

Monetary Trends



The Golden Dollar: The Early Evidence

Earlier this year, the United States introduced its eighth dollar coin. The new dollar coin is gold in color and bears the image of Sacagawea—the only woman on the Lewis and Clark expedition. Proponents of the dollar coin point out that the widespread use of dollar coins would result in considerable savings to the government. On average, coins have a projected life of 30 years, compared with about 18 months for the dollar bill. Although dollar bills cost about 3.5 cents to produce, compared to 12 cents for the dollar coin, the relatively short life of dollar bills make them more expensive in the long run.

Dollar coins, however, have never found wide use for day-to-day transactions in the United States. One possible explanation for this is simply that people find coins inconvenient relative to paper currency. Accordingly, dollar coins would replace notes only if the public has no choice. Supporters of this explanation point out that high-denomination coins circulate only in countries that discontinued issuing the corresponding denomination notes.

Some people argue that dollar coins and dollar bills can coexist, and they attribute the failure of previous dollar coins to circulate widely to other factors, such as physical characteristics of the coins. The Eisenhower dollar was said to be too bulky and the Susan B. Anthony (SBA) dollar too difficult to distinguish from the quarter.

The golden dollar was designed to avoid many of the supposed impediments that kept previous dollar coins from circulating. The coin is the same size as the quarter, but is gold in color and, unlike the Susan B. Anthony dollar, is easily distinguished from the quarter by sight or touch. Furthermore, the new coin was specifically designed to have the same "electronic signature" as the SBA dollar so that the

vending machine industry would not have to retool their machines.

Despite a \$45 million ad campaign, of the \$1.1 billion dollar coins produced through September 30, 2000, approximately half of the new coins remain in the vaults of Federal Reserve Banks and the U.S. Mint as of October 20, 2000. The other half are in "circulation." It appears, however, that many of these are being hoarded, because few of the coins are observed in day-to-day transactions.

Is the golden dollar more successful than the SBA dollar, which was introduced in 1979? It depends on how you measure it. Of the \$682 million SBA dollars produced in 1979, only about \$275 million were in circulation that year. In absolute terms, or on a per-capita basis, the initial year of the new golden dollar has been much more successful. Relative to the initial year's nominal GDP or initial year's currency component of the money supply, however, the golden dollar has been less successful.

Some people argue that the new golden dollar will not circulate simultaneously with the dollar note until the demand by those who want to hoard the coin is met. This argument, however, is at odds with the fact that U.S. currency is supplied elastically. That is, currency is supplied to meet the public's demand. If individuals want dollar coins (or two-dollar bills, fifty-cent coins or any other denomination currency) they simply request them from their bank. Banks, in turn, go to Federal Reserve Banks whose job it is to meet demand. In the final analysis, denominations of money fail to circulate because of lack of demand, not because of lack of supply. The fact that, to date, the new dollar coin has not been widely used in day-to-day transactions—even though it avoids the alleged physical impediments to the success of previous dollar coins—suggests that, given a choice, the public prefers dollar notes to dollar coins.

--Daniel L. Thornton

