citizens and owners of coin-operated devices, and went back to using a form of brass. The brass cents were regularly seen as late as the 1970's.

Today, also in a time of war, the Mint and Treasury need the power and authority to make the best use of its own staff and the resources, as well as suppliers, to find the most inexpensive way to continue to make the $.01 and $.05 coins for less than their face value. I have no doubt the U.S. Mint will do its best work to accomplish this.

[The prepared statement of Mr. Johnson can be found on page 32 of the appendix.]

Chairman GUTIERREZ. Thank you very much. Next, we have Michael Brown, currently at Barrick Gold Corporation, vice president, U.S. public affairs in Washington, D.C., and Nevada. He formerly served between 1981 and 1989, at the United States Mint as Special Assistant to the Director, and press secretary in Washington.

He has a bachelor of science degree from Ohio State University, and an MBA from George Washington University.

You are recognized for 5 minutes.

STATEMENT OF MICHAEL J. BROWN, VICE PRESIDENT, U.S. PUBLIC AFFAIRS, BARRICK GOLD CORPORATION; MEMBER, CITIZENS COINAGE ADVISORY COMMITTEE; AND FORMER SPECIAL ASSISTANT TO THE DIRECTOR, UNITED STATES MINT

Mr. BROWN. Thank you, Mr. Chairman. I had the pleasure of working for many years with the former Subcommittee on Consumer Affairs and Coinage, and working closely with Chairman Frank Annunzio of Chicago during that time, and I also worked with Congressman Paul during his first term of service in the House, to help make the American eagle gold bullion coin a reality.

I come to you today as a private citizen. I have been involved in coinage since 1981. And, after meeting Mr. Johnson, I have now known every Mint Director since Eva Adams in the Kennedy Administration. I am registered to lobby for Barrick, here in Washington, D.C., but they have no interest in this legislation, or any other coinage matters before Congress.

I am a huge fan of Director Moy. The technical innovations he has brought to the United States Mint are phenomenal, and I would encourage the committee to visit the Philadelphia Mint, to see that.

Today we are experiencing what is called a super cycle in the demand for commodities, particularly in base metals. The rapid industrialization of China and India has fueled a demand for precious and base metals that we have not seen since the industrial revolutions of the United States and the United Kingdom.

Prices for base metals are at record highs. Recycling rates for metals are at record levels. I have spent a lot of time in Nevada. I see, regularly, reports of people stealing copper from construction sites, including stealing copper from energized electrical lines.

No one knows when or if this cycle will subside. But a consequence of this super cycle is the effect it is having on our domestic coinage, particularly the penny, a coin that Chairman Annunzio would call the "Kleenex of coins," because it was disposable, but when you need it, nothing else would do.

This is not the first time Congress has had to consider the effect of rising commodity prices on the coinage system. In the mid-1960's, the dollar, the half-dollar, the quarter-dollar, and the dime were made of silver. Much of that came from mines in Nevada. However, rising demand for silver and electronic and photographic applications elevated silver prices to levels that there was massive withdrawal and melting of silver coins. This caused the government to look for alternatives to that.

There was significant public debate involving the Executive and Legislative Branches, plus the Federal Reserve Bank. Congress held five separate hearings, and eventually even created a Joint Commission on Coinage, with members appointed by President Johnson.

Instrumental in resolving this situation, though, was a report the Treasury and the Mint contracted with from Battelle Memorial Institute of Ohio, that they prepared that recommended the conversion from silver coinage to the copper/nickel clad coins that we use today. That became part of the Coinage Act in 1965.

Sensitive to the silver price, and facing a need to construct a costly new mint in Denver—a mint that, actually, was never built—the Federal Reserve and the Mint produced a report in 1973 on alternative materials for $.01 coins. There was a brief consideration of the aluminum cent. In fact, there were some even distributed, I believe, in this room at that time. But, for a variety of reasons, the idea of an aluminum cent was shelved.

In 1974, because of the oil embargo that was occurring, we had a surge of inflation in the economy, and we faced a serious penny shortage as copper prices rose to then what were record levels. This caused the Mint to take a much larger look at our coinage system, and, through the Research Triangle Institute, did a comprehensive study of America's coinage and currency systems.

It was a very bold step for the Mint in an era where hiring independent contractors by a government agency was an exceptional undertaking. Clearly, the Mint was trying to get ahead of the curve, and avoid a crisis like it had experienced in the 1960's.

In response to the 1970's shortage, Congress granted the Mint a measure of discretion to adjust the copper content of the $.01 coin, if necessary to avoid shortages. A former Mint executive, Dr. Alan Goldman, whom I had the pleasure of knowing, worked in the 1970's on alternative alloys for the $.01 coin.

And they took a recommendation to the Congress in the latter part of the Carter Administration, recommending converting from a copper penny to a zinc-copper-plated zinc cent. That decision was shared with the six leading members of the Banking Committee. The Mint was under an appropriation at that point, so I presume that would have been the chairman and ranking minority members of the banking committees, the subcommittees, and the appropriation committees.

The decision, though, to go to the zinc cent then fell to Buchanan, the incoming treasurer. It was implemented by my boss, Donna Pope, in 1982. We successfully converted to the zinc cent. It worked for us for quite a long time. Chairman Annunzio, when he retired, recounted it as one of the successes that he had during his chairmanship.

I think we now find ourselves in a situation where rising metal prices again compel the Mint and the Congress to look for new alternatives. And, I think as evidenced by the experience with silver and the experience with zinc, a collaborative process can be reached to resolve this problem. Thank you.

[The prepared statement of Mr. Brown can be found on page 24 of the appendix.]

Chairman GUTIERREZ. Thank you very much. Next, we have Mr. Richard M. Geerdes? Good. I try to get close. We also welcome him.

He is the president and CEO of the National Automatic Merchandising Association. Mr. Geerdes assumed the leadership of NAMA on January 1, 1999. A native of Chicago, Mr. Geerdes holds an MBA in finance, and a bachelor's degree in management information sciences from Western Illinois University. His education was completed in 1975, after several years of service in the U.S. Army domestically, and in Vietnam.

Mr. Geerdes has worked at NAMA since 1988 in various capacities. He joined the staff of NAMA following his experience as a vending operator in a series of senior management positions with Interstate, United, and Canteen Corporation. He serves as president of the foundation of NAMA, and is a member of the foundation's board of directors. He also serves as a director on the board of the Worldwide Vending Association, based in Brussels.

He, and his wife, Joan, raised two sons and reside in Hickory Hills, southwest of Chicago. Welcome, Mr. Geerdes.

STATEMENT OF RICHARD M. GEERDES, PRESIDENT & CHIEF EXECUTIVE OFFICER, NATIONAL AUTOMATIC MERCHANDISING ASSOCIATION

Mr. GEERDES. Thank you, Mr. Chairman. And I thank you and the other distinguished members of the committee for the opportunity and the invitation to testify in support of H.R. 5512.

As you said, I am the CEO of NAMA, a 501(c)(6) national trade association headquartered in Chicago, and I am here on behalf of NAMA's nearly 1 million members nationwide, in an industry that exceeds $40 billion a year. NAMA's membership is composed of the key elements of our Nation's vending industry, the small and mid-sized businesses who are the owner-operators of millions of coin-operated machines across our country in public and private locations, and the small, mid-sized, and large businesses who are the suppliers of bottled cans, cup beverages, packaged foods, and other packaged products sold to the public in those coin-operated vending machines.

H.R. 5512 is very important and NAMA supports its passage. The coin modernization process and needs of our Federal Government and country, the productive operation of our industry, and meeting the needs and best interests of the taxpayer/consumer/customers who use our country's vending machines and purchase our suppliers' products are all vital aspects of this bill.

I am here to offer NAMA's specific and unique perspective on it, and discuss why this legislation should be passed.

In its current form, and after very productive collaboration with the committee's staff, the bill now provides that future coins, while reducing production costs for the taxpayer, must work in existing coin acceptance equipment in our country's vending machines, and anywhere where coins are used, without modification to that equipment.

NAMA, on behalf of the food and refreshment vending industry, appreciates very much this fine tuning of the bill, from both a practical and a cost-to-the-industry standpoint, and the opportunity to work with the committee staff to make the bill as practical and beneficial as possible.

Section 3 of the bill is important to us because, in its current form, it provides two key benefits. First and foremost, it will result in keeping costs down for customers who use our country's vending machines. Vending is an industry with a very low profit margin, and a very high capital investment ratio, without a lot of room to absorb cost increases without asking customers to pay more. Of course, these customers are also taxpayers, so this bill will help make their dollars stretch further in meeting their personal and family needs.

Second, it avoids millions of dollars of additional expense for our Nation's small business owner-operators who run the vending industry. It's a mature, but a very key retail channel of convenience to consumers. Those dollars are vitally needed now, for the viability and modernizations underway in the industry that will ensure that it can continue to meet the needs of consumers in the future, as well as maintain and grow the jobs it supplies to taxpayers across the country.

NAMA believes that H.R. 5512 thus promotes both the financial interests of our country's consumers and the taxpayers, as well as those of our economy. Today it is even more apparent that every effort to assist small businesses to operate more productively, and to invest more dollars to that end, and to help keep vending machine user costs down for the American consumers and taxpayers, is vital for the economy's growth and health.

We at NAMA share your committee's interest in protecting consumers from unnecessary higher prices, and in saving the taxpayer money. We are pleased to be part of this process in which your committee develops legislation to make those goals a reality.

Of course, we agree that rising prices for the commodities require an examination of the alloys used in making U.S. coins, but we respectfully submit that such an examination should be just one element in a broader, more fundamental coin and currency reform evaluation. Any such reform might include—and should include, in our opinion—replacing dollar bills with dollar coins, which would save the taxpayer hundreds of millions of dollars a year.

With the full concurrence of the NAMA board of directors, NAMA fully supports this legislation as written, and we have communicated our support nationally to our membership, and asked them to contact you, in Congress, to do likewise.

We look forward to working with you and all the members of the committee, as well as the committee staff, on continuing initiatives. And, again, I thank you for the opportunity, and I would be happy to answer any questions. Thank you, sir.

[The prepared statement of Mr. Geerdes can be found on page 30 of the appendix.]

Chairman GUTIERREZ. Thank you so much, Mr. Geerdes. I have a question for Mr. Johnson.

In your testimony, you mention the changes made in the alloy content of the penny of 1974. Your conclusion is that coin composition changes can be made easily and quickly if the need and desire are present.

But the Mint has argued that much of the delay with going to a steel penny is the possibility of additional wear and tear on dies, because steel is a stronger alloy. I can see where that might be an issue over a period of time, once minting the steel penny has started. But do you see why that would delay the actual starting of minting a steel penny?

Mr. JOHNSON. Well, I think the bill gives a lot of flexibility, in terms of this. And, as I mentioned, you know, this is not an issue that has not been studied, or we haven't seen coming for a while. So I think there has been some research done on this.

I am certainly not a metallurgical expert, but I think in terms of giving the authority and the flexibility, that there is still congressional control, yet it gives enough authority and flexibility and broad range to the Mint that it accomplishes a lot in this bill, and what we want to accomplish.

Chairman GUTIERREZ. Thank you, Mr. Johnson. Mr. Geerdes, in your testimony you mentioned the importance of future coins produced by the Mint working in existing coin acceptance equipment and vending machines, without modifying the equipment. We have tried to accomplish that in H.R. 5512; I think we have. Can you elaborate on the importance of this provision?

Mr. GEERDES. Mr. Chairman, as I said, the industry has a very low margin and high capital intensive investment. And it is made up of—the majority are very small owner-operators.

The cost of a vending machine at this point in life, for a brand new piece of equipment, a stripped-down model is approximately $5,000 for the equipment. The coin mechanism itself, which does not come as part of that, is an option which can run into several hundred dollars. And then, the coin acceptance equipment for the paper money acceptance is another $200 or $300 on top of that. So you probably have $1,000 additional cost in payment acceptance equipment on the machine.

In order for—if the Mint made coins that did not work in the equipment right now, in effect what we would be doing is turning away our customers from this over 6 million machines every year. When many of us go up to a machine, we expect the coinage and currency will work in that machine, and be accepted.

And so, the first concern would be—

Chairman GUTIERREZ. How many machines did you say there are?

Mr. GEERDES. There are over 6 million machines in the United States. That's a very conservative estimate.

So, first of all, we would be losing sales in an industry that can ill afford to do that, and is in a very mature state in its life. So we have to be very competitive, and watch our costs closely, in order to make sure that the prices are as competitive as possible.

And the other aspect of it is, of course, the aspect of cost that the business owner would incur. Because, just to modify the equipment will cost them a labor visit of perhaps $50 to $75 to visit each vending machine they own, in order to update it, to obtain—you know, whenever Congress, or whenever the government introduces new currency, that is a requirement.

If the coins needed to be changed out, the mechanisms needed to be changed out, you're looking at 6 million machines times several hundred dollars per machine, which is basically a cost that the industry cannot sustain.

Chairman GUTIERREZ. Thank you very much. Mr. Lucas, you are recognized for 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman. Mr. Geerdes, on those machines, if—and, as you probably observed in my earlier comments—looking at it from a slightly different perspective, as long as a new $.05 piece had the same metal qualities as a dime, a quarter, whatever, it would be more a matter of adjusting to accept the size—because that's one of the challenges, you have to have certain metallistic characteristics to go through—so it's—I guess what I am asking is it is certainly possible that, if we adopted a $.05 piece that was similar in metallistic qualities to a dime or the quarter, it wouldn't—it would cost to make adjustments to your machines, to your people's machines, to accept the smaller size, but it would be less complicated than other alloy changes, perhaps.

Mr. GEERDES. Congressman, I believe that is true, yes.

Mr. LUCAS. What percentage of the sales through vending machines in this country are $.01 transactions?

Mr. GEERDES. To the best of my knowledge, certainly in the food and refreshment side of the industry, which NAMA represents, zero.

Mr. LUCAS. Okay. So the majority—the issue here we're looking at, from the perspective of your people, are the effect on the $.05 pieces.

Jay—and I call you Jay, because we served together on the House Agriculture Committee—when you were director of the Mint, how many $.01 pieces did we make, on an annual average? Just off the top of your head, a guesstimate.

Mr. JOHNSON. I guess it was about 10 to 15 billion at the time.

Mr. LUCAS. Billion?

Mr. JOHNSON. Yes, billion.

Mr. LUCAS. So, we were literally turning out billions every year, and have continued to turn out billion after billion after billion after billion. Okay—

Mr. BROWN. Coinstar made a big difference. Coinstar is putting back into the industry—I think when I was a Mint Director, at that point, they returned almost an equal amount of $.01 coins that the Mint made. Now I think they return about 3 times the amount that the Mint makes.

Still, people stash so many coins, and it's easier for banks and stores to just order new coins, rather than recirculate the old ones.

Mr. LUCAS. Mr. Brown, from your historic perspective, in the past, on what occasions, if so, have we looked at the overall question of our coinage in sum total?

Mr. BROWN. The Congress looked in 1965, when they had to deal with the silver issues. The Research Triangle Institute actually looked at currency and coinage in their report that they presented for the Mint. But it is—there has not been a comprehensive look at the coinage system since, really, 1965.

Mr. LUCAS. Thank you, sir. And, once again, Mr. Geerdes, in your food industry's part of the vending machines, $.01 pieces are not a factor. It's how we handle the $.05 pieces that have a potentially dramatic economic impact on your clientele?

Mr. GEERDES. Right, Congressman. And, of course, quarters and dimes, as well.

Mr. LUCAS. Quarters and dimes, as well. With that, once again, thank you, Mr. Chairman.

Chairman GUTIERREZ. Thank you.

Mr. LUCAS. And this is going to be a wonderful bill to work with. I can see some good amendments coming here.

Chairman GUTIERREZ. Okay. I look forward—

Mr. LUCAS. And mark-ups, sir. Thank you, Mr. Chairman. I yield back.

Chairman GUTIERREZ. I look forward to working with you, Mr. Lucas. I want to thank the witnesses and the Members for their participation in this hearing.

The chairman notes that some Members have additional questions for the witnesses, which they may wish to submit in writing. Therefore, without objection, the hearing record will remain open for 30 days for Members to submit written questions to the witnesses, and to place their responses in the record. This subcommittee hearing is now adjourned. Thank you all so much.

[Whereupon, at 4:06 p.m., the hearing was adjourned.]

A P P E N D I X

March 11, 2008

Testimony of Michael J. Brown
before the
Subcommittee on Domestic and International Monetary Policy, Trade, and Technology
on the
Coin Modernization and Taxpayer Savings Act of 2008
March 11, 2007

Thank you for the invitation to testify today. It was my pleasure to work with the former *Subcommittee on Consumer Affairs and Coinage* from 1981 to 1989 when I served as Special Assistant to Mint Director Donna Pope and as the first Press Secretary for the Mint. I worked closely with then Chairman Frank Annunzio (D-IL) and his staff on issues affecting coinage, including the successful conversion of the copper-cent to a copper-plated zinc-cent. While at the Mint I worked with the staff of Representative Ron Paul's (R-TX) to enact the legislation creating the American Eagle Gold Bullion Coin as recommended by the *Gold Commission*.

I am here today at the request of the committee as a private citizen. I have been involved with coinage since coming to Washington in 1981. In the interest of full disclosure, I need to advise you that I am Vice President of Public Affairs for Barrick Gold Corporation of North America and registered under federal lobbying laws. However, Barrick has no interest in this legislation or any other coinage matters before the Congress. In 1990 I did some work for the zinc industry through a coalition then known as "Americans for Common Cents" which responded to legislation proposed by former Representative Kolbe (R-AZ) to abolish the one-cent coin. Last year Majority Leader Reid nominated me to serve on the Treasury's Citizens Coinage Advisory Committee. I am a huge fan of Director Moy and the technological revolution he has brought to the production of the nation's coinage.

Today we are experiencing what is being called a "Super Surge" in demand for metals. The rapid industrialization of economies in China and India have fueled a demand for metals, precious and base metals, the likes of which we have not seen since the Industrial Revolutions of the United States and the United Kingdom.

Prices for metals are at record highs. Recycling rates for metals are at record levels. I regularly see reports of copper thefts from construction sites. In Las Vegas there have been instances of thieves take copper circuits from energized electrical lines. We are observing the Chinese and Russian governments going to extraordinary lengths to secure supplies of base metals for their burgeoning manufacturing sectors. No one knows when, or even if, this surge will subside. A consequence of that surge is the effect we are seeing on our domestic coinage, especially with the one-cent coin. A coin that Chairman Annunzio often called the "Kleenex of Coins" because he noted it was disposable and "when you need it, nothing else will do."

This is not the first time Congress has had to consider the effect of rising commodity prices on the coinage system. The Mint and Congress have a terrific track record of working together on these matters.

Until the mid-1960s the dollar, half-dollar, quarter-dollar and dime were made of silver. Much of the silver for those coins came from mines in Nevada. In fact it was a tradition for many decades that Mint Directors came from "silver states." However, rising demand for silver in electronic and photographic applications elevated silver prices to levels that resulted in the massive withdrawal and melting of silver coins. The resulting coin shortages forced the government to look for alternatives metals to silver. This was a significant public debate involving the Executive and Legislative branches plus the Federal Reserve Bank. Congress held five separate hearings and eventually created a *Joint Commission on Coinage* with members appointed by President Johnson. During this debate the Treasury contracted with the *Battelle Memorial Institute* of Ohio to prepare and issue A Study of Alloys Suitable for Use as United States Coinage [1] This report was instrumental in helping Congress approve the *Coinage Act of 1965*, a measure that authorized replacing silver coins with the copper-nickel clad coins we use today.

It should be noted that Nevada Senator Allan Bible (D-NV) made a valiant political effort to retain silver in coins.

Sensitive to the silver experience, and facing a need to construct a costly new Mint in Denver (never built), the Treasury, Mint and Federal Reserve produced a report in 1973 on Alternative Materials for One Cent Coinage. That report resulted in a brief consideration of an aluminum cent. However, for a variety of reasons the idea of an aluminum cent was shelved.

In 1974 the nation did experience a short of one-cent coins as copper prices rose in response to surge of inflation brought on by the Oil Embargo. This caused the Mint to take a much larger step and they contracted with *Research Triangle Institute* to conduct a comprehensive analysis of U.S. coinage requirements to 1990. The purpose of the report was to review and recommend changes in Mint facilities and in coinage forecasting, production planning and distribution systems for the present U.S. coins and for possible alternatives. The impacts of various alternatives on public and private interests were assessed to develop coinage system recommendations to 1990. The report came about "as a part of the Mint's continuing effort to provide the United States with the best possible coinage system." [2] The Mint intended for the research to help it develop an "ideal" coinage system.[3]

This was a bold step for the Mint. In that era the hiring of independent contractors by a government agency for this type of research was exceptional. Clearly the Mint was trying to get ahead of the curve and avoid a crisis like it experienced in the 1960s. The

[1] 1964 Annual Report of the Director, Pages 2 to 4.
[2] 1976 Report of the Director of the Mint, Page 6
[3] 1975 Report of the Director of the Mint, Page 4

Research Triangle Institute report is an extraordinary document. Many of its recommendations still stand the test of time and are relevant today.

In response to the 1974 shortage, the Congress granted to the Mint a measure of discretion to adjust the copper content of the one-cent coin if necessary to avoid shortages. However, it was well understood that Congress expected to be consulted should that come to pass.

After *Research Triangle* issued its report, Dr. Alan Goldman, the Deputy Director of Mint and Assistant Director of Technology, started to test alternative materials for the one-cent coin. Dr. Goldman was a brilliant government executive, an individual always searching for continuous improvement. By November of 1980 his work was complete and the Mint finalized a recommendation for the conversion of the one-cent coin from copper to copper-plated zinc. The Mint took that report to Congress and consulted with the six Members of Congress then responsible for coinage. While names of the members are lost to history, I believe they were the leaders of the banking and appropriations committees. However, with the outcome of the 1980 election, the Carter Administration deferred making any final decision.

That decision fell to the new Treasurer of the United States, Angela "Bay" Buchanan. The youngest person ever appointed U.S. Treasurer, Bay Buchanan was given policy authority over the Bureau of Engraving and Printing and the United States Mint, then known as the Bureau of the Mint.

Treasurer Buchanan took the matter directly to Chairman Annunzio and a hearing was held in March of 1981. The committee responded favorably to the proposal and work commenced at the Mint to implement the conversion. My boss, Director Donna Pope, was responsible for implementing this conversion. That was a major undertaking. At the time the Mint was funded by an appropriation and we were under substantial pressure to reduce spending under the *Gramm-Latta Budget Reconciliation Bill of 1981*. Not exactly the best time to try something new. In 1982 the Mint had to implement a 16 percent across the board budget reduction. Yet the Mint's talented technical and manufacturing personnel rallied to the challenge. We made a deliberate decision to limit publicity of the change as not to stimulate hoarding of copper cents.

However, as in any decision there are detractors. Just as the silver miners fought the removal of silver from coinage, the *Copper and Brass Fabricators Council* challenged the Mint's authority to study and implement a change in the one-cent coin. In fact, they appealed, unsuccessfully, all the way to the Supreme Court. For many months we worked knowing full well that the court could step in and stop us from implementing the conversion.

In additional to their legal challenge, the Fabricators levied the following criticisms against the copper-plated zinc cent:

- *The conversion from copper to zinc would lead to a withdrawal of up to 40 billion copper cents.* That did not occur.

- *The zinc cents would corrode because of imperfect plating.* That did not occur.

- *The zinc cents would render useless many coin-counting machines.* That did not materialize in any meaningful way.

- *The zinc cents would leave us vulnerable to disturbances in international trade and boost and worsen the balance of trade.* That did not occur.

- *The zinc cents would cause the Mint to endure many production hardships.* Again, no such problems materialized.

- *The zinc cents would lead to job losses in the brass milling business.* No job losses were ever reported. In fact, the Mint's decision to close its costly and energy inefficient coinage strip foundry in the Philadelphia Mint created new opportunities in the private sector.

After clearing court challenges by the Fabricators, production began in mid-1982. It should be noted that 1982 is the only year that the Mint produced a blend of copper cents and copper-plated zinc cents. The new copper-plated zinc cent went largely unnoticed by the public, but fulfilled all of the expectations of the Mint, the Congress, Treasury and the Federal Reserve. Over the years, Chairman Annunzio cited the introduction of the copper-plated zinc cent as one of the major achievements in American coinage.

Now we find ourselves again in the situation where rising metal prices compel the Congress, and the Mint to look again for new alternatives. As is evidenced by past experience, this can best be achieved through a collaborative process.

I would be please to answer any questions.

NAMA

Serving the Vending, Coffee Service and Foodservice Management Industries

Testimony of Richard M. Geerdes, NCE
President and Chief Executive Officer
National Automatic Merchandising Association ("NAMA")
Legislative Hearing on H.R. 5512
"The Coin Modernization and Taxpayer Savings Act of 2008"
March 11, 2008

Chairman Gutierrez and other distinguished members of the Committee, thank you for the invitation to testify today in support of H.R. 5512, the "Coin Modernization and Taxpayer Savings Act of 2008", introduced on February 28, 2008.

I am Richard Geerdes, President and Chief Executive Officer of the National Automatic Merchandising Association ("NAMA"), a 501(c)(6) national trade association headquartered in Chicago and founded in 1936. I am here on behalf of NAMA's nearly 1,000,000 members nationwide in this over $40 billion dollar a year industry. NAMA's membership is composed of the key elements of our nation's vending industry: the small and mid-sized businesses who are the owner/operators of millions of coin-operated vending machines across our country in public and private locations, and the small, mid-sized and large businesses who are the suppliers of bottled and canned and cup beverages, packaged foods and other packaged products sold to the public in those coin-operated vending machines.

H.R. 5512 is very important, and NAMA supports its passage. The coin modernization process and needs of our federal government and country, the productive operation of our industry, and meeting the needs and best interests of the taxpayer consumer/customers who use our country's vending machines and purchase our suppliers' products, are all vital aspects of H.R. 5512. I am here to offer NAMA's specific and unique perspective on H.R. 5512 and discuss why this legislation should be passed.

In its current form and after very productive collaboration with your Committee staff, H.R. 5512 now provides that future coins, while reducing production costs for the taxpayer, must work in existing coin-acceptance equipment in our country's vending machines and anywhere where coins are used without modification to that equipment. NAMA, on behalf of the food and refreshment vending industry, appreciates very much this fine-tuning of H.R. 5512 from both a practical and cost-to-the-industry standpoint, and the opportunity to work with your Committee staff to make H.R. 5512 as practical and beneficial as possible.

Sec. 3 of H.R. 5512 is important because, in its current form, it provides the following two key benefits:

► First and foremost, it will result in keeping costs down for the customers who use our country's vending machines. Vending is a low-profit high capital investment business without much room to absorb cost increases without asking its customers to pay more. Of course, these customers also are taxpayers, so H.R. 5512 will help make their dollars stretch further in meeting their personal and family needs.

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- Second, it avoids millions of dollars of additional expense for our nation's owner-operator run vending industry, a mature but key retail delivery channel of convenience to consumers. Those dollars are vitally needed for the viability and modernization efforts now underway in the industry that will ensure it can continue to meet the needs of consumers in the future as well as maintain and grow the jobs it supplies to taxpayers across the country.

NAMA believes that H.R. 5512 thus promotes both the financial interests of our country's consumers and taxpayers as well as those of our economy. Today, it is even more apparent that every effort to assist small businesses to operate more productively and to invest more dollars to that end, and to help keep vending machine user costs down for American consumers and taxpayers is vital for the U.S. economy's health and growth.

We at NAMA share your Committee's interest in protecting consumers from unnecessary higher prices and in saving the taxpayer money. We are pleased to be part of this process in which your Committee develops legislation to make these goals a reality. We agree that rising prices for copper, nickel and zinc require an examination of the alloys used in making U.S. coins, but we submit that such an examination should be just one element in broad, fundamental coin and currency reform. Any such reform should include replacing dollar bills with dollar coins, which would save the taxpayer at least $600 million a year.

With the full concurrence of our Board of Directors, NAMA fully endorses H.R. 5512 as written, and we will communicate our support nationally to our membership and ask them to do likewise. We look forward to working with you and all members of the House Committee on Financial Services, as well as the Committee's staff, on continuing initiatives to modernize our nation's coins and currency.

I would be happy to answer any questions at this time.

Thank you.

Richard M. Geerdes, NCE
President & Chief Executive Officer
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Jay Johnson Testimony on H.R. 5512 to allow Mint and Treasury to change the metal composition of U.S. coins.

When I was Mint Director in 2000 and 2001, it still cost less than a penny to make a penny, but even then, the margins were slim and we knew that inevitably, the costs of minting one-cent coins would result in negative seignorage. It hasn't taken long for the costs of metals, materials and manufacturing to overtake the actual value of the one cent and five cent coins, so that it makes good sense to give the Department of the Treasury and the U.S. Mint the power to make appropriate coin composition changes so that the Mint will not continue to lose making by minting our smallest coins.

In fact, this has happened many times before. In the 1960s, the Mint acted very quickly, within a few months, as it saw the rising price of silver, to change the metal composition of coins to eliminate the costly silver from the current circulating coinage and replace it with the so-called 'sandwich ' metal composition we have in use today. Congress passed a bill on September 5, 1962 which gave authority for the 95 percent copper and 5 per cent zinc coins, eliminating the tin from the makeup of the coin.

And in terms of the one cent coins, I quote a recent book, "History of the United States Mint and Its Coinage" by David Lange who writes of a period in the 1970s: "Inflation continued to plague the lowly cent, as its metallic value periodically approached its face value. Thought the cost of recovering this copper negated any potential profit; the threat of rising copper prices prompted Congress to grant the Mint permission to change the cent's composition whenever needed to avert a crisis." At that time, it was just a resolution of Congress passed December 7th, 1973 which gave the Treasury Secretary the power to change the composition of the one cent alloy. While this was still being discussed in 1973, Mint workers tested several coin metal compositions, including aluminum. And Coin World magazine reported that it found examples of 1974 dates Lincoln cents which were struck on bronze-clad steel blanks...though it was not reported until 20 years later. **History shows that changes in coin composition can be made easily and quickly when the need and the desire to make the change are deemed important.**

Since I left the Mint and the government, I have remained in the coin and numismatic business and note the interest among coin collectors as to the future of the penny and nickel. Their concern is the same as most citizens...that the government is 'losing money' by continuing to make one cent and five cents coins at nearly double their face value to manufacture them. They also have a numismatic interest in that any change in coinage...whether it be in the obverse or reverse design or the metallic make-up of the coin, it creates a new variety or type of the coin and thus, another numismatic change which, though perhaps not noticeable by the public, will become another turning-point in the history of the one-cent and the five-cent coins. In fact, while we will mark next year the 100th anniversary of Lincoln's image on the obverse of the one cent coin, the internal make-up or metal content of this coin has changed many times...all this is of interest to collectors because each change, even slight ones, create a new type or subset of the penny, which continues to look essentially the same to the average consumer. As one collector told me, **all of the changes in coinage**...be they design changes or metal composition changes...enhance the collectability of that coin. And that's good for the numismatic industry. One thing they might not like, he told me, is a metallic change which will change the appearance too much, since collectors appreciate tradition. They also will NOT like a metallic composition which will not wear well or will tarnish easily or not even look or feel like the 'traditional' penny. All changes in coinage, said another numismatist, are just 'intriguing' to the collector, another reason for saving them.

It is this changing history of the penny...whether it's the so-called Indian-head penny or the 'wheat-ears' penny...or indeed the metal composition of the penny...which just adds to the numismatic history of this coinage. Most numismatists and many people who lived through World War II are aware that we had a 'steel penny' or 'steelie' in 1943 because the penny was made of steel with a thin zinc coating. And , in keeping up with it's part in the War Effort to save and preserve needed metals for guns and ammo, the Mint in 1942 experimented with various substitutes for copper...even testing out the use of glass, plastic and leather. During a time of war, the Mint had the power and used it to find the most economical and feasible ways to save money by making coins of different materials. Again the Mint, acting on the wishes of Congress moved quickly. Congress approved the steel cent on December 18, 1942. Production of the new steel cent began less than 3 months later, February 27, 1943. In 1944, because many one cent coins were still in use for parking meters and other coin-operated mechanical devices, the Mint heard the complaints of citizens and owners of coin-operated devises and went back to using a form of brass. The brass cents were regularly seen in circulation as late as the 1970s.

Today, also in a time of war, the Mint and Treasury need the power and authority to make the best use of its own staff and resources, as well as its suppliers, to find the most inexpensive way to continue to make one cent and five cent coins for less than their face value. I have no doubt that the U.S. Mint will do its best work to bring the penny and nickel into positive seignorage, thus justifying this needed legislation.

In 1981, again seeing the rise of copper prices, the Mint changed the metal composition of the one cent coin to 97.5 percent zinc and 2.5 percent copper...introducing the new metal composition in1982. It is another example of quick action by the Mint to changing metal prices. A question arose about the Mint's ability to change the metal composition in 1982, but a federal judge ruled that the Mint did have the authority, as granted by Congress.

Another war-time need for nickel changed the composition of the five cent coin. Starting in October 1942, all of the nickel in the five cent coin was removed and an alloy of copper, silver and manganese was used thru 1945.

I have also seen other countries struggle with this same 'reverse seinorage' ...even seeing some whole Mints losing money. I am proud that the U.S. Mint has always been on the positive side of revenues...making money by making money...with all profits returned to the U.S. Treasury. In India, for example the Mint was forced to change from a small silver 1 rupee coin to a base metal one rupee coin and it now costs India more than one rupee to make a one rupee coin. Some of their base metals one rupee coins have been smuggled to other countries to be melted and turned into 10 razor blades that sell for 2 rupees each.

Other countries, like Austria, have moved to 'rounding off' their smallest coins…while though officially their Mint still makes the small coins, it makes fewer and fewer and will eventually eliminate them.

While I doubt that the U.S. will officially move to a 'rounding' system anytime in the near future, you can see it unofficially just about any day when using cash and there is a small tray for pennies used to 'round' off a transaction. For example, on a $1.26 purchase, the merchant is just happy if you have a dollar and a quarter..."forget the penny", they will often say.

But since we are about to enter a special anniversary year for the penny next year, I don't think it will be a good time to just 'forget it.' Instead, we should still mint a penny…though for as close to less than a penny as we can get.

TESTIMONY OF

EDMUND C. MOY

DIRECTOR, UNITED STATES MINT

ON THE

"COIN MODERNIZATION AND TAXPAYER SAVINGS ACT OF 2008"

BEFORE

THE SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY

POLICY, TRADE AND TECHNOLOGY

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 11, 2008

Chairman Gutierrez, Ranking Member Paul, Members of the Subcommittee, thank you for inviting me here today. I welcome the opportunity to testify on the "Coin Modernization and Taxpayer Savings Act of 2008," H.R. 5512. It is based, in part, on the recommendations of the Treasury Department's proposal, introduced as H.R. 3330, to reduce the cost of coinage. You are to be commended, Chairman Gutierrez, for your leadership on this matter and for providing an opportunity here today for open, public debate on what the right course of action should be.

Mr. Chairman, as I have met with you and many of your colleagues on this subcommittee to discuss the spiraling costs of our Nation's coinage, I have heard only support and encouragement to come forward with a solution to address this problem. Portions of this legislation would take a major step toward achieving such a solution. I support it with two specific objections which, if addressed, will ensure that the legislation will not delay or offset the significant savings to our taxpayers that this measure otherwise promises.

Section 3 of H.R. 5512 assigns the responsibility for determining the metal content ("weight and composition") of all circulating coinage – the one-cent, 5-cent, dime, quarter-dollar, half-dollar and dollar coins to the Secretary of Treasury. This is the approach recommended by the Treasury Department to fairly and efficiently manage the highly technical evaluations of alternative metals using the public process and public protections afforded by the Administrative

Procedures Act. All other statutory provisions applicable to coinage – denominations, size, required inscriptions and other factors are unaffected. This authority should be employed to anticipate and prepare for a timely change in materials to avoid unnecessary costs borne by the taxpayers. Under current law, we have evaluated alternatives from a cost standpoint, but without more express permission from Congress, we are reluctant to proceed unilaterally to fully evaluate and test alternatives in the production setting and marketplace.

The Department of the Treasury is requesting the ability to determine the metal content of the Nation's coinage because it would ultimately result in significant taxpayer savings by providing the Department with the flexibility to respond to changing market conditions through an open, fair and deliberative process. Thus, the Department and the United States Mint can support the "Coin Modernization and Taxpayer Savings Act of 2008," but only if two specific objections—that I will mention throughout my testimony—are removed or addressed.

Saving Taxpayers Money

Producing lower denomination coins under their face value is now a common problem experienced by mints worldwide, exacerbated in the United States by the higher volume of coins we produce for the American economy. The current situation is unprecedented. Never before in our Nation's history has the

Government spent more money to mint and issue a coin than the coin's legal tender value. The rising prices of nickel, copper, and zinc have dramatically increased the costs of producing our Nation's circulating coinage. The problem we face today is clear, and it is not going away unless we act: some of the coin alloys specified in our current laws are no longer economical for Americans. For instance, in Fiscal Year 2007, it cost 1.67 cents to make each one-cent coin and 9.53 cents to make each five-cent coin. As a result, with each new penny and nickel we issue, we also increase the national debt by almost as much as the coin is worth, and these losses are rapidly mounting. Current law forces the United States Mint to make coins at a loss to the taxpayer.

However, the Department of the Treasury has decades of proven success in determining the materials for our highest and lowest coin denominations, and now is simply proposing to save taxpayers hundreds of millions of dollars per year by determining the materials for the other coin denominations. We anticipate that, by changing the compositions of just the 5-cent and one-cent coins to less expensive materials, we can save the Nation up to $30 million for the one-cent coin and up to $70 million for the 5-cent coin. That's a cumulative annual savings of $100 million without compromising the utility of these coins.

Saves Taxpayer Money Through Increased Flexibility

Our first major objection to H.R. 5512 relates to the provision mandating five years of consecutive losses (as stated in Section 3(c)(1)) because it deprives the United States Mint of needed flexibility to act as quickly as possible to save the taxpayer money.

H.R. 5512 assures that a significant portion of the $782 million in seigniorage we returned to the taxpayer in FY 2007 would be put at risk over time as we helplessly watch our seigniorage evaporate and then become negative for five years before the Secretary can change coinage materials. This is because section 3(c)(1) prohibits a change in coinage material until the taxpayers have sustained five consecutive years of losses from the respective coin denomination. This guarantees that the taxpayers must suffer losses, when the better course of action is to anticipate and prevent such adverse taxpayer consequences.

Similarly, the five-year loss test in H.R. 5512 also prevents consideration of the benefits of making changes to the materials of all the coins commonly used in vending machines and other coin-operated devices. While our present problem and need is to address only the penny and nickel, the intent of the Treasury proposal is to enable the United States Mint to change the materials used for all denominations, when necessary. That means taxpayers could see a potential savings on all denominations. It would also minimize the potential impact on the vending and coin handling industries. The problem with the bill we are discussing today, H.R. 5512, is that it addresses one denomination at a time based on the volatility of metal prices. The vending and coin handling industries would potentially have to repeatedly face costly changes denomination by denomination.

The United States Mint is required by law to produce coinage to meet the needs of commerce. In this vein, we need to avoid the inclination to focus on the one-cent and five-cent coins just because their production costs exceed their face values. Rather, we need to consider the relationship of new materials for all of our coins. Regardless of the relationship between production costs and face value, any change in production processes or materials that lowers the cost to produce coinage saves the taxpayer money.

Finally, the five-year loss test in the bill contradicts the view that the Government should take prompt and decisive action to prevent avoidable losses to the taxpayer, rather than sustain years of unrecoverable expenses. The five-year rule significantly restricts the United States Mint's ability to take advantage of advancements in material technologies to benefit the American taxpayer. We, therefore, cannot support this provision and, accordingly, recommend that you remove section 3(c)(1) from the bill.

Any change that lowers the cost to produce coinage preserves seigniorage and saves the taxpayer money. We need that flexibility to respond whenever appropriate. Thus, delegating authority to the Department of the Treasury without a prescribed period of sustained losses solves the current dilemma of inability to respond to changing metal prices.

Our second objection to H.R. 5512 is the requirement in section 4 that mandates the production of one-cent coins made primarily of steel 180 days after the enactment of this legislation, without first obtaining any public input. It restricts the United States Mint's flexibility to ascertain and employ the most cost-effective material and production process timeframe.

Although plated steel appears to have merit as a viable low-cost alternative, this has not been proven. Mandating a primarily steel penny eliminates any consideration of other alternatives that may prove more cost effective, either now or in the near future. Furthermore, requiring the use of steel exposes the United States Mint to the same vulnerability of volatile metal prices that we currently experience.

The Canadian example of a similar coin cited in H.R. 5512 does not reveal that Canada has the flexibility to change back and forth between orders for its traditional zinc penny and the steel penny based on the prevailing cost and availability of these metals. This flexibility, interchangeability, and co-circulation are all essential factors to manage costs and to be able to reliably supply the necessary volumes this denomination requires.

However, if a steel penny is mandated, there are practical considerations that make this mandate imprudent. Because steel is significantly harder than zinc, die life is a major factor that will determine whether appreciable cost reductions can even be achieved. It would make little sense to reduce the cost of materials used in the penny, only to have the manufacturing costs of producing replacement dies for the penny increase dramatically with no ultimate benefit to the taxpayer.

The United States Mint anticipates a reasonable timeframe to make these critical decisions to be 18 to 24 months to properly implement this mandate and do our part to bring a penny made primarily of steel to the marketplace. This includes engaging in an open process to gather suggestions from the public that should take about two months. We estimate needing three to five months to be able to determine specifications for a cost effective copper-plated steel penny blank that has a potential of reducing the cost of that denomination. Potential vendors supplying penny blanks to the United States Mint will need up to a year and a half or more to make the arrangements to procure steel feedstock and make investments in machinery necessary to be fully capable of producing penny blanks at the capacity required by the United States Mint. An open, competitive procurement process can take about two months to complete. If the change is required within 180 days, production of pennies will be limited to the capacity level of the blanks supplier at that time. This reduced production capacity will potentially result in a coin shortage.

Prescription of exact material and production timeframe denies flexibility, interchangeability and co-circulation, which are all essential to the United States Mint's maximizing cost savings for the taxpayer. Therefore, we cannot support the provision that summarily mandates conversion to a steel-plated penny and, accordingly, recommend that you remove section 4 from the bill.

<u>Congressional Precedent Exists for Delegating the Authority to Select Coinage Materials to the Department of the Treasury</u>.

I want to stress that delegating the authority to test and select alternative materials to the Secretary of Treasury is a sound, legal, and proven approach to determining the composition of our Nation's coinage. Do not be swayed by some critics who have raised concerns that it would be unprecedented or unconstitutional because it would cede Congress's authority to decide the weight and composition of circulating coins to the United States Mint.

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 we seek a durable solution that will substantially reduce the cost our citizens must pay for the Nation's coinage now and in the future.

Congress has already delegated the authority to select the composition of some coins to the Department of the Treasury and the United States Mint. We have capably coined and regulated money under laws passed by Congress since 1792. Most recently, just 11 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. Thus, the Department'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.

Saves Taxpayer Money Through Open, Fair, and Deliberative Process

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.

Circumventing such a process prior to changing the composition of the one-cent coin not only belies the Treasury proposal's intent to use an open and public process to select all coinage materials, but also is inconsistent with the process that is outlined in section 3(a) of this bill.

Together, as we consider alternative metals for our Nation's coinage, I want to stress our strong preference for engaging in the open deliberative process set out in Section (3)(a), that provides for public input, as well as an opportunity to test available options and fully evaluate the alternatives; this applies to the penny no less than the other denominations. This process will allow us to address the following three central issues: continuing volatility of metal prices, coin material uniformity and use among denominations, and providing taxpayers the best result for their investment in coinage.

CONCLUSION

The Department of the Treasury and United States Mint support H.R. 5512, but only if the objectionable provisions are removed or addressed. We are then prepared to implement this legislation as expeditiously as possible. Our intent is to enable the United States Mint to be pro-active, versus reactive, in efficiently serving the American public in making the Nation's coinage.

Due to the volatile nature of metal prices, the taxpayer will be better served by a nimble, flexible United States Mint which can address the problem in its entirety, not piecemeal. We want to get this done right, and we know that the Congress, the public, and the many stakeholder industries and interests share that view and want to contribute their expertise and perspective. We expect, and welcome, your subcommittee's oversight at every step in this process.

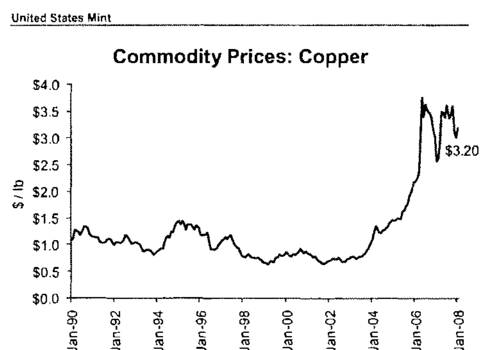
We appreciate your attention to this issue. I hope that the Committee will consider the improvements I have suggested; they will help ensure that that we achieve a result that will serve the best interests of the country.

Thank you, Mr. Chairman, for the time you have provided me today.

Addendum

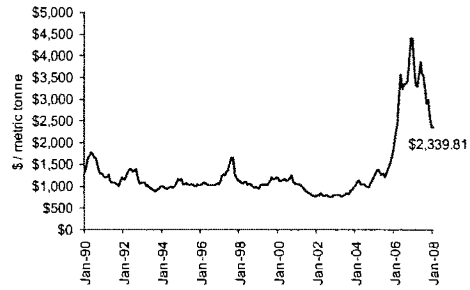
Background on Rising Metal Prices and Consequences

Rising metal prices, caused by high world demand for core metals, have driven the cost of metals up by 440% for copper, 310% for nickel and 260% for zinc since March of 2003. The spot prices for these metals have risen dramatically because of the global demand for raw materials, especially in China and India. Metal prices are forecast to stay at or near existing levels for several years because of these global demand pressures. Demand pressures take longer to resolve themselves than supply shortages, and thus the current increase in global demand has led to a sustained price increase or level shift that argues for the need to act on coinage composition soon.



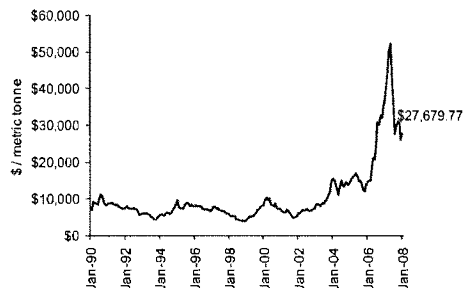
United States Mint

Commodity Prices: Zinc



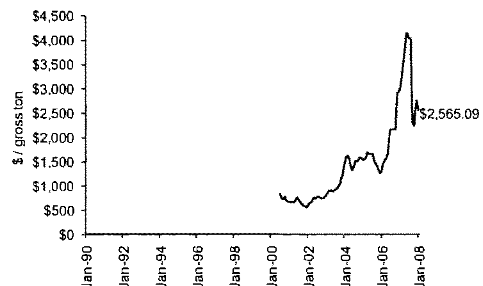
United States Mint

Commodity Prices: Nickel



United States Mint

Commodity Prices: Steel



These escalating metal prices have led to two problems. The first problem is arbitrage and extraction of coins from commerce (by melting pennies and nickels for their metal value).

The second problem is the loss to the taxpayers, $98.6 million for Fiscal Year 2007, resulting from the metal costs of the one-cent coin (-$40.1 million) and the five-cent coin (-$58.5 million), based on coins shipped to the Federal Reserve System in Fiscal Year 2007.

UNIT COST OF PRODUCING AND DISTRIBUTING COINS						
FOR THE YEAR ENDED SEPTEMBER 30, 2007						
	One-cent	**5-cent**	**Dime**	**Quarter**	**Half**	**Dollar**
Total Expenses	0.0167	0.0953	0.0409	0.0978	0	0.1573

CIRCULATING EARNED REVENUE (in Millions)						
FOR THE YEAR ENDED SEPTEMBER 30, 2007						
	One-cent	**5-cent**	**Dime**	**Quarter**	**Half**	**Dollar**
Revenue	$78.1	$64.4	$224.8	$677.8	$0.0	$682.7
Expenses	118.2	122.9	92.1	265.3	0.0	108.5
Seigniorage	-$40.1	-58.5	$132.7	$412.5	$0.0	$574.2

These costs will recur annually if not addressed, and began showing up in Fiscal Year 2006 when there was a loss of $32.9 million associated with producing and delivering the one-cent and five-cent coin denominations. We are now in the third fiscal year of losses on these smaller denomination coins. There is no indication that copper, nickel, and zinc prices will decrease over the short-term.

Moreover, even if prices were to retreat, we are quite confident that the costs for these metals will not diminish to the prices that prevailed when they were selected 42 years ago. Accordingly, under virtually any pricing scenario, finding lower cost alternative materials for all of the Nation's circulating coins will yield significant dividends to our taxpayers.

Congressional Research Service

Memorandum March 10, 2008

TO: Hon. Luis Gutierrez
Attention: Eric Edwards

FROM: Kenneth R. Thomas
Legislative Attorney
American Law Division

SUBJECT: Constitutionality of Congressional Delegation of the Authority to Dictate the Metallic Composition of Coins to the Executive Branch

---

This is to respond to your request to evaluate the authority of the Congress to delegate to the Executive Branch its authority under the Constitution "to coin money." Specifically, you requested an evaluation of the argument that a court might find that H.R.5512, the Coin Modernization and Taxpayer Savings Act of 2008, impermissibly delegates to the Department of the Treasury the authority to determine the metallic composition of coins.

H.R.5512[1] provides, among other things, that the Secretary of the Treasury shall prescribe the weight and the composition of the dollar, half dollar, quarter dollar, dime, 5-cent, and 1-cent coins. In doing so, the bill provides that the Secretary shall consider:

> (A) factors relevant to the potential impact of any revisions to the weight and composition of the material on the current coin suppliers;
>
> (B) factors relevant to the acceptability of new coinage materials, including the effect on vending machines and commercial coin processing equipment; making certain any new coins work without interruption in existing coin acceptance equipment without modification; and
>
> (C) such other factors that the Secretary, in consultation with merchants who would be affected by any change in the weight and composition of currency denominations, vending machine and other coin acceptor manufacturers, vending machine owners and operators, transit officials, municipal parking officials, depository institutions, coin and currency handlers, armored-car operators, car wash operators, and American-owned manufacturers of commercial coin processing equipment, considers to be appropriate and in the public interest, in accordance with [the Administrative Procedures Act].

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[1] 110^{th} Cong., 2nd Sess. (as introduced in House).

Article I, § 8, clause 5 of the Constitution provides that "[t]he Congress shall have the power . . . to coin Money." This power has been delegated to the United States Mint, which is currently a part of the Department of the Treasury. In delegating that power, the Congress has generally provided directions as to the metallic composition of coins.[2] H.R. 5512, on the other hand, would allow the Secretary of the Treasury to make its own determinations regarding coin composition.

Article I of the United States Constitution provides that "all legislative Powers . . . shall be vested in a Congress of the United States."[3] Although this clause implicitly prohibits Congress from delegating its powers to others, leading the federal courts to develop a "nondelegation doctrine," the courts have been reluctant to invalidate federal statutes on this basis.[4] Consequently, the Supreme Court has not overturned a federal statute as an unconstitutional delegation of legislative power since 1935.[5]

The principal concern that the Supreme Court has raised in delegating Article I powers to the Executive Branch is whether the Congress had provided "intelligible principles" for the exercise of such authority.[6] These guiding principles, however, need not be particularly detailed. Thus, for instance, the Court has held that the Attorney General could designate a drug as a controlled substance for purposes of criminal drug enforcement if doing so was "necessary to avoid an imminent hazard to the public safety."[7] Or, the Court has held that it was sufficient that the Federal Communications Commission could regulate broadcast licensing in the "public interest."[8] The Court has noted, however, that the degree of agency

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[2] *See, e.g.,* Coinage Act of 1965, Pub. L. 89-81. It should be noted, however, that the Secretary has been previously delegated the authority to dictate the metallic composition of coins. *See, e.g.,* id. at § 101(b) (allowed the Secretary of the Treasury to continue to strike 90% silver coins for up to five years from the date of enactment until the Secretary determined that there was an adequate supply of these coins).

[3] U.S. Const., Art. I, §1.

[4] Loving v. United States, 517 U.S. 748, 771 (1996).

[5] *See* A.L.A. Schechter Poultry Corp. v. United States, 295 U.S. 495, 541-42, 550-51 (1935) (invalidating the National Industrial Recovery Act or NIRA as an unconstitutional delegation of legislative authority to the President).

[6] *See* Whitman v. Am. Trucking Ass'n, 531 U.S. 457, 472-476 (2001) (upholding § 109(b)(1) of the Clean Air Act, which required the EPA to set air quality standards at a level to protect the public health with an adequate margin of safety). The Court has struck down statutes having no "intelligible principle" in only two cases. *See* Panama Refining Co. v. Ryan, 293 U.S. 388 (1935) (Presidential authority to prohibit interstate transportation of "hot oil" – oil produced in excess of quotas set by state law - struck down, as no standards were specified); A.L.A. Schechter Poultry Corp. v. United States, 295 U.S. 495 (1935) (delegation to industry groups under the NIRA to promulgate codes of fair competition based on such general standards as stimulating the economy by assuring "fair competition" struck down).

[7] Touby v. United States, 500 U.S. 160, 163 (1991).

[8] National Broadcasting Co. v. United States, 319 U.S. 190, 225-226 (1943). There are many other examples of Article I powers delegated to federal agencies under broad standards that have been upheld. *See, e.g.,* Lichter v. United States, 334 U.S. 742 (1948) (agencies to determine "excessive profits" during wartime); American Power & Light Co. v. SEC, 329 U.S. 90 (1946)(agency to determine "unfair and inequitable distribution of voting power" among securities holders); Yakus v. United States, 321 U.S. 414 (1944)(agency to fix "fair and equitable" commodities prices); FPC

(continued...)

discretion that is acceptable varies according to the scope of the power congressionally conferred, and whether such power is already held by the entity receiving the delegation.[9]

As noted, the standards provided by Congress under H.R. 5512 require the Treasury to consider factors including 1) the potential impact on current coin suppliers; 2) the acceptability of new coinage materials (including their acceptance by coin-operated machines); and 3) such other factors as the Secretary (in consultation with affected parties) considers appropriate and in the public interest. The first two factors appear to be well within the kind of standard that the Court has found to be acceptable in the past.[10] The third factor, that "appropriate" factors be considered by the Secretary does not appear to set significant limits on how the Secretary would administer the delegated discretion. However, the further requirement that such decision be in the "public interest" would make the proposed bill more closely conform to the delegation requirements established by the Supreme Court.

Even absent the public interest language, it is not clear that the power delegated to the Treasury by the proposed bill is broad enough to raise serious delegation issues. Where the Court has struck down a law as an impermissible delegation, it has generally been because the authority delegated broadly affected a large segment of the population.[11] Where the effect of a delegation is more limited, it is not clear that the issue of delegation would arise.[12] While varying the composition of the metals used in coins might affect government costs, the metal supply industry, and certain other industries such as vending machine manufacturers, it is not otherwise clear that the proposed bill would have a significant effect national in scope.

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[8] (...continued)
v. Hope Natural Gas Co., 320 U.S. 591 (1944)(agency to determine "just and reasonable" rates).

[9] *Whitman*, 531 U.S. at 475. For instance, delegation limitations are less stringent in cases where the entity exercising the delegated authority itself possesses independent authority over the subject matter. United States v. Mazurie, 419 U.S. 544, 556-557 (1975) (upholding delegation of authority of Indians to regulate liquor in Indian Country) .

[10] *See* note 6, *supra*.

[11] *Accord* Whitman v. American Trucking Ass'ns, 531 U.S. 457, 474 (2001) (the legislative scheme struck down in *A.L.A. Schechter Poultry Corp* "conferred authority to regulate the entire economy on the basis of no more precise a standard than stimulating the economy by assuring 'fair competition'").

[12] Although they have not been challenged as invalid delegations, there are several existing statutory provisions which allocate authority to an agency's sole discretion; the decisions made under these powers, however, appear to have limited national impact. *See, e.g.*, 5 U.S.C. § 5378 (within certain limits, the Treasury Secretary has sole discretion to fix the rates of basic pay for positions within the police forces of the United States Mint and the Bureau of Engraving and Printing); 7 U.S.C. § 7b-1 (the SEC, in its sole discretion, may decline to exempt a designated contract market in security futures from relevant regulations); 18 U.S.C. § 1031(g) (the Attorney General, in his sole discretion, is authorized to make payments to persons who furnish information relating to fraud against the United States).

AMERICAN BEVERAGE ASSOCIATION

March 10, 2008

The Honorable Barney Frank
Chairman
House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Spencer Bacchus
Ranking Member
House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Luis Gutierrez
Chairman
Domestic and International
Monetary Policy Subcommittee
House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Ron Paul
Ranking Member
Domestic and International Monetary
Policy Subcommittee
House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

Dear Representatives Frank, Bacchus, Gutierrez, and Paul:

The American Beverage Association is the national trade association representing the broad spectrum of companies that manufacture and distribute non-alcoholic beverages in the United States. Our members own and maintain vending machines across America and rely heavily on a consumers' ability to utilize United States currency, consistently and without difficulty.

We applaud your efforts to ensure that our nation's system of currency and coinage continue their applicability in current vending machine operations. In specific, we are pleased that H.R. 5512, "The Coin Modernization and Taxpayer Savings Act of 2008" seeks not just to save the American taxpayer as much as $600 million in the next ten years, but also protects current coinage acceptability in our vending equipment - - a key provision.

As you consider this legislation, we wish to lend our support to H.R. 5512, and look forward to its passage.

Sincerely,

Barbara Hiden

Barbara Hiden
Vice President
Federal Affairs

March 7, 2008

Chairman Barney Frank
House Financial Services Committee
Washington, DC 20515

Congressman Luis Gutierrez
House Financial Services Committee
Washington, DC 20515

Congressman Spencer Bachus
House Financial Services Committee
Washington, DC 20515

Congressman Ron Paul
House Financial Services Committee
Washington, DC 20515

Dear Gentlemen,

Thank you very much for your leadership on the Coin Modernization and Taxpayer Savings Act. We applaud your goal of saving money for the American public and know that you and your staff have worked diligently over the last several months to find the language that enjoys broad support.

As you know, the Coca-Cola system owns and operates an expansive inventory of vending machines across the United States; therefore, the language that ensures that any new coins will work in current day vending equipment is critically important to our business. We appreciate your consideration on that point.

We look forward to working with you in this second session of the 110th Congress.

Sincerely,

Bryan D. Anderson

BRINKS

Brink's, Incorporated
1775 West Oak Parkway, Suite 900
Marietta, GA 30062
USA
Tel: 678-290-9184
Fax: 678-290-8827
Web site: www.brinksinc.com

A Subsidiary of The Brink's Company

Dear: Financial Services Committee - Chairman Frank, Ranking Member Bachus Sub. Committee on Domestic and International Monetary Policy, Trade and Technology -Chairman Gutierra and Ranking Member Mr. Paul

Brink's Incorporated supports the passage of Bill H.R. 5512, " The Coin Modernization and Taxpayers Savings Act of 2008". We believe it is in the best interest of our country and taxpayers that the US Mint is allowed to manufacture pennies for less than face value.

Sincerely,

James Mulroney
Brink's Inc.
Director Coin Services
Marietta, Ga. 30062
Email: james.Mulroney@brinksinc.com

Dunbar ARMORED

50 Schilling Road
Hunt Valley, MD 21031
410/584-9800
800/888-2129

Mailing Address:
Post Office Box 333
Baltimore, MD 21203-0333

March 5, 2008

Financial Services Committee
U.S. House of Representatives
B-303 Rayburn Building
Washington, DC

RE: H.R. 5512

Dear Committee Members:

Please be advised that our company supports the above-mentioned House Bill.
We are hopeful that the proposed legislation will give the United States Mint more flexibility in controlling the amount of coin in circulation. Overages and shortages of coin have a significant impact on our industry.

If you need additional information, please let me know.

Very truly yours,

Russell E. Daniels
Senior Vice President
Administration & Risk Management

RED:rtm

NAMA

Serving the Vending, Coffee Service and Foodservice Management Industries

Richard M. Geerdes, NCE
President & CEO
rgeerdes@vending.org

March 6, 2008

Congressman Luis V. Gutierrez
2266 Rayburn Building
Washington, DC 20515

Re: H.R. 5512

Dear Representative Gutierrez:

Thank you for your invitation to testify on H.R.5512, the Coin Modernization and Taxpayer Savings Act of 2008. NAMA greatly appreciates our collaboration with Committee Staff that resulted in the language in this legislation requiring that future coins work in existing acceptance equipment without modification.

We share your interest in saving the taxpayer money and are pleased to be part of the process whereby The Committee crafts legislation to make these savings a reality. We agree that rising prices for copper, nickel and zinc require an examination of the alloys used in making U.S. coins, but we hope that such examination will be just one element in broad, fundamental coin and currency reform. Any such reform should include replacing dollar bills with dollar coins, which would save the taxpayer at least $600 million a year.

With the full concurrence of our Board of Directors, NAMA fully endorses this legislation as written and stands ready to offer our perspective through testimony at its hearing. We will communicate our support nationally to our membership and ask them to do likewise.

We look forward to working with you and all members of the House Committee on Financial Services, as well as the Committee's staff on initiatives to modernize our nation's coins and currency.

Sincerely,

Richard M Geerdes

Headquarters of the National Automatic Merchandising Association
20 N. Wacker Drive, Suite 3500, Chicago, IL 60606-3102
Voice: 312-346-0370 x 230 Fax: 312-704-4140 www.vending.org

NAMA

Serving the Vending, Coffee Service and Foodservice Management Industries

March 7, 2008

Special Federal Legislative Bulletin – Office of the NAMA President

NAMA Endorses Legislation to Change Metal Content of U.S. Coins

In November 2007 NAMA alerted you about pending legislation from The House Committee on Financial Services to authorize the Treasury Secretary to change the metal content of all U.S. coins.

Rising prices for copper, nickel and zinc have pushed the cost to make pennies and nickels well above their face value. While switching to lower cost metals would eliminate the loss from the penny and nickel, changing the composition of coins could very well have lead to expensive modifications to coin mechanisms.

The House Committee on Financial Services, after working with NAMA and a coalition of other interested parties, has amended the Bill to stipulate that that future coins work in existing acceptance equipment without modification.

NAMA of course shares the desire of Congress to save the taxpayer money and is pleased to be part of the process whereby The Committee crafts legislation to make these savings a reality. We agree that rising prices for copper, nickel and zinc require an examination of the alloys used in making U.S. coins, but have expressed our position that such examination be just one element in broad, fundamental coin and currency reform. Any such reform should include replacing dollar bills with dollar coins, which would save the taxpayer at least $600 million a year.

With the full concurrence of our Board of Directors, NAMA endorses this legislation as written and will offer our perspective through testimony at its hearing on March 11, 2008. Please call your Congressman and express your support of H.R.5512, the Coin Modernization and Taxpayer Savings Act of 2008. Remind your Representative that true coin modernization would see dollar bills replaced with dollar coins. For more information on the Representatives who serve on the Financial Services Committee, or to find and contact your District House Member, go to http://www.house.gov/Welcome.shtml.

We'll keep you posted on the bill's progress. We look forward to working with The House Committee on Financial Services on initiatives to modernize our nation's coins and currency. If you have any questions please let us know.

Richard M. Geerdes, NCE
President & Chief Executive Officer

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PEPSICO

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GALEN J. RESER
VICE PRESIDENT, WASHINGTON

March 10, 2008

The Honorable Barney Frank
Chairman
House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Spencer Bacchus
Ranking Member
House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Luis Gutierrez
Chairman
Domestic and International
Monetary Policy Subcommittee
House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Ron Paul
Ranking Member
Domestic and International Monetary
Policy Subcommittee
House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

Dear Representatives Frank, Bacchus, Gutierrez, and Paul:

Thank you for your leadership on H.R. 5512, the Coin Modernization and Taxpayer Savings Act of 2008. We commend your efforts to improve government efficiency and economy, in this case saving the American taxpayer about $600 million over the next ten years, while taking into consideration the practical needs of the American consumer to use our currency easily and consistently.

PepsiCo, with brands such as Frito-Lay and Pepsi-Cola, and its network of Bottlers owns, operates, and services vending machines nationwide. Changes in the way coins are minted is important to us. We fully appreciate your work, and that of your staff, to craft legislation that enjoys broad support, particularly as this bill assures current coinage acceptability in vending machines that offer our products.

We look forward to passage of H.R. 5512 and look forward to working with you on other matters.

Sincerely,

Galen J. Reser

Statement of Congressman Zack Space
Hearing of the Subcommittee on Domestic and International Monetary Policy, Trade and Technology
"Coin Modernization and Taxpayer Savings Act of 2008"
March 11, 2008

I would like to begin by thanking Chairman Gutierrez and Chairman Frank for their outstanding leadership and advocacy on behalf of the American people. Both of the Chairmen have been kind to lend to me the benefit of their advice on this issue, and I believe that we have worked together to craft a strong piece of legislation. I appreciate very much both of their efforts to move this legislation forward.

There is nothing more egregious than the mismanagement of American taxpayer dollars. The American system of government hinges upon the role of Congress to responsibly appropriate funds and manage the budget. When Congress missteps in that capacity, the taxpayer dollars intended to operate schools, run the military, and offer affordable health care options to Americans is needlessly wasted.

Unfortunately, we have a real problem in the area of the production of coins. Studies and data suggest that the federal government is currently spending in excess on the production and management of American coins. Information presented by the Treasury last fall indicates that the United States is spending 1.7 cents to produce each penny and 10 cents on each nickel. This disparity in values between face value and production costs is estimated to have cost the American taxpayer over $100 million in 2007 alone, a figure especially alarming considering our nation is presently over $9 trillion in debt.

This steep figure is the result of an increase in the value of the metals used in the composition of these coins, which has risen significantly since the last alteration. As the institution responsible for determining the metallic content of coins, Congress is responsible for this problem.

Today, this Subcommittee will have the opportunity to review legislation I introduced with the Chairman to address this issue, H.R. 5512, the Coin Modernization and Taxpayer Savings Act of 2008. By streamlining the process by which the metallic content of coins is determined, this legislation can steer the federal government away from the pitfalls of inaction when the value of metals rapidly change. The legislative process lacks the capacity for speedy, decisive responsiveness needed to respond to fluctuation in the metals market. By isolating this authority in a more controlled fashion, this legislation allows the federal government to be more responsive. Estimates suggest H.R. 5512 could save the American taxpayer nearly $600 million over the next ten years simply by changing the composition of the penny, and an additional $60 million per year when changes are made to the nickel—money that could be better spent on any number of priorities or lower taxes.

Without question, Congress has a responsibility to confront this troubling issue. It is irresponsible to continue to allow taxpayer dollars to be needlessly spent on the production of coins when less expensive alternatives are available. This legislation offers a potential solution.

I am hopeful that today's hearing will yield the beginning of a dialogue between all parties affected by this legislation. Again, I offer my appreciation to Chairman Gutierrez for holding this hearing and to Chairman Frank for his continued support.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220

DEPUTY DIRECTOR

May 1, 2006

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Base metal prices have risen steadily over the past three years and, more recently, have climbed dramatically, drawing significant national attention and media interest. I am writing to inform you of the impact that rising prices for zinc, copper and nickel—the primary components of the one-cent coin (penny) and the 5-cent coin (nickel)—are having on the production costs of our two smallest denominations.

By way of background, 31 U.S.C. § 5112(c) affords some discretion in the composition of the one-cent coin, stating, "The Secretary may prescribe the weight and the composition of copper and zinc in the alloy of the one-cent coin that the Secretary decides are appropriate when the Secretary decides that a different weight and alloy of copper and zinc are necessary to ensure an adequate supply of one-cent coins to meet the needs of the United States." However, the current composition of the penny is 97.5% zinc and 2.5% copper; therefore, changing the current weight and composition of copper and zinc in the alloy of the penny would not enable any appreciable reduction in the coin's metal costs. On the other hand, 31 U.S.C. § 5112(b) establishes 5-cent coin composition explicitly by stating, in pertinent part, "The 5-cent coin is an alloy of 75 percent copper and 25 percent nickel. In minting 5-cent coins, the Secretary shall use bars that vary not more than 2.5 percent from the percent of nickel required."

In FY 2005, the United States Mint produced pennies at a cost of $0.0097. In FY 2005, the United States Mint produced nickels at a cost of $0.0483. These unit costs are the sum of four basic cost elements: metal, fabrication (pre-production metal processing), labor/overhead and transportation.

Through the first half of the current fiscal year ending in March, the rise in metals prices has increased our coin production costs by 10 to 20%, depending upon denomination. A variety of factors determines annual coin production costs (e.g., lengths and valuation of inventory, production volume, and metal costs). Therefore, current costs do not necessarily predict annual year-end results. At this point in time, the year-to-date cost of producing a penny, using our existing metal inventory, is slightly above face value, while the year-to-date cost of producing a nickel, using our existing metal inventory, still remains below face value. However, producing pennies and nickels using metal purchased at current prevailing prices (e.g., $1.49/lb for zinc, $3.23/lb for copper, and

$8.69/lb for nickel) and assuming all other factors are unchanged, would result in a unit cost for the penny of approximately 1.4 cents and a unit cost for the nickel of approximately 6.4 cents.

Last year, the United States Mint returned $730 million in seigniorage to Treasury. The cumulative effect of sustained high metal prices could have a significant effect on that figure for FY 2006. By way of example, we project that the United States Mint will issue 8.7 billion pennies and 1.7 billion nickels this fiscal year. Taking into account production to date, and applying current metals prices to production for the remainder of the year, we estimate that the annualized unit cost for the penny in FY 2006 would be approximately 1.23 cents and the annualized unit cost for the nickel in FY 2006 would be approximately 5.73 cents. This would mean, hypothetically, that annual costs would exceed revenues by about $20 million for the penny and by about $12 million for the nickel. Although we still would be able to mint the dime and quarter at a cost well below their face values at current metals prices, the significantly higher costs of metals would result in approximately $45 million less in seigniorage for these coins in FY 2006, compared to FY 2005.

The United States Mint continues to implement efficiency measures to reduce production costs in those areas which are under its control. Although the metal compositions of most United States coins are established by law, the United States Mint, as part of its ongoing research and development efforts, has and will continue to examine the feasibility of alternative metal alloys for coinage.

While we must be careful not to overreact to volatility in metal prices, the United States Mint realizes this is a matter of public policy that the United States Congress will want to review. My staff and I are available to brief you on this issue, and provide any additional information you request. The United States Mint will continue to produce all denominations of United States coins, in accordance with their statutory composition and fabrication requirements, as efficiently and cost-effectively as possible.

Sincerely,

David Lebryk

David A. Lebryk
Deputy Director
United States Mint

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We won't get rid of penny soon, Ottawa says

Could be a coin toss in the U.S.; Today's one-cent pieces are 94% steel and covered by more expensive copper

CHAD SKELTON
CanWest News Service

Tuesday, July 04, 2006

The rising price of base metals has pushed the cost of producing a u.s. penny above one cent - to 1.23 cents, to be precise - for the first time in history, spurring U.S. lawmakers to debate whether it's time to get rid of the penny.

But the Canadian government says it won't be getting rid of our one-cent piece.

"There is no plan to get rid of the penny here," said Department of Finance spokesman David Gamble.

One reason, according to the Royal Canadian Mint, is that its cutting-edge production techniques have kept the cost of our penny below one cent.

Until the late-1990s, pennies were made mostly out of copper - which can be expensive.

But mint spokeswoman Pam Aung Thin said the mint now uses a patented "multi-ply plating" process that sandwiches a thick steel coin between two tiny layers of copper and nickel.

Whereas the pennies of yesteryear were 98-per-cent copper, today, they are 94-per-cent steel.

There are an estimated 16 billion pennies in circulation in Canada.

The most recent published estimate put the production cost per Canadian penny at 0.7 cents.

The mint sells the pennies, 790 million of them last year alone, at cost to the federal government. Ottawa then sells them at face value to the nation's banks - a profit margin of about $2 million.

But some wonder whether pennies are really profitable.

A 2003 research paper co-written by Timothy Fisher, then an economist at Wilfrid Laurier University in Ontario, argued that the mint's defence of the penny fails to take into account the considerable expense it racks up distributing the coins to banks.

"They have to distribute about 2,000 tonnes of pennies a year," said Fisher, who now teaches at the University of Sydney in Australia.

When those figures are included in the calculations, Fisher argued, pennies cost the mint about $24 million a year.

By the same calculation, nickels also lose $3.6 million a year.

In essence, Fisher argued, pennies and nickels are "loss leaders" for the mint compared with more profitable coins.

A toonie, for example, only costs the mint about 25 cents to manufacture - leaving a profit margin of about 700 per cent.

Australia and New Zealand got rid of pennies more than a decade ago - and, in both countries, prices are rounded either up or down to the nearest nickel.

The most recent survey on the subject in this country found 34 per cent of Canadians supported getting rid of the penny and 26 per cent were opposed.

The greatest number - 39 per cent - didn't care either way.

It is unclear whether the move to ban pennies in the U.S. will succeed.

Arizona Republican congressman Jim Kolbe has vowed to introduce a bill killing the coin in the coming days.

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