

Abolishing the Penny Makes Good Sense

by Alan S. Blinder

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 minting¹ 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. **A**

A DEDUCTIVE REASONING

Reread lines 7–17. What is the specific situation Blinder intends to prove exists? Restate this situation in your own words on your chart.

1. minting: stamping coins from metal.

I have been antipenny for years, but final proof came about two years ago. I used to dump my pennies into a shoe box. 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 the 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? **B**

91 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. Valuating² that at, say, \$10 an hour adds up to several billion dollars per year, which is more than enough to justify this column.

We also must 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,³ because all those \$39.99 prices would rise to \$40. Apart from the fact that such increases would be penny-ante,⁴ 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¢ 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?

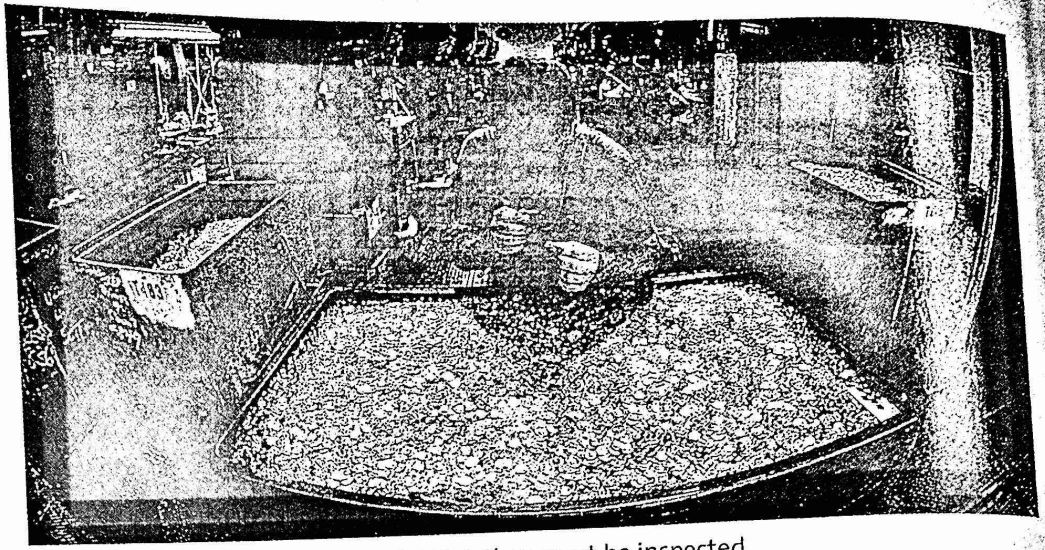
2. **valuating**: placing a value on.

3. **inflationary**: causing an increase in the price of goods.

4. **penny-ante** (pən'tē): a business deal on a trivial scale.

B EVIDENCE

In your opinion, is the anecdote Blinder offers in lines 18–35 truly "final proof" that the penny has no value? Why or why not?



After pennies are struck at the U.S. Mint, they must be inspected for imperfections before they can be released.

Sentimental Value

Only tradition explains our stubborn attachment to the penny. But sometimes traditions get ridiculous. Surely the smallest currency unit
100 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¢—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
110 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
120 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 demonetizing⁵ the penny as of next January—and let collectors
130 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¢ piece. The idea is so logical, so obviously correct, that I am sure
140 the new Congress will enact it during its first days in office.

EVIDENCE

Read lines 107–120. How relevant to the author's argument is the evidence about currency in other countries?

⁵ demonetizing (dē-mōn'ī-tī'zīng)·denriving of value.