

Currency Conservatism

An Interview with Philip N. Diehl

Public Perspective: A Gallup poll out in June shows the public four to one against replacing the dollar bill with a dollar coin. So the fact of the public's being against the change is evident. But do we have any idea about the strength of public sentiment on this matter?

Philip N. Diehl: Yes, I feel we do, and let me outline the two kinds of evidence we have. First, we have the evidence of experience. We have had two dollar coins rejected in the past 25 years. That sets us apart from any of the other Western democracies that have attempted to do this, some of which have had success in doing it. We had the failure of the Eisenhower dollar back in the early 70s and, of course, the Susan B. Anthony in the late 70s early 80s. We haven't seen any warming to the notion since that time. Four polls taken since 1990—the latest of which is the Gallup to which you referred—all show the same thing. There is basically no change in opinion over that five-year period.

Also, there is a recent poll commissioned by the National Consumers League. It asked respondents this question: Given the choice between a two-dollar bill and the dollar coin, which would they use? By 64% to 21%, they would use the two-dollar bill. [As you may know, the Federal Reserve intends to reinsert the two-dollar bill into circulation after eliminating the one dollar bill as part of the transition to the new dollar coin.] That is a very important piece of information for us. It confirms our hunch that the assumption made by the proponents of this proposal—that if the dollar bill is withdrawn from circulation, consumers and businesses have no choice but to accept the dollar coin—is wrong. It is dead wrong; consumers have another option. They can simply substitute the two-dollar bill for the one dollar bill and continue using quarters as they do today. And so we have that kind of evidence—experience and five years of consistent polling data.

There is also the reaction since our announcement of the Administration's opposition to this proposal on May 26. I've done a lot of radio interviews and talk-show interviews, including one in Houston in which there was a debate between me and Congressman Kolbe (the lead Republican proponent in the House for this proposal). This is an issue which generates a great deal of interest

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in heartland America. And the vast majority of it is against the change. I think this is a particularly bad time in American political culture to be attempting to force Americans to accept an unpopular government mandate that hits them literally in their pocketbook; hits them right where they live every day. And it is particularly symbolic right now, because there is an inevitable psychological devaluation of the dollar that occurs when you turn it from the bill to a coin. With all the talk about the value of the dollar vs. the yen, the dollar vs. the deutsche mark, it's one of those heartland issues that stirs much more emotion than you might expect.

PP: So you think American nationalism is engaged around this question?

PND: I think there is a very strong symbolic aspect to this issue, yes, and a sentimental aspect. I'm new to the coin and currency business. I was Secretary Bentsen's first chief of staff at the Treasury Department before I was appointed to my present position by the President. One of the ironies that has struck me in this job, and not just in terms of the dollar coin, is how open to change we Americans are in so much of our lives, but

when it comes to currency, we are among the most conservative people in the world. And part of that is because currency and coinage in the US just haven't changed. There hasn't been any change in the past 50 years—of any significance whatsoever. And people have grown to take their currency for granted. We don't want to look at it or think about it. We just want to use it. That was one of the problems that the Susan B. Anthony dollar had. You had to look at it and think about the difference between it and the quarter. Now, a lot of people were under the misperception that it was the exact same size as the quarter. That's not true. The difference in size between the Susan B. and the quarter was the same as the difference in size between the quarter and the nickel, which we usually don't have any trouble telling apart. If you carry the Susan B. and the quarter around with you for awhile, you will find that you can distinguish them easily. But there is this American resistance to change in currency and coinage.

One interesting aspect of this is how long it has taken us to change American bank notes in order to incorporate modern anti-counterfeiting devices. We have known for quite a few years that the dollar bill is not as counterfeit-proof as it should be. It doesn't come close to the standards being set in other Western democracies. Previous US administrations were not willing to take the criticism that would inevitably come from changing the currency. This Administration has stepped up to the plate and is changing first the one-hundred-dollar bill, the largest denomination, in some significant ways—although not radically. The changes will allow us to incorporate new anti-counterfeiting devices. Eventually, we will make similar changes in the other denominations.

PP: Have there been any serious proposals to change the political figures on the bills?

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PND: No, there hasn't been. There was legislation that was seriously considered several years ago, sponsored by Alan Cranston of California. It called for a major redesign of American coinage. The response is an interesting case study showing why it is so difficult to change our currency. The legislation was on the verge of passing when opponents at the last minute circulated rumors that the purpose was to remove "In God We Trust" from American currency. It panicked members of the House, and they overwhelmingly voted to reject the conference report. The proposal was dead. Americans are deeply committed to the familiar style and form of their currency, and you run a real risk in not respecting their preference.

PP: You have said that the proposed legislation is likely to result in "another failed attempt to force American taxpayers to do what someone else thinks is good for them—against their will." I understand the formal responsibilities that you have in your post as director and thus your concern about the possibility of having several billion coins piled up in your vaults. It also seemed to me, though, in reading your remarks that the whole question of moving to a dollar coin struck a raw nerve with you personally.

PND: Well, I'll tell you it has struck a raw nerve with me for a couple of reasons. First, I became very concerned that because this legislation was moving

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in the context of budget reconciliation, it would be enacted with virtually no discussion of the merits. The reconciliation debates, which take place in September and October of the budget year,

tend to be extraordinarily complicated. Big political issues like cuts in Medicare and Medicaid draw all the attention. In that context, it's relatively easy to pass a bill like "The US One Dollar Coin Act of 1995" that hasn't gotten the proper hearing. When this proposal began picking up momentum in January, I began getting concerned about it and talking to Treasury about it, because the proponents were greatly exaggerating the savings and were totally ignoring the risks. Then when the House Republican budget came out, the budget resolution passed by the House contained this legislation. It was at that point we hit red alert. It was our hope to air these issues before the House and Senate budget conference concluded and, therefore, knock the provision out of the conference report. In the end, we had a partial victory. The conference report on the budget does not include any assumed savings from this proposal, but it does include a tepid endorsement of the idea.

PP: Why is there a push for the coin? The financial savings argument doesn't look strong. Is something else at work?

PND: No. The hope of financial savings was driving it. What happened was that back in January the proponents of this legislation were throwing around numbers like \$400 million to \$800 million a year in savings. The \$800 million estimate comes from private studies that they had commissioned and paid for. The \$400 million estimate comes from a 1993 Government Accounting Office study, so it has considerable credibility. They took the \$400 million a year savings and multiplied it by five for the first five years in the budget window and claimed \$2 billion worth of savings. When the Republican House budgeters were looking for ways to pay for the Contract with America, \$2 billion looked pretty nice. But then in February the Congressional Budget Office put pencil to paper and estimated what this five-year budget window savings would really be. They found total savings of \$100 million—and even that is questionable. Naturally, the level of enthusiasm for the legislation began to wane.

There is also a good government argument that in the longer term—say ten to twenty years out—there may be much larger savings, and that therefore we ought to go ahead and do it for the long term. Our point has been that all of these estimates are dependent upon the success of efforts to get consumers to accept the dollar coin. We don't think those efforts will work.

PP: I have just one final question on a different piece of coinage. What's the fate of the penny?

PND: You know, it's funny. In a hearing in front of the House banking committee yesterday morning, we were talking about commemorative coin reform, and the chairman asked me the same question. That's a very popular topic of discussion when people discover I'm Director of the Mint; and I would say, probably if I were to guess, we are going to keep producing tons of pennies every year. Last year we produced 13.6 billion pennies. And we don't do it for our health; we do it because the Federal Reserve Bank orders them. So there is clearly a big market demand for them; in addition the Federal Government makes a small profit. We make about a fifth of a cent on each one. So there is no financial reason to stop producing them. There is also sentimental attachment to the penny. If you talk to anyone from Illinois, it's horrors that you eliminate the penny, because you would eliminate Abraham Lincoln from American coinage.

Still, there is growing sentiment that the penny is a nuisance coin. It's likely that someday we are going to decide it doesn't make sense any more. That will be easier later on than it is now, especially as more and more of our commercial transactions occur in an electronic form.



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