

Abolishing the Penny Makes Good Sense

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An economist rarely has the opportunity to recommend a policy change that benefits 200 million people, imposes costs on virtually no one, and saves the government money to boot. But I have such a suggestion to offer the nation as a holiday gift: Let's abolish the penny.

Yes, the old copperhead has outlived its usefulness and is by now a public nuisance—something akin to the gnat. Pennies get in the way when we make change. They add unwanted weight to our pockets and purses. Few people nowadays even bend down to pick a penny off the sidewalk. Doesn't that prove that mining and minting copper into pennies is wasteful? Today, if it rained pennies from heaven, only a fool would turn his umbrella upside down: The money caught would be worth less than the ruined umbrella.

I have been antipenny for years, but final proof came about two years ago. I used to dump my pennies into a shoebox. Eventually I accumulated several hundred. Dismayed by the ever-growing collection of useless copper, I offered the box to my son William, then 8, warning him that the bank would take the pennies only if he neatly wrapped them in rolls of 50. William, obviously a keen, intuitive economist, thought he matter over carefully for about two seconds before responding: "Thanks, Dad, but it's not worth it." If it's not worth the time of an 8-year-old to wrap pennies, why does the U.S. government keep producing the things?

81 Billion in Circulation

More than the time of 8-year-olds is involved. Think how often you have waited in line while the customers ahead of you fumbled through their pockets or purses for a few—expletive deleted—pennies. A trivial problem? Yes, until you multiply your wasted seconds by the billions of cash transactions that take place in our economy each year. I estimate that all this penny-pinching wastes several hundred million hours annually. Valuating that at, say \$10 an hour adds up to several billion dollars per year, which is more than enough to justify this column.

We must also consider the cost of minting and maintaining the penny supply. There are roughly 91 billion pennies circulating, and every year the U.S. Treasury produces 12 billion to 14 billion more, at a cost of about \$90 million. Since this expenditure just produces a nuisance for society, it should be at the top of everyone's list of budget cuts.

There are no coherent objections to abolishing the penny. It has been claimed, apparently with a straight face, that eliminating pennies would be inflationary, because all those \$39.99 prices would rise to \$40. Apart from the fact that such increases would be penny-ante, the claim itself is ludicrous. A price such as \$39.99 is designed to keep a four from appearing as the first digit—something the retailer deems psychologically important. In a penny-less society merchants probably would change the number to \$39.95, not raise it to \$40. Even if only one-fifth of all merchants reacted this way, abolishing the penny would be disinflationary.

Sales tax poses a problem. How would a penny-free economy cope with, for instance, a 7% sales tax on a \$31 purchase, which comes to \$2.17? The answer leads to the second part of my suggestion. Let all states and localities amend their sales taxes to round all tax bills to the next-highest nickel. In the example, the state would collect \$2.20 instead of \$2.17. The customer

would lose 3 cents, but—if my previous arguments are correct—would actually be better off without the pennies. What other tax leaves the taxpayer happier for having paid it?

Sentimental Value

Only tradition explains our stubborn attachment to the penny. But sometimes traditions get ridiculous. Surely the smallest currency unit a country uses should be related to its average income. Yet countries with lower standards of living than the United States have minimum currency units worth more than 1 cent—while we have been minting the penny for two centuries.

Even England, as tradition-bound a nation as they come, is more progressive in this matter than the United States. Years ago the smallest unit of British currency was the farthing, equal to one-quarter of what was then called a penny. As England grew richer, the farthing gave way to the half-penny, then to the old penny, and finally to the new penny, which is the equivalent of 9.6 farthings. During this same time, all the stodgy United States did was abolish the half-penny.

Sure, the penny has sentimental value. That motivates the last part of my suggestion. Rather than call in all the pennies and melt them, which would be too expensive and perhaps heartrending, the government should simply announce that it is demonetizing the penny as of next January—and let collectors take many of the pesky coppers out of circulation. After hobbyists and investors accumulated whatever stockpiles they desired, the rest could be redeemed by the government—wrapped neatly in rolls of 50, of course.

Let's get penny-wise and abolish the 1 cent piece. The idea is so logical, so obviously correct, that I am sure the new Congress will enact it during its first days in office.

1. Use your verbs chart (but you are not limited to it!) to create a purpose statement for *each* paragraph. Write it in the right-hand margin. Be sure you are considering what the author is *doing* in that paragraph.

2. Read through the article again with a highlighter and look for phrases where the author's tone shows through. How would you describe his tone?

3. Identify two paragraphs where he launches pre-emptive attacks on the opposition.

4. Re-read the article once more. Where does he make unwarranted (or unsupported) assumptions? Mark them in the margin.