The Future of the U.S. Penny—A Debate Renewed

Is it time to end the penny's 232 year run and are nickels next?

"Let's rip the waste out of our great nation's budget, even if it's a penny at a time," former President Donald Trump recently declared on Truth Social. His remarks contribute to the ongoing debate over the future of the U.S. penny. Of course, this discussion is nothing new to those in government or the financial world.

The Cost of Keeping Pennies in Circulation

According to the U.S. Mint's annual report, the cost of producing a single penny has *exceeded* its face value for the 19th consecutive fiscal year. In Fiscal Year 2024, minting one penny cost 3.69 cents. Even more concerning, producing a nickel cost 13.78 cents per unit, exacerbating financial inefficiencies.

The penny's days appear numbered following Trump's directive to the Treasury Department to halt minting the coin. While such an action would likely require congressional approval, this time, support may be strong enough to push it through. Other nations, including Canada, Australia, and New Zealand, have already phased out their one-cent coins in recent decades. Inflation has only strengthened the argument against keeping the penny in circulation.

A Penny Saved? The Case Against the Coin

The fundamental purpose of money is to facilitate commerce, yet pennies have become inefficient. They slow down transactions—whether used for payment or as change—and are not widely accepted in vending machines, toll booths, or parking meters.

Perhaps the most compelling argument for eliminating the penny is its production cost, which is nearly three times its face value. This inefficiency persists despite a 1982 composition shift that replaced most of the coin's copper with zinc (now 95% of its composition).

A Penny for Your Thoughts: The Next Target in the War on Cash

Governments have long sought to reduce cash transactions, often as a means of combating terrorism and tax evasion. Their primary strategy has been eliminating high-denomination bills, such as Europe's €500 note and India's 1,000-rupee bill.

Now, two U.S. lawmakers have set their sights on a much smaller target: the penny. Often found in jars or beneath couch cushions, the coin is rarely used for actual purchases. Their primary concern is the high cost of minting billions of these one-cent coins annually, which places a substantial burden on taxpayers.

A One-Cent History

Efforts to eliminate the penny date back to 1989, when Arizona Representative Jim Hayes introduced the Price Rounding Act. Since then, various lawmakers have advocated for its removal, and the debate was even satirized in an episode of *The West Wing*.

Former President Barack Obama weighed in on the issue in a 2013 interview, describing the penny as a symbol of the government's inability to eliminate wasteful services.

The latest push came in March when Senators John McCain and Mike Enzi introduced legislation to halt penny production. Their bill also proposed replacing the paper one-dollar bill with a coin and modifying the nickel's composition to reduce costs—changes they estimated could save $16 billion.

The penny, the first official currency authorized by the U.S. government, was initially struck in 1787 but did not become legal tender until 1856. Since then, more than 300 billion pennies—featuring 11 different designs—have been minted. Abraham Lincoln became the first U.S. president to appear on a coin when his likeness was added to the penny in 1909 to commemorate the 100th anniversary of his birth. The Lincoln penny was also the first to feature the inscription *"In God We Trust."*

Why Eliminate the Penny?

The primary argument for discontinuing the penny is its excessive production cost, which results in significant financial losses. In Fiscal Year 2024, the U.S. Mint reported that each penny cost approximately 3.69 cents to produce, leading to an $85.3 million loss from minting nearly 3.2 billion pennies.

This issue extends beyond pennies—nickels also cost more to produce than their face value. In the same fiscal year, each nickel cost 13.78 cents to mint, compounding the financial inefficiency.

Rising metal prices and manufacturing expenses are the primary culprits. Zinc, which comprises 97.5% of a penny, and copper, making up the remaining 2.5%, have both experienced significant price increases over the past decades.

Beyond financial concerns, environmental issues add to the argument against penny production. The extraction and processing of metals consume energy and contribute to pollution, increasing the ecological footprint of coin production.

Internationally, several countries have successfully phased out low-denomination coins. Canada eliminated its penny in 2013, implementing a rounding system for cash transactions to the nearest five cents. Australia and New Zealand have also discontinued their one-cent coins for similar reasons.

For the Love of Pennies: Public Sentiment and Practical Concerns

Despite strong arguments for eliminating the penny, public sentiment remains a major hurdle. As President Obama noted in 2013, many Americans have an emotional attachment to the coin.

A 2014 poll found that most Americans opposed eliminating either the penny or the nickel. More than two-thirds even said they would pick up a penny from the ground—though a 2006 *New Yorker* estimate calculated that doing so takes 6.15 seconds and pays less than the federal minimum wage.

Beyond nostalgia, there are practical reasons to retain the penny. In countries that eliminated one-cent coins, retailers round cash transactions up or down to the nearest five cents. For instance, if a purchase totals $1.01 or $1.02, the customer pays $1.00. If it is $1.03 or $1.04, the price rounds up to $1.05.

While this rounding system seems fair, retailers ultimately control pricing and could manipulate it to gain extra cents per transaction. In 2012, Chipotle Mexican Grill faced backlash after implementing rounding at select locations to expedite service.

Economists call this strategic pricing a *rounding tax*. Penn State economist Raymond Lombra estimated that rounding could cost U.S. consumers at least $600 million annually. Since lower-income individuals rely on cash more than wealthier consumers, they would bear the brunt of this cost.

However, some argue that sales tax and other variables naturally balance out final transaction amounts, preventing systemic retailer advantage. In Israel, for example, a major drugstore chain voluntarily committed to always rounding down after the country phased out its lowest-denomination coin.

Reevaluating the Penny Debate

While the financial losses from penny production are significant, they are relatively minor compared to broader government expenditures. For example, in Fiscal Year 2024, the U.S. Postal Service reported a net loss of $9.5 billion, highlighting more pressing fiscal challenges.

Rather than an outright ban, a more practical solution could involve encouraging major retailers to voluntarily round down cash transactions, as seen in Israel. This strategy could reduce reliance on pennies without triggering public backlash.

Potential Benefits for Businesses

- **Increased Efficiency:** Studies suggest that eliminating pennies could shorten transaction times, allowing businesses to serve more customers per hour.
- **Enhanced Customer Experience:** Streamlined transactions could improve the shopping experience, potentially boosting customer satisfaction and loyalty.

By incentivizing businesses to phase out pennies naturally, the U.S. could mitigate financial inefficiencies without imposing an unpopular ban—leading to a more effective and widely accepted outcome.