

MONEY MATTERS: COIN AND COUNTERFEITING ISSUES

HEARING BEFORE THE SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE AND TECHNOLOGY OF THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED EIGHTH CONGRESS SECOND SESSION

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MONEY MATTERS: COIN AND COUNTERFEITING ISSUES

Wednesday April 28, 2004

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL
MONETARY POLICY TRADE AND TECHNOLOGY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 2:03 p.m., in Room 2128, Rayburn House Office Building, Hon. Michael Castle [acting chairman of the subcommittee] presiding.

Present: Representatives Castle, Maloney, Watt, Sherman and Bell.

Mr. CASTLE. [Presiding.] Good afternoon. The Subcommittee on Domestic and International Monetary Policy, Trade and Technology will come to order.

I am Congressman Mike Castle, and I am chairing the meeting for Subcommittee Chairman Peter King, who has been called to the White House on an important matter and hopes to be able to join us later.

So you who go back a little bit will recall that I actually did chair this subcommittee a number of years ago for a couple of terms, and I still serve on it.

The subcommittee meets today to discuss a number of matters related to the important issues of coin and currency design and the related problem of counterfeiting of U.S. currency.

The hearing is the first of what Chairman King hopes will become a fairly regular series under the broad heading of "Money Matters," dealing with the physical and virtual aspects of money and payment systems.

As well, today's session will serve as the legislative hearing for a bill, H.R. 3916, I introduced last month with the co-sponsorship of the gentlelady from New York, to my right, Ms. Maloney, entitled The Presidential \$1 Coin Act of 2004.

The legislation seeks to increase the availability of the \$1 coin in the economy so that it can fulfill its promise of controlling costs for business and thus restraining prices for consumers. I will further describe the bill in a moment.

Today's second panel will focus entirely on the Presidential dollar.

Testifying to us will be four experts: Mr. Chung Chung Tam, a cash management specialist for a major public transit agency and chairman of the Cash Management Committee of the American Public Transportation Association; Tom McMahon, East Coast di-

rector of the National Automatic Merchandising Association, representing the vending industry with some 7 million machines deployed around the country; Jay Johnson, the immediate past director of the United States Mint, who is now director of business development for Collectors Universe, a company providing collector services; and Tom Noe, a coin collector and coin dealer, who also serves as vice chairman of the Citizens Coinage Advisory Committee, a panel advising the Treasury Secretary on design proposed by the Mint. Mr. Noe is the founder, owner and president of Vintage Coins and Collectibles of Maumee, Ohio.

First, however, we have a panel of government witnesses, some of whom no doubt will address H.R. 3916, but who are to speak to the larger issues of coin and currency design.

We will hear from the current Mint director, Henrietta Fore, who no doubt will tell us about the successful 50 State Quarters Program. Everybody is collecting them, and surprisingly, the program is now more than half finished.

I will also be interested to hear about the early successes of the temporary redesign of the five-cent coin, an effort spearheaded by Mr. Cantor, who formerly sat on the Financial Services Committee, and I expect Ms. Fore also will address the redesign proposal for the dollar coin.

The director of the Bureau of Engraving and Printing, Thomas Ferguson, will tell us about the new \$50 bank note design that we all saw in the news yesterday and about the \$20 bank note released last year.

Both new designs come as part of an ongoing effort to keep ahead of counterfeiters who increasingly are turning to inexpensive, readily available digital scanners and printers to make their fakes.

Mr. Jeffrey Marquardt, associate director of the Reserve Bank Operations and Payment Systems at the Federal Reserve Board, will address issues relating to counterfeiting, as the Fed is the actual issuer of U.S. currency, and likely also will talk a little about the circulation patterns of coin and currency.

Finally, Bruce Townsend, deputy assistant director of the United States Secret Service, who heads the Office of Investigations, will talk to us about current trends in counterfeiting at home and abroad and about ways to combat the counterfeiters.

I will be particularly interested in hearing his opinions on the new \$20 and \$50 designs, his anti-counterfeiting efforts, and about the Secret Service's successful efforts at working with other governments to stem the flow of counterfeits.

I see it is in a slightly different order than you sit. It does not make much difference to us which order you go in.

The issues we will be discussing today are important. Having a strong currency that resists attack by counterfeiters is the bedrock of a robust, vibrant economy, and having widely available, easily identifiable units of coin and currency is the best way to facilitate commerce.

I would like to return to the legislation before us today for a moment.

The Presidential \$1 Coin Act of 2004 I authored with Ms. Maloney. This legislation honors each U.S. President by placing them on the obverse side of the \$1 coin on a rotating basis.

I believe this program is a great opportunity for educating both children and adults about the history of our country.

In addition, although it is not the goal of the program, these new coins will likely generate as much as \$5 billion for the government.

I did not write that part about it not being one of the goals. To me, it is a goal.

In many ways, this legislation is modeled after the successful 50 States Quarter Program, which, at the end of last year, reached its halfway point.

The 50 States Quarter Program, which I was also proud to author, includes five quarters a year bearing images connected with one of the States so that over a decade each state will have been honored.

Before the States Quarter Program started, the U.S. Mint was making about 400 million quarters a year, but in the first year of the 50 States Quarter Program, it minted approximately 1.2 billion quarters.

The Mint estimates that one person in each household is collecting the quarters, and they are collecting a full set, not just their own state.

According to the most recent numbers from the Mint, over \$4 billion worth of savings have been created for the Federal Government with an expected \$2 billion more through the life of the program.

I appreciate the time and effort each of our panelists has put into their jobs and the time and energy they put into their testimony today. I say that very sincerely because I have worked with almost all of you in some capacity or another, and you really do an extraordinary job.

The collectors have always had, I think, the public interest in mind here, and we always appreciate that.

And with that, I yield to a strong supporter of these programs and one who has been extremely helpful in bringing all this to fruition, the gentlewoman from New York, Ms. Maloney.

Mrs. MALONEY. Thank you very much, Representative Castle.

I am delighted to join him on the dollar coin program. Representative Castle was the architect of the 50 States Quarter Program, which most Americans absolutely love and collect, including my two daughters. We just had the Florida coin released. We are eagerly awaiting the Texas coin. It has been absolutely a sensational success.

So I applaud Congressman Castle. He is truly a visionary legislator since so many people have enjoyed this program, and I am delighted to be a partner in this new effort.

At its heart, this legislation creates a massive national American history teaching tool. This bill combines all the best elements of a successful coinage program: education, collecting interest, a financial windfall for the Treasury.

Politicians and educators are always searching for a new way to boost interest in American history.

The program also promises to be a boon to the U.S. Treasury. Halfway through the quarter program, it has returned more than \$4 billion to the Treasury.

No doubt a similar popular dollar program would produce another huge benefit as novices and professionals and young people, and all people really, collect this coin and are drawn to collecting it as a hobby.

The Presidential \$1 Coin Act would also increase awareness of this overlooked coin, the dollar coin. My hope is that we will raise interest in the dollar coin, making it all the more popular and increasing its use so that when the great Sacagawea returns at the end of the Presidential program, it will be more in circulation.

Finally, we also called for a coin program that will memorialize each First Lady and include symbolism that is representative of their time, again a very important teaching tool and awareness tool.

We are also today holding a hearing on counterfeiting.

Counterfeiting is one of the most important law enforcement issues the Congress and the committee faces. In fact, documents seized from Al Qaida indicate that this is a means by which they carry out terrorist operations.

So I look very much forward to the testimony to see how our currency stands up relative to efforts in other countries.

Just recently, the new \$50 bill was unveiled. This is certainly a step forward, but it is also my understanding that we will soon be unveiling the \$100 bill, which is, according to accounts, very vulnerable to counterfeiting. Nearly two-thirds of \$100 bills circulate overseas.

While, in the U.S., our primary defense against counterfeiting is to use multiple colors, the new euro uses advanced metallic foils incorporated in them during printing.

So I look forward to the panelists' discussion of this technique.

The present budget also includes a proposal to study the advisability of combining the Bureau of Engraving and Printing and the United States Mint.

While I understand the stated goal is to achieve cost savings through a reduction in administrative costs, I do have some concerns about the study and the manner in which it is being conducted and will ask a few questions in that area.

I congratulate the Chairman for his leadership and wonderful ideas in coinage, and I hope we will pass this bill and move forward readily with other projects.

Mr. CASTLE. I thank the gentlewoman from New York.

Since there are people out in this audience who helped conceived the original 50 States Quarter idea and helped with this dollar idea, I do not want to take too much credit for being too innovative.

Mrs. MALONEY. Well, you pushed it through Congress.

Mr. CASTLE. Well, I was just smart enough not to get in the way. I did for about six months, but then I learned my lesson and wised up and realized we had a good program in hand.

Does the gentleman from North Carolina, Mr. Watt, wish to make an opening statement?

Mr. WATT. Thank you, Mr. Chairman. I will be brief because I know you want to move on with the hearing and the markup.

I do want to applaud the Chairman for convening the hearing because it is an important hearing both as a prelude to the markup of the bill that we are considering today and to establish a predi-

cate for moving forward on a bill. I just always think it is a good idea to build a public record about what the bill is about.

But I also think this is an important hearing because counterfeiting has become and is becoming more and more a problem in our society and I hope that we are doing everything that we can do to address that as a problem.

Three or four years ago, Chairman Oxley and I and a couple of the other members of the Financial Services Committee traveled to Europe and looked at some of the advanced processes that they were beginning to implement and look at—perhaps this was before the euro, I guess it must have been—to incorporate into the euro, and I came away deeply impressed with the efforts that they were making to try to combat counterfeiting.

At that time, I did not realize that some of the cutting-edge technology that was being used in their effort, or that was in use combat counterfeiting internationally, actually was being generated from my congressional district right in North Carolina.

When I got back, I got more proactive in actually going out and looking at some of that technology and trying to understand how the technology worked.

So I am going to ask forgiveness, Mr. Chairman, for sounding like I know more about this than I probably do. You know what they say about a little knowledge is a dangerous thing.

But with that kind of background, it is hard not to get interested in something when the magnitude of the problem is as severe as it is. Because my service on this committee is also parallel with my service on Judiciary, and I know that counterfeiting is a major component of criminal activity and an emerging component apparently of terrorism and acts that are taking place around the world.

So I hope that some of my concerns about whether we are doing enough in the area of anti-counterfeiting to combat the ability of counterfeiters, and to make it possible for ordinary citizens, not just businesses, that have the kind of equipment and machinery to evaluate the quality of currency, to make it possible for ordinary citizens to be able to get involved in this anti-counterfeiting effort.

I thank the Chairman for convening the hearing, and I will yield back the balance of my time and look forward to the question-and-answer period and the testimony.

Mr. CASTLE. Well, thank you, Mr. Watt. I must comment on your comment that you may sound as if you know more about something than you do. I think that is the true mark of a real congressman when we get in that position. We work hard to get to that point in our life.

The gentleman from California, Mr. Sherman, is yielded to if he wishes to make an opening statement.

Mr. SHERMAN. Thank you, Mr. Chairman.

I have always thought that the only skill I bring to Congress is how to be ignorant without looking stupid, and sounding like I know more than I do is an important part of that.

Mr. Chairman, I thank you for holding these hearings.

There are important issues as to whom we commemorate on our coins and States and localities and people. Putting those aside, I see two important issues about our currency, one dealing with coins, one dealing with printed money.

With coins, we ought to be talking about abolishing the penny. We are always often talking about abolishing the penny. People do not want to abolish the penny. This is because they think that somehow when they buy something at the store that they are paying exactly the amount they agreed to pay, which is not true.

Every transaction at every store in every state that has sales tax—and I speak as the former head of the largest sales tax agency in the country—is rounded to the nearest penny. So, in fact, you buy a bunch of things at the store. California imposes 8 and a quarter percent sales tax. You then owe \$99.123 cents or \$99.128 cents. That is rounded to the nearest penny.

Certainly in a sophisticated, computerized age, we could round to the nearest nickel. There would be no way for stores to try to get an advantage out of this because, when I go to the 99-cent store, they do not know how many things I am going to purchase. So whether I buy six or eight or 10 with the applicable sales tax either means things are rounded up or down.

Furthermore, they do not know at many stores whether I am going to pay with a credit card. If the bill came to \$108.12, I could pay with a credit card and pay only 12 cents. If I paid cash, they would round down to 10 cents. I save two cents. Boy, I hope I have more important things to worry about.

So we can abolish the penny and round to the nearest nickel.

The savings on the pants pockets alone would more than be worth it, not to mention what we would save as a country and how we would find another use for the zinc and copper involved.

We probably will not do this because if you poll on it, it does not poll well.

This is not “Profiles in Courage.” Perhaps our subcommittee could actually look at this independent of the polling and perhaps save an awful lot of our natural resources, not to mention pants pockets.

Now, let us talk about printed currency.

We have \$700 billion of printed currency in circulation. This is because the dollar is a storehouse of value and a medium of exchange around the world, and that is an important thing for the United States to preserve and an important benefit.

Just from the seigniorage, the fact that, in effect, the world is loaning our Federal Government \$700 billion interest free, that is worth at least \$15 billion, probably more as interest rates go up, to the Federal Government every year.

You know, when you print a Federal note, a 10-year note, you pay interest on it. When you print a Federal Reserve note like the one illustrated here, you do not pay interest on it. It is like a non-interest bearing \$50 bond. If you are the Federal Government, that is a good business to be in.

So that is just one advantage of our currency, being this storehouse of value.

It also enhances our status around the world and the status of our financial markets. We need to have currency that is not subject to counterfeiting.

As the gentlelady from New York pointed out, there are technical means to make our new currency even less counterfeitable than the new currency you folks have just come up with, which is wonderful

and beautiful and looks pretty hard to counterfeit, but maybe not as good as it could be.

The issue, though, that comes up is: What about all this stuff you printed in the last century? It's still in circulation.

Now, I know the average bill is only going to last a couple or three years. You figure you are going to pull it all in. But you are not.

A lot of folks are going to have the old bill. As long as it remains legal tender, you do not have to counterfeit the new bill. You can counterfeit the old bill. That is legal tender too.

I would hope that you would address in significant detail the positives and negatives of having a currency recall, perhaps excluding some of the ancient bills that are valuable to collectors and that are worth far more than face value.

But to recall all the currency that we printed last century, to say "You have until 2007 to turn it in for the new stuff" would tremendously inconvenience the drug dealers, the terrorists and the tax scofflaws around the country and around the world who ought to be inconvenienced.

It will help us catch some of them as they try to launder the old money into new money.

And, by the way, it will put out of business everybody who is still counterfeiting the old money that could continue to do so for many years to come.

So I hope you will address the benefits of this.

But let us not mince words. The tax scofflaws and the drug dealers have powerful friends in high levels around the world, and their complaints will be heard on this. But I would think that flushing them out would be a good thing to do and also something that would protect our currency from counterfeiting.

I want to hear more about it. I am just reaching initial conclusions based on the ignorance I was so proud of at the beginning of this statement.

I yield back.

Mr. CASTLE. Thank you, Mr. Sherman. We appreciate your comments. You certainly have the right witnesses here to answer your questions, except maybe the pants pockets. I do not know if there are any tailors out there, but the rest of them could probably answer a lot of the questions you have raised here today.

Mr. SHERMAN. Mr. Chairman, if I can just insert one other thing?

I am told that out of the \$700 billion in circulation, only \$40 million of it is counterfeit. I hope you folks address that because I believe that is way too low a number. I mean, that is such a small percentage, and the world is so filled with so many people who would like to counterfeit our currency.

Thank you.

Mr. CASTLE. We are going to return to sort of our regular order of business, and let me just sort of lay it out for you. I understand our last vote is around 3:30 to 4:00. That sometimes changes.

But we have this panel, and each of you will have five minutes. We will have a question and answer, if I just go through whoever is here, one time. Then we will go to our second panel, probably following the same format. And then we have a markup after that.

So we have a lot of business to get done today, so we are going to try to stay as efficient as possible.

Each of your statements will be made a part of the record, your written statements. We hope you can try to live by the clock as much as possible in your oral statements. I am looking at this up here. We do not have this in the Education Committee. It says: talk, sum up, that is one minute, stop. We will not enforce it precisely, but we would like to keep it relatively close.

Each of us will have five minutes, as most of you know, on the back-and-forth. So there is a lot to be done.

I know if the director of the Mint wants to start with the whole penny issue or perhaps other things she was going to talk about, but we start with Henrietta Fore, and we will go right down the line in order thereafter.

STATEMENT OF HENRIETTA H. FORE, DIRECTOR, UNITED STATES MINT, U.S. DEPARTMENT OF THE TREASURY

Ms. FORE. Thank you, Mr. Chairman.

And thank you, Congresswoman Maloney, members of the subcommittee.

I will, with your permission, give a short summary for oral testimony.

The United States Mint's mission is to fulfill our congressionally mandated role as the Nation's coiner of money, and we will proudly mint and issue the coins, medals and numismatic items that Congress authorizes in legislation.

We are working diligently to evaluate the manufacturing processes that the United States Mint would use to execute H.R. 3916, The Presidential \$1 Coin Act of 2004.

Working together, I am confident we can deliver to the American people the coins provided by the bill.

With the benefit of 212 years of experience, the United States Mint believes that redesign of America's coinage sparks interest in our history, culture and values.

The enormously successful 50 States Quarter Program and the redesign of the nickel have demonstrated that Americans embrace coin redesign.

The United States Mint has passed the halfway point of the 50 State Quarters Program and the release of the Michigan quarter in January.

More than 130 million Americans collect the 50 States Quarters, and at its midpoint, this program is responsible for the United States Mints depositing more than \$4 billion into the Treasury general fund.

This coin program is educational. Teachers and students have downloaded the United States Mint free lesson plans on the state quarters more than 1.5 million times.

This March, the United States Mint has also delivered the first newly designed nickel in 66 years. The American 5-Cent Coin Design Continuity Act of 2003 is the commemoration of two remarkable events in American history: the bicentennials of the Louisiana Purchase and the Lewis and Clark expedition.

We are telling the story through a series of new nickel designs.

New United States Mint nickel lesson plans are also being downloaded across the Nation.

In August, we will release the second new nickel in the series.

An essential facet of this renaissance in coin design is the United States Mint's new Artistic Infusion Program. With the assistance of the National Endowment for the Arts, we have selected 24 professional artists and student artists throughout the country. Along with the United States Mint's sculptors and engravers, they have submitted their first-candidate designs for the 2005 nickels.

Similarly, the United States Mint is evaluating the latest techniques and materials being used to manufacture coins around the world. As you know, the specific composition of all United States circulating coinage, except the dollar coin, is legislated by Congress.

With the rise in metal prices this past year, we are renewing our commitment to research coinage materials so that Congress has the most current information on the best and most economic materials for United States coinages.

Now let me touch briefly upon the piece of legislation to be considered by the subcommittee later during this hearing, The Presidential \$1 Coin Act of 2004.

We applaud the efforts of Congress to honor the history of our Nation.

The United States Mint has learned a great deal from its past experiences with coin design and dollar coin programs. A design change will make a coin more attractive to collectors and educators, but it is not likely to have an appreciable effect on how many are used in retail transactions. There are barriers to Golden Dollar circulation, and a design change does not mitigate those barriers.

As you know, the United States \$1 Coin Act of 1997 authorized the Golden Dollar. More than 1 billion coins were produced the first two years of production. Since then, however, circulating demand has dropped steadily.

The United States Mint has more than 262 million Golden Dollars in inventory, and we estimate that about 300 million are in commercial circulation.

Golden Dollars make up only about 4 percent of the total daily transactions involving dollars.

Americans are holding on to two-thirds of their Golden Dollars, over 600 million, for their collections and not re-circulating them.

The change in design of the dollar coin may spark strong enthusiasm and collector interest, but it appears to have had a modest effect in circulation.

We now produce about 10 million Golden Dollars per year to satisfy numismatic demand.

Barriers for businesses that choose to use the Golden Dollar are: the commingling of the Golden Dollar with the Susan B. Anthony in mixed rolls and bags; lack of sustained consumer demand; the cost of converting coin-operated machines; the high costs incurred by armored carriers and banking institutions handling the coins.

The United States Mint continues to work with the Federal Reserve to improve coin demand forecasting and coin ordering systems.

We want to gain efficiencies, streamline the supply chain, reduce order lead time, and reposition the coin.

In conclusion, I would like to share how our commitment to meet our customers' needs has been recognized.

The United States Mint received the highest ranking of any Federal agency in the University of Michigan Business School's American Customer Satisfaction Index for 2003. The ACSI measures more than 180 private American corporations and between 60 and 70 government agencies.

Thank you, Mr. Chairman. I would be pleased at this time to answer any questions you may have.

Thank you.

[The prepared statement of Henrietta H. Fore can be found on page 49 in the appendix.]

Mr. CASTLE. Thank you, Ms. Fore. We appreciate that.

We will now hear about our paper money.

Mr. Ferguson?

STATEMENT OF THOMAS A. FERGUSON, DIRECTOR, BUREAU OF ENGRAVING AND PRINTING, U.S. DEPARTMENT OF THE TREASURY

Mr. FERGUSON. Thank you, Chairman Castle. It is also a pleasure to be before all the members of the subcommittee. Thanks for holding this hearing.

The security of the United States currency was enhanced last fall with the introduction of the new redesigned \$20 Reserve Note, which included subtle colors. This marked the culmination of a multi-year, cross-agency effort that included unprecedented outreach and collaboration with industry stakeholders to develop a new design.

The new design is aimed at deterring threats to the security of the Nation's currency posed by technology advances in digital printing and reproduction technology.

Counterfeit deterrence efforts continue as we prepare for the introduction of a redesigned \$50 note later this year, followed by a redesigned \$100 note and potentially a \$10 note in subsequent years. At this time, we have made no decision about a \$5 note, and we will not be changing the \$1 or \$2 designs.

These efforts are coordinated by the Advanced Counterfeit Deterrence Steering Committee chaired by Treasury Under Secretary for Domestic Finance Brian Roseboro, and we have participation from the Federal Reserve, the Secret Service, Treasury Department, as well as the BEP.

In order to provide the public with the most secure and reliable notes, the ACD Steering Committee has developed and follows a comprehensive counterfeit deterrence strategy that depends on: high-quality currency designs with effective overt and covert counterfeit deterrence features; a well-planned and executed public education campaign; and aggressive law enforcement.

Fortunately, the United States has one of the finest law enforcement agencies involved in counterfeit deterrence, the United States Secret Service, and Mr. Townsend will testify on their efforts following.

So I will focus on the currency redesign efforts and public education campaign.

The redesigned Series 2004 \$20 note contains an array of sophisticated counterfeit deterrent security features, some of which are visible and easily recognized by the public—such things as the watermark, the security thread, color-shifting ink, the new colors, fine-line printing, and that traditional feel of U.S. currency—and some are covert or machine-readable only.

The signature covert feature of the redesigned \$20 note is an anti-digital counterfeiting system that was developed under the auspices of the international Central Bank Counterfeit Deterrence Group in cooperation with major digital printer and software manufacturers. This U.S. effort was led by the Federal Reserve system.

The anti-digital system, which is being used in a number of countries, relies on a hidden marker embedded in the note design that can be read or detected by new digital technology printers and software.

This new system design heralds a vibrant and growing partnership between the public and private sector to protect the Nation's currency. It is intended to thwart increased counterfeiting by means of digital reprographic technology.

This is a significant investment in the future of currency and will greatly assist in preventing counterfeiting by anti-digital technology as this technology becomes dominant in our marketplace.

To date, more than 1.2 billion of the new \$20 notes have been issued into circulation, about 25 percent of the total \$20s in circulation.

The BEP worked very closely with manufacturers of vending and ATM banking machinery in order to assure that these notes would go into circulation without any major inconvenience to the public.

On April 26, the Secretary of the Treasury, John Snow, unveiled the new \$50 note. I have samples I can show the committee later. The new \$50 will contain the same robust family of counterfeit deterrent features. However, the background colors will be different to assist the public in differentiating between the different denominations.

For redesigned \$100 notes, the ACD Steering Committee has directed the BEP to issue a solicitation to the private sector seeking additional counterfeit deterrent features that may be added to increase the security of the \$100 note.

The \$100 note, which is the most circulated U.S. note internationally, is subjected to the most sophisticated counterfeiting attempts.

The possible new features will be subjected to adversarial analysis by an interagency working group made up of the Treasury, Bureau of Engraving and Printing, Secret Service and Federal Research system.

It will also involve using the auspices of the European Central Bank to do adversarial analysis to assure that we are providing an effective and durable currency.

The public education program is a critical element of the overall anti-counterfeiting effort in the United States as well as around the world. The American dollar is the most recognized, trusted and accepted currency in the world.

While the features render the notes more secure, the success of government anti-counterfeiting efforts depend foremost on the public and cash-handlers as the first line of defense.

To defend against accepting counterfeiting, the public must be aware of the potential counterfeit threat and, most importantly, know how to authenticate their notes.

Results from research conducted before the issuance of the Series 2004, based on when we did the 1996 change, indicated that we needed to do more to get the word out.

We also found that the way to get the word out best was to utilize television.

A media strategy was planned to concentrate the greatest share of our paid media dollars in the visual medium that people spend the most time with, and that is in fact television.

Research conducted one month following the fall 2003 paid media program revealed public awareness of the impending currency changes went from 30 percent to over 80 percent and that the public's ability to describe at least one counterfeit feature increased by over 10 percent.

It is the responsibility of the government to provide the public with the information required to protect themselves from fraud or economic loss associated from counterfeiting. The public education program was designed to provide this information to the public and to maintain the integrity of the dollar both at home and abroad.

The better informed the public is, the less likely they are to fall victim to currency counterfeiters. It is our responsibility as stewards of currency to protect the public by enhancing the security of our currency through redesigning it, by informing the public of how to protect their hard-earned money.

With the release of the redesigned \$50, the public education campaign will continue. However, due in part to the overall success of the \$20 program, it will be conducted on a smaller scale than the initial campaign and will consist of no paid media in the United States.

This concludes my opening remarks, and I will be happy to respond to any questions.

[The prepared statement of Thomas A. Ferguson can be found on page 43 in the appendix.]

Mr. CASTLE. Mr. Ferguson, I assume this is the old \$50 and the new.

Mr. FERGUSON. The old one, and the new one over on the side.

Mr. CASTLE. Well, I played basketball. I never knew where my left particularly was. I only looked over here at the one on the right, and I was trying to figure out the differences in it. I was thought it was supposed to be in color, and now I realize what is happening.

Mr. Townsend, the Secret Service has been complimented. We appreciate what you do in terms of protection of our money. We would like to hear in detail what you can tell us about that.

STATEMENT OF BRUCE TOWNSEND, DEPUTY ASSISTANT DIRECTOR, OFFICE OF INVESTIGATIONS, UNITED STATES SECRET SERVICE

Mr. TOWNSEND. Thank you, Mr. Chairman, and good afternoon.

I would like to thank you, as well as the distinguished Ranking Member, Ms. Maloney, and the other members of the subcommittee for providing an opportunity to discuss currency issues and the role of the Secret Service in the enforcement of our counterfeiting laws.

Let me say at the outset of this hearing that the Secret Service has long enjoyed its relationship with this subcommittee, and we are extraordinarily grateful for your longstanding support of our mission and our employees.

As this subcommittee is aware, the Secret Service has been responsible for the integrity of our currency since 1865. It is our founding mission. And while we recognize that the public today is far more aware of our protective mission with regard to the President and Vice President, it is important to understand that every special agent on protective detail today began his or her Secret Service career investigating counterfeiting and other financial crimes cases.

I want to assure the members of this subcommittee that counterfeit currency investigations remain a high priority for the Secret Service. Although our agency was transferred to the Department of Homeland Security in March of 2003, we retained all of our personnel, resources and investigative jurisdictions and responsibilities.

Additionally, we have preserved important ties and relationships with key entities in the Department of the Treasury, the Bureau of Engraving and Printing, the Mint and the Federal Reserve.

The Secret Service has maintained that economic security is vital to homeland security, and as such, the safeguarding of our financial infrastructure and monetary framework continues to be a cornerstone of our worldwide investigative efforts.

It is estimated that some \$700 billion of genuine U.S. currency is currently in worldwide circulation and as much as two-thirds of that is circulated outside the United States. While current levels of counterfeiting represent a tiny fraction of this amount and do not have a meaningful impact on our economy as a whole, the losses incurred by individuals or businesses from these counterfeit notes can be significant.

Because of the dollar's stability and value, as well as its widespread use overseas, it continues to be a target for transnational counterfeit activity.

The counterfeiting of U.S. currency also continues to be associated with organized crime and drug trafficking.

Recent trends in the counterfeiting of U.S. currency indicate a growing globalization in production and distribution of counterfeit notes. Because not all nations report the passing of counterfeit currency, other than their own, it is difficult to provide precise figures detailing how much counterfeit U.S. currency is passed on a global scale each year.

The Secret Service estimates that approximately \$37 million in counterfeit U.S. dollars were passed successfully in the United States in Fiscal Year 2003. This would represent about a 14 percent reduction from the amount of counterfeit U.S. currency passed in the previous fiscal year.

Secret Service statistics also show that approximately \$63 million in counterfeit U.S. currency was seized last year by the Secret

Service and other authorities worldwide. Of this amount, approximately \$11 million was seized in the United States. The remaining notes were seized overseas, with over \$31 million seized in Colombia alone.

In recent years, the Secret Service has enhanced its international anti-counterfeiting efforts. Today, our agency maintains 17 foreign offices and continues to target strategic locations throughout the world where significant counterfeiting activity is detected through joint task forces with our foreign law enforcement partners.

Our investigative history has proven that the effective suppression of counterfeiting operations requires a close partnership between our foreign field offices and their local law enforcement counterparts, as well as an immediate response by the law enforcement community in order to develop investigative leads generated when a new counterfeit note is detected or an arrest is made.

The Secret Service has long believed that strategic placement of personnel promotes more aggressive law enforcement operations because agents are able to respond in a timely and consistent manner.

Additionally, the ongoing presence of our agents in foreign locales allows the Secret Service to build the same trusted partnerships with our foreign law enforcement counterparts that we have successfully built with our local police partners in the United States.

Today, Colombia is the single largest producer of counterfeit U.S. currency in the world, accounting for approximately 26 percent, or \$10 million, of the \$37 million in counterfeit dollars passed in the U.S. last year.

Public education and training continues to play a large role in the Secret Service's efforts to suppress the manufacturing, distribution and sale of counterfeit U.S. currency both domestically and abroad.

Secret Service personnel conduct training seminars on topics such as combating counterfeit, financial crimes and computer forensics, in an effort to assist our domestic and foreign counterparts in their local law enforcement communities and augment the Secret Service's mission.

Mr. Chairman, this concludes my prepared remarks. I would be pleased to answer any questions you or other members of the subcommittee may have.

[The prepared statement of Bruce Townsend can be found on page 83 in the appendix.]

Mr. CASTLE. Thank you very much, Mr. Townsend. As I indicated, we appreciate what you all do, and it is a good education for every member of Congress.

Ultimately, Mr. Marquardt, all the money goes to the Federal Reserve, as I understand it. If you can share with us in five minutes how you manage all that, we would appreciate it.

STATEMENT OF JEFFREY MARQUARDT, ASSOCIATE DIRECTOR, RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. MARQUARDT. Thank you, Mr. Chairman, and thanks to the subcommittee for inviting me to report on the Federal Reserve's activity in support of new currency design and coin distribution.

My statement contains a number of observations on currency design and counterfeit deterrence. Given today's focus on coins, in the interest of time, the rest of my remarks will be addressed to this topic.

The Federal Reserve worked with the Mint to implement the popular 50 States Quarter Program in 1999, the Golden Dollar Program in 2000 and most recently the Westward Journey Nickel Program.

The 50 States Quarter and Westward Journey Programs have been both innovative and challenging, as implied by the term "commemorative circulating coin" that is sometimes used to describe the coins in the programs; innovative because the goal is to satisfy the demand for both a transactional and commemorative coin in a single coin, which is distributed through normal wholesale distribution channels and whose design changes frequently; challenging because frequent design changes have affected the Reserve Banks' inventory and payment processes that are designed to meet wholesale demand very efficiently; challenging also because of heightened public interest, the other side of this heightened public interest, is that expectations for commemorative circulating coins that may be widely available can place added pressure on the wholesale distribution system.

To adjust to these new commemorative circulating coins, the Reserve Banks have changed their payment practices.

For example, as the Mint issues each new coin design, Reserve Banks have suspended their normal payment practice of first paying out previously circulated coins to depository institutions and instead have paid out the new designs for initial introduction periods ranging from a few weeks to two years, in the case of the Golden Dollar.

The recent experience of the Reserve Banks with changes in coin design has generally been that inventories and operating costs have increased. Reserve Banks acquired enough dollar coins in the first two years of the Golden Dollar Program to satisfy demand by depository institutions for the following two years.

Despite efforts by the Reserve Banks, the Mint and depository institutions to manage this demand, inventories of quarters at the Reserve Banks are now more than triple their 1999 level.

From 1999 to 2003, total Reserve Bank direct costs for distributing coins have increased at an average annual rate of more than 12 percent, three times the increase in similar costs for distributing notes.

The Reserve Banks and the Mint have used lessons learned from the Golden Dollar and States Quarter Programs to help manage the distribution of the new Westward Journey nickels.

Several factors have led to a more orderly initial rollout of the first new nickel in the program: Modest initial publicity about the new design tempered public demand, and perhaps most impor-

tantly, there will be no more than two new nickel designs this year and next; slower rates of introduction, which is particularly important for the nickels because they have lower payout ratios than the quarters.

Although the initial introduction of the nickels has gone smoothly, it is still a bit early to fully assess the impact of the program on nickel inventories.

Turning to the demand for dollar coins, the GAO has reported a number of barriers to widespread circulation of dollar coins, including the following, which I will just tick off, that are widely known from the GAO report.

Obviously, the public generally appears to prefer at this point notes because they weigh less; network effects, the interdependency of demand in that individuals are unlikely to use dollar coins until retailers stock them and retailers will not stock them until the public uses them; banks and armored carriers may not invest in inventory equipment to handle the coins, particularly to meet spikes in demand because they do not yet perceive significant benefit, and there may be higher fees in some cases for distribution of coins and notes.

Nevertheless, on this point, there is regular use of dollar coins in certain markets, and I think the second panel will address this. The Reserve Banks report average monthly dollar coin payments of \$15.2 million, average monthly receipt of \$9.2 million, and average monthly net payouts of dollar coins of about \$6 million.

Overall, it is important to recognize that there are significant uncertainties about the effects of additional changes to circulating coin designs, particularly to the dollar coins. The Federal Reserve's experience since 1999 suggests that flexibility in implementing new coin programs, along with care in publicizing them, will allow us to better address the inventory and distribution challenges of these programs.

For example, the smooth introduction of the first new nickel and experience so far suggests that there are advantages to releasing no more than two new designs per year. This rate of introduction, at least for widely circulating coins, allows the Reserve Banks more lead time to draw down inventories of old designs and build up stocks of new designs for the initial distribution. More time can also allow for more flexibility to wrap coins, which I know is an issue on the committee's mind, to meet initial demand for these coins.

If experience shows over time that higher rates of introduction can be managed effectively, the Reserve Banks and the Mint could increase the rate of introduction in accordance with carefully prepared plans, which are so important to the logistical issues.

In addition, alternative distribution strategies that complement wholesale distribution could be explored.

Finally, we would advise against unduly stimulating public interest in new designs, which appears to cause an intense initial interest and to place significant pressure on the Reserve Banks and depository institutions, with limited long-term changes in transactional demand. If long-term demand grows slowly, depository institutions and the Reserve Banks may need to limit the amount of

dollar coins they order each year in order to manage ever-growing inventories that can occur because of this problem.

We are very concerned that there could be significant public frustration with both depository institutions and the Reserve Banks if some expectations are not met for the distribution of new coins, and if and as long-run demand does increase, of course, the Reserve Banks will work closely with the Mint to meet demand in accordance with our obligation to provide for an elastic currency.

I thank the committee.

[The prepared statement of Jeffrey C. Marquardt can be found on page 57 in the appendix.]

Mr. CASTLE. Well, thank you. It has all been very interesting, and we will try to probe into this a little bit.

I will yield to myself for five minutes to begin. I am looking for fairly swift answers on this.

First of all, Mr. Ferguson, on the \$50 bill, was that all earned media? Was that all free media? Or did you have a PR allotment for the publicity you have gotten in recent weeks on the \$50 issuance?

Mr. FERGUSON. All the publicity that we have gotten on the \$50 bill has been free. It has been news media as a result of the events.

Normally, the problem is, you do not get exactly your message out, but, yes, that has been free.

Mr. CASTLE. Well, I congratulate you because I think the message is both out and seems to be delivered correctly.

Mr. FERGUSON. Thank you.

Mr. CASTLE. So it seems to have worked out pretty well.

Mr. TOWNSEND, with the issuance of the new \$20—you may not be able to judge this yet, I do not even know how much counterfeiting there is on \$20 bills.

But with that issuance, have you noticed a decrease—you may have even mentioned this at some point—a decrease, or is that just not a bill that is very often counterfeited, with the issuance of the new \$20? Obviously, the \$50 is too early to tell yet.

Mr. TOWNSEND. What we have seen is to be viewed in context of really the last redesign, because that was our first experience in 50 or 60 years with redesign.

After the last redesign, the 1996 redesign, which I believe appeared in 1998, we did see a spike in counterfeiting, which was not unexpected. Counterfeiters like to take up a challenge, and we have seen that same spike right now.

However, I want to emphasize that the data is very preliminary and that these numbers are still coming in. We are taking a real close look at it.

We also believe—and I do not want to get over into the design features too much and out of my expertise—that the investment has been made in securing the design of the note and the technology with which it would be counterfeited on is not yet fully realized.

So we think that investment to be a good one for the future, but we will keep a close eye on this and keep the subcommittee advised.

Mr. CASTLE. Good. I mean, I think it is an important subject, and we should be advised on that. I appreciate that.

Let me turn to a subject of some concern, and I am going to get in an area of which I do not understand it well enough to even perhaps articulate the question correctly.

I think I am asking the question of you, Mr. Marquardt, but I think that Ms. Fore may be involved in this as well, and I want to try to straighten some things out.

I am concerned about some of the things that you spoke about when you spoke in terms of the inventory and the ordering and depository banks being concerned about being able to get things or whatever. Because I would get complaints at home about people being unable to get—because they knew I would have been involved with the quarters—be unable to get the quarters and, of course, you get the mix of the quarters after they have been around the first time and that kind of thing.

What people essentially want to do is order, you know, the quarters and whatever denominations that there are, and obviously that will probably be true of the dollar coins as well.

Apparently it comes down to order forms—and this is where I get a little confused about exactly who is preparing these things and how they are going out and how you actually make a decision on what you are going to deliver to a bank.

In the past, I know there has been some finger pointing between the Mint and the Fed, and I do not much care about all of that. I just want to make doggone sure that we do not add to some of the concerns that you have about overinventorying and not being able to make your deliveries as is needed.

What can we do, particularly with the use of computers, et cetera, in terms of making sure we understand what is being ordered, getting that out so that the banks will get them out the door and keep things moving, particularly in terms of some of these forms that have been in question?

I do not have them in front of me, I cannot sit here and tell you how to change it or whatever, but I assume you know what I am talking about. Perhaps you could help me.

Mr. MARQUARDT. Mr. Chairman, I think the forms have been discontinued. That was part of the history with the Golden Dollar.

Let me just quickly describe the strategy for payouts of the new quarters and the nickels.

Basically, the idea is: The Reserve Banks pay out only the new issue, and they accumulate a stock.

The figure for the quarter program is on the order of 450 million initially of the new coin. That is what they pay out then for about a two-to four-week period, and so that is the effort, is to meet that initial spike in demand, particularly by coin collectors and general households.

In overall management of inventories, we have worked much more closely in the last few years—and the activity at the Fed is centered at the San Francisco Fed—with our Cash Product Office. They have daily phone calls, weekly planning sessions to manage coin ordering on a national basis, and we are working right now on changing the lead time of these orders from 30 days to, you know, twice a month.

So that is going on, and I think inventory management overall has improved significantly over the last few years.

Mr. CASTLE. Would you agree with that, Dr. Fore? Or do you have any comments about that or anything else that we should be doing? I am just trying to resolve a problem; I am not trying to start a fight.

Ms. FORE. We have been working very closely with the Federal Reserve on inventory management and it is improving.

There probably is still some difficulty for many banks to be able to order the type of quarter, or in this case, of what is proposed in the bill, the type of \$1 coin. So it is something that we would have to work on with the Federal Reserve Bank to see if there is a way that we can handle that.

Mr. CASTLE. Okay. Well, we think it is important.

My time is up, but I do want to put one thing on the record because Director Fore and I have had a couple of meetings in the last couple of days.

One of the adjunct aspects of the dollar coin legislation is to have a spousal coin—generally referred to as First Ladies, but you never know in the time this all goes along—and part of it was to have, I guess, a .999 bullion coin and then some discussion later of cutting that in half.

Then we have had some further discussions since then of doing, I guess, brass—is brass the right expression, is that right?

Ms. FORE. Bronze.

Mr. CASTLE. Bronze, excuse me—bronze coins in a much lesser figure to make them more collectible for young kids, et cetera, or that kind of thing, or maybe some combination of all these.

We will probably go ahead with the legislation today without addressing that particular issue.

But I think it is important to put on the record that we have had this discussion so that if we develop a better way of doing this that would be of more interest to coin collectors in America, that we can step into that at some point before the legislation goes through on the floor.

I thought you might want to comment on that.

Ms. FORE. Yes. We have a very popular bronze metal program for the Presidents, and Presidential spouses would also be very fine in bronze metal, both the large three-inch size as well as the smaller size. It would be very collectible and affordable and, thus, a very good educational tool in classrooms and across America.

Mr. CASTLE. Thank you. This is just a comment, no question, and then I will turn to Ms. Maloney.

But this may sound a little like a wish list, so do not take this as gospel or fact, but my hope is that we are going to sort of derive the use and commerce of the dollar coin to a degree with this.

It is my hope that when little Johnny who is 9 years old and little Mary goes into McDonald's, they are going to insist on getting the Presidential coins in change. If they are going to go next door to Burger King instead and get them there, maybe they are going to have to stock them at McDonald's or whatever the store may be.

Maybe we will even have the various other retail establishments around the country think about having a place where they can actually keep dollar coins because there is going to be hopefully enough collector demand for them so that the average collector,

people like me who are not really coin collectors, hopefully, will start to drive a little bit of that.

I agree that we are not going to do anything with the dollar bill. It is still going to be there. We do not intend to do anything about it. I have looked at that issue, and I do not intend to touch it ever again.

But on the other hand, there is no reason they cannot coexist, and hopefully that will work out.

As I said, that is a little bit of a wish list and a dream as opposed to potential reality, but my hunch is, based on what I have seen with the quarters, it might happen. So we will just have to see how it all works out.

I yield to Ms. Maloney.

Mrs. MALONEY. Thank you very much.

Dr. Fore and Mr. Ferguson, could you please comment on OMB's expectations for this study?

According to the RFP that Treasury circulated for its study of the BEP/Mint merger issues, "Treasury needs to address OMB expectations on Mint/BEP that were raised in the OMB fiscal year 2005 budget pass-back."

What specific concerns has OMB conveyed to you about the operations of BEP and Mint? And how do you expect this study to address those concerns?

Mr. FERGUSON. The OMB pass-back did not have any specific concerns with either of our agencies or bureaus, but rather the potential of cost savings that could possibly be derived by combining some or all of the functions of the bureau and the Mint, everything from the potential of administrative services at the headquarter level to potentially operating facilities, getting within a single security environment, et cetera.

At this point, the study has just I think been going on for a little over a month and is due to be completed by the beginning of July. That may be a little premature.

I believe that OMB and the department feel that if there is significant efficiencies that can be obtained that they should be looked at. It is something that has been looked at a number of times over the years, and we have not yet identified great savings, but there is always the potential out there.

Mrs. MALONEY. Well, Mr. Ferguson, in testimony before Congress in 1997, the General Accounting Office indicated that neither of the studies done to date on merging the operations of the U.S. Mint and the Bureau of Engraving and Printing nor any of the Treasury officials that GAO interviewed for its testimony provided information on the savings that would accrue from a merger of the two entities.

I am all for saving money. That is one reason why I like the Castle-Maloney bill. It will actually make money for the Treasury. I think that is a good thing, particularly when you have a \$500 billion deficit.

But in addition, the 1987 Treasury study also did not provide support for cost savings from a Mint/BEP merger.

Does the Treasury Department or OMB or your office have any new cost-savings information, since both of these studies were conducted that would now justify a merger of these two entities?

Maybe Dr. Fore would like to start this time.

Ms. FORE. Well, I think what is envisioned here is that it be a fresh look at both of these two entities.

We are both manufacturing bureaus, we both manufacture the money used in the United States. And so if there are cost savings, we would like to deliver those savings to the taxpayer.

So that is the hope of this study, and it will be done by the Department of Treasury.

Mrs. MALONEY. Thank you.

Getting to the new dollars, or the \$50 and the \$100 bill, that we are working on, what is the effectiveness of the anti-counterfeiting features on the recently redesigned \$20 bill?

Specifically, Mr. Ferguson, did the color change really get to the heart of the problem, especially since so many counterfeits are made using computers and color printers?

I think this is particularly important, given the testimony of Bruce Townsend about the high degree of counterfeiting, particularly outside of our country, and that Al Qaida types and drug dealers, et cetera, are counterfeiting it and using it really against our citizens and against our people.

So we really need to really crack down on counterfeiting.

I am stunned at these numbers. \$31 million received in Colombia? You wonder how much went through the hands.

So did the color really deter counterfeiting?

Mr. FERGUSON. Thank you, Congresswoman Maloney.

With the addition of the color to the \$20 and now to the \$50, the color itself has never been claimed as a security feature in itself. In fact, U.S. currency maintained its lack of color for a number of years.

Mrs. MALONEY. Well, then why are we doing it if it does not deter? I thought the whole purpose was to deter counterfeiting.

Mr. FERGUSON. I am going to get to that.

Mrs. MALONEY. Okay.

Mr. FERGUSON. As I mentioned in my testimony, the hallmark of that design and of this design is the inclusion of this new system which we have worked out in conjunction with computer manufacturers, hardware manufacturers, and software manufacturers so that there is a code built into that color print. We had to use color, had to use offset-type printing, which is that type of tint printing.

Mrs. MALONEY. But this code I could not see or a counterfeiter. A regular person could not see it, but if you put it in the machine, you could see it? Is that what you are saying?

Mr. FERGUSON. No. When a person tries to scan the note and reproduce the note on a machine that has been built in the last few years, the machine will stop printing. It will only print a portion of the note. It will stop. It will tell you that the system does not support that type of reproduction.

It gives you a Web site to go to, www.rulesforuse.org, which will tell you which country to go to. So the note cannot be reproduced on that type of equipment. The \$20—

Mrs. MALONEY. So our note cannot be reproduced with this code in it. Is that what you are saying?

Mr. FERGUSON. On a system that has been manufactured and sold in the last couple of years.

Mrs. MALONEY. Well, I just Xeroxed a \$50 and, you know, with the color you can really Xerox it very well.

I just got back from Iraq. I have a counterfeit Iraqi dinar. I did not know when I bought it there. I thought it was a real one. But this has color in it. Someone just told me it is a counterfeit one.

But the euro has the magnetic deal on it. When I was in Iraq, in Afghanistan, in Kuwait, they are all using the magnetic code. At first, I thought it was a decoration, and apparently we are paying, meaning our government is paying, to print the Afghani dollar or currency and the Iraqi currency, and they apparently are having a more sophisticated form of deterring counterfeiting than we have in our own country.

So I am wondering why we do not have the same standard.

And to a second point, because I know the Chairman likes to raise money for the Treasury, I have a bill in with my Republican colleagues that would allow our country to print currency for foreign countries.

Why in the world are we giving a contract to another country to print currency that we are paying for, in this case Iraq and Afghanistan?

By all accounts, they say this magnetic field deal is a deterrent and, quite frankly, I think a deterrent in counterfeiting has become a national security priority.

We are always trying to fight drugs. Well, if we can crack down on the money, you can crack down on the drugs. You are out of business if you do not have the currency, and anything we can do to crack down on counterfeiting.

I thought the numbers that Mr. Townsend threw out on what was being done overseas was incredible.

And then, lastly, because my time is running out, the new dollar bill, I read in the paper and I cut it out, and it was in the New York Post, a big article on it yesterday—this is The Washington Post.

But it said that the most counterfeited piece of currency in the world is our \$100 bill, the U.S. \$100 bill. Though we like to counterfeit the \$20 bill here in the U.S., the \$100 bill is the most counterfeited currency in the world.

Are we going to use this new magnetic code to, you know, prevent counterfeiting?

Mr. FERGUSON. Congressman Maloney, I am not exactly sure on the magnetic code you are talking about. We will have to check.

I was involved somewhat with the design and production of that Iraqi currency, so I do know—

Mrs. MALONEY. Well, then let's just go to the euro since that is more well known, the strip on the euro, or the English note?

Mr. FERGUSON. On the issue of the \$100 note, as I mentioned in testimony, given the type of counterfeiting that happens with \$100s, which does tend to be international and much more sophisticated than the type of the digital counterfeiting that we see on \$20s and \$50s domestically, the ACD Steering Committee has directed us to go out for the solicitation to look at what additional security features are available.

That solicitation will be out within the next two weeks on the street. It will be open for everyone out there with technology to

submit so that we can in fact look at what technologies are available.

We will test all those technologies looking for what will give us the most efficient, against-counterfeiting, durable, cost-effective, good, security features that we can add to the \$100 bill so that we can have a sophisticated, secure, well-circulated \$100 bill.

Mrs. MALONEY. All I can say—my time is up—why in the world are we paying to print in foreign countries a currency that is more secure than the one that we have here—referring to the Afghani bill that has a metallic code on it, like England and like the euro? It does not make sense.

Mr. CASTLE. Thank you, Ms. Maloney.

Do you want a response to that?

Mrs. MALONEY. Yes. Well, if he—

Mr. CASTLE. Yes. Do a brief response, please.

Mr. FERGUSON. I would not necessarily agree with that supposition on some of those currencies being more secure than ours. For the counterfeiting of all those currencies, the statistics have to be looked at, a number of the features.

Again, as I said in testimony, if the public is not well educated—some of these very sophisticated features, if the public does not know how to use them, are not very effective. You need to have this combination of good features, good public education and outstanding law enforcement.

Mrs. MALONEY. Well, I think this is critically important. Congressman Castle and I have spent a lot of time on the Financial Services Committee on cracking down on money laundering, on drug money and on the movement of terrorist money around the world. And if something can be done as simple as putting a magnetic field on it so that you cannot counterfeit.

I have the Saudi money, it has that magnetic field, and then I have one that they tried to counterfeit. You cannot copy the magnetic field.

I just would like to ask that the record remain open on this question so that I and others can submit further questions in writing.

I truly do believe that this is a security issue. It is an issue of combating terrorism and drug laundering of money. Since counterfeiting is so prevalent, particularly in foreign countries, if we do not do everything to crack down on it, then we are not being responsible.

Mr. CASTLE. The record will remain open for a while.

Mr. Ferguson, you suggest that perhaps you could have a conversation, too, which might be helpful.

Mr. FERGUSON. I would certainly be available at any time.

Mr. CASTLE. Good.

All right. With that, thank you—

Mrs. MALONEY. Excuse me. I said magnetic, I meant metallic.

Mr. FERGUSON. Actually, that helps, Congresswoman, thank you.

Mr. CASTLE. Thank you, Ms. Maloney.

At this time, we will yield five minutes to the gentleman from North Carolina, Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman.

I actually did not come in to ask any questions about the \$1 coin, but my lawyer background kicked in when I heard the testimony.

Because I got the distinct impression from Ms. Fore's testimony and Mr. Marquardt's testimony that you did not necessarily think this was a good idea to be doing this coin.

Can you just tell me whether my impression is correct or not? Just say yes or no.

I do not want to get you into dutch with the Chair and the Ranking Member. They are not listening anyway. You can just whisper it.

[Laughter.]

You can just whisper your answer to me.

Ms. FORE. All right, I will start.

Mr. WATT. Yes or no?

Ms. FORE. It will be very popular among the numismatic collectors, the series coin collectors, and it will be very—

Mr. WATT. No. My question is: Do you think this is a good idea or not?

Ms. FORE. Design change is always a good idea. It encourages Americans to look at their money.

Mr. WATT. So you support the \$1 coin?

I know I am putting you on the spot, but I thought that is why you came over here, to tell us whether you thought this was a good idea or not. I guess this a policy consideration, a political consideration.

But it sounds to me like it is going to be terribly cumbersome to move this coin around. There are some real disadvantages.

Am I misreading what you are saying, Mr. Marquardt?

Mr. MARQUARDT. Mr. Watt, first of all, let me say our board does not have a position on this at all.

Mr. WATT. Okay, well, that is fine.

Mr. MARQUARDT. So our remarks today are—

Mr. WATT. Fine, okay.

Mr. MARQUARDT.—designed to provide the committee with, you know, in a straightforward way, technical information about some of the challenges.

Mr. WATT. I appreciate it.

Mr. MARQUARDT. There are also positives—

Mr. WATT. Let me get on to what I came here for. I am obviously not going to get a direct answer to that question because this is a political hearing.

But, Mr. Ferguson, is the \$100 bill the most counterfeited currency in the world?

Mr. FERGUSON. I would give that question to Mr. Townsend.

Mr. WATT. Okay. Yes or no. I am just trying to get a straight answer here.

Mr. TOWNSEND. Outside the United States, the \$100 Federal Reserve note is the most counterfeited U.S. bank note.

WATT: Okay, that is fine. That is the answer I am looking for.

Mr. Ferguson or Mr. Townsend, is the \$50 bill that we just produced the most secure bill that could have been technologically produced. Or is there something beyond that that we should have been doing?

Mr. FERGUSON. Mr. Watt, we believe that that is against the type of threat that was posed against the \$50, the type of counterfeiting,

that the package of features are the most effective, giving us a solid base of security, durability—

Mr. WATT. Yes, but you keep talking about security enhancements and deterring when it seems to me we ought to be talking about preventing, if we have the capacity to prevent and there is technology available to make that possible.

While it is nice to have a wonderful law enforcement backup, that is like saying I should not put the best security on my front door because there is a police station down the street.

Isn't it my responsibility to make my own situation as secure as I can possibly make it? Isn't that our responsibility?

Mr. FERGUSON. Yes, sir.

Mr. WATT. I mean, is not our currency the most counterfeited worldwide?

Mr. FERGUSON. Actually, I do not believe that is true, but I will leave that up to Mr. Townsend.

Mr. WATT. Is an optically variable device embedded in a piece of currency better than what we have done with this color stuff, or is it not?

Mr. FERGUSON. Sir, we have an optically variable device on our currency.

Mr. WATT. Can I read it?

Mr. FERGUSON. Yes. The lower number on that note—in fact, if I gave you this note, it changes color from copper to green.

Mr. WATT. All right. So I could pick that up and I would be able to tell that that was a counterfeit in my own daily living?

Mr. FERGUSON. Yes. The vast majority of counterfeit notes do not reproduce the watermark that is in the paper, the security strip that is in our paper, it says USA—

Mr. WATT. A guy in my neighborhood is going to be able to pick up this \$50 bill and determine by looking at it whether it is a counterfeit, or is he not?

Mr. FERGUSON. Yes, should be able to.

Mr. WATT. All right. So you are saying what you did on this \$50 bill is as effective or more effective as an optically variable device, if you put it in there?

Mr. FERGUSON. Sir, again, it does have an optically variable device, that being the color-shifting ink. It has several features that are not reproduced by typical printing means in the strip and the watermark that area available for the public. It also has—

Mr. WATT. Let me ask this question directly since you did not necessarily answer it when Ms. Maloney asked it kind of circuitously.

Is our \$50 bill as secure as the one that we just approved and are putting into circulation in Afghanistan? Isn't it a fact that currency is more secure than this \$50 bill that we just made?

Mr. FERGUSON. Sir, I would have to say I am not familiar with Afghanistan's currency.

Mr. WATT. Mr. Townsend?

Mr. FERGUSON. Iraqi currency, yes. Not Afghanistan's.

Mr. TOWNSEND. Well, if I could make a couple of observations, I—

Mr. WATT. Would you mind answering my question and then making observations, rather than making observations instead of answering my question?

Mr. TOWNSEND. I have to tell you that the Secret Service does not routinely investigate cases of counterfeit Afghani currency. Therefore, I am not in a position to discuss its security features, nor do I have statistical data on how much it is counterfeited, nor do we have data on the counterfeiting of many of the world's currencies because those countries do not make it available to us.

Mrs. MALONEY. Would the gentleman yield?

Believe it or not, I happen to have counterfeited Saudi Arabia money with the original where there is a metallic—it is called the optically variable device—a metallic thing shines at you, and, when you reproduce it, it comes out like paper.

So I would be glad to let you look at it, if you would like.

Thank you. I yield back.

Mr. WATT. I am not trying to be argumentative, but it seems to me that our obligation is to try to produce the most secure currency that we can produce, and it does not seem to me that we are doing that currently.

While this \$50 bill seems to be a step to enhance the security, it does not seem to me that the \$50 bill has gotten us anywhere close to the gold standard that we ought to be seeking to achieve to secure our currency when counterfeiting is such a serious issue and a growing terrorist issue and a growing gangster issue.

I do not know, maybe I am missing something here. If I am, tell me what it is I am missing.

Don't we want the most secure currency we can get?

Mr. FERGUSON. Yes, we do, sir. And I believe that there is no single security feature out there, including the ones that are out there, which are not counterfeited regularly. There is no silver bullet. There is no panacea.

We have to look at having a layered effect, having multiple security features, and building a very secure design that in fact stops, as you said, counterfeiting, putting things in, working with the digital industry so that we stop counterfeiting before it occurs, providing features in there that people on the street can recognize.

We are looking at all those features.

As I said, we have a solicitation going on the street to look at all those features you mentioned, that Congresswoman Maloney had up there, and others that potentially could be added. But they have to be features that are going to last on the currency, features that in fact are going to add security, that while they may not be copied on a copying machine, cannot be very easily simulated with other features and, thus, in fact remove security from the design.

Mr. WATT. Thank you.

Mr. FERGUSON. So we need to have a whole sophisticated package.

Mr. WATT. The Chairman has told me my time is up.

I think you are missing one very obvious thing, though, which is the first line of defense against counterfeiting is the people who receive a counterfeited piece of currency, and if there were some obvious way to make that determination, people would not accept the currency.

Mr. FERGUSON. We agree completely, Congressman.

Mr. CASTLE. Thank you, Mr. Watt.

Mr. King actually had three questions he wanted to ask, and I think what Ms. Maloney and Mr. Watt have asked actually answered two of them, and I am trying to wrap this panel up so we can get to the next one.

So I am going to ask Director Ferguson the one question that I think is left.

Then I do want to reinforce one or two points very briefly.

“The House has passed nearly identical versions of the foreign currency printing bill in four or five Congresses now with little or no action on the Senate side. We feel pretty strongly here that it is important for this to be signed into law. What plans do you have to meet with senators to get this legislation moving? And is there any chance that Under Secretary Bodman will meet with senators about it, or Under Secretary Designee Levy?”

Mr. FERGUSON. Thank you, Mr. Chairman.

And I do thank this committee. We fully support that bill. We feel that it would be a great boon to our being able to look at other security features. If we had done some other production, we would have even more knowledge of security features, how they could be incorporated into U.S. currency. So we appreciate that.

We are attempting to work the issue on the Senate side. I cannot speak for Deputy Secretary Bodman or the Secretary on this issue but will pass along your comments to them.

We are meeting with the Senate Banking Committee in order to attempt to get this moving in committee.

Mr. CASTLE. Mr. King's comments might have been more strength than my comments.

I am just wondering about something Mr. Watt asked. I want to make sure that we are on the same page here before we get off on this.

But, Director Fore, with respect to the support of the dollar coin, you and I have had a number of conversations about this, I want you to state—and I will be leading you, if you will—where your support level is for the Presidential \$1 Coin Program, if you would, please.

Ms. FORE. Coins provide many facets in an economy.

One is for trade and commerce. So one piece that the dollar coin provides in our economy is as a coin that is the dollar denomination. We have been working diligently in the past few years to try to get the coin into greater circulation so that you receive it in your change every day. You have been hearing from Mr. Marquardt and myself that that is a continuing challenge.

Coins also are very important to collectors. It is a worldwide international market. It is a source of profits for us and for the general treasury of the United States. Any coin design immensely helps that, and we hope that a coin design will help increase the circulation, but it cannot guarantee it.

Coins can also be used for education. A design change is an enormously powerful educational tool. Children across America and adults across America will learn about the Presidents of the United States and about first spouses and what they can possibly contribute to their own lives, and that is a very powerful symbol.

So coins have many uses in American society. They reflect our values and they reflect also the currency of the nation.

So any design change is enormously popular and effective in the United States.

Mr. CASTLE. Thank you.

And, Mr. Marquardt, I understood exactly what Mr. Watt is saying because your comments hit me a little bit the same way, too. But I sort of interpreted a little bit differently, and that is that at the Fed, you have to manage inventory, you have to manage the speed of change and getting things out the door, part of inventory management, but I did not take that as opposition to a coin change.

It is a question of how it is done and how it is managed and that kind of thing. I would just like you to expand on that slightly, if you would, to make sure that we are at a comfort level with that.

Mr. MARQUARDT. Thank you, Mr. Chairman.

As I said to Mr. Watt, our board does not have a position on the bill itself. What I was trying to do is present to the committee the technical issues, as you say. But, in general, one of our missions is to provide for an elastic currency. We work very closely with the Mint on a daily basis, and we will work if the bill passes. Of course, we will work closely, just as in the case of the nickels, the quarters, the Golden Dollars, with them to implement the bill.

Mr. CASTLE. Okay. Well, if you will do that and keep our interest rates down, we will be very pleased with the performance of the Federal Reserve.

I just wanted to make sure that the points are clear. Because, obviously, you are very significant people in this, and we want to make absolutely sure that we understood where you were.

If there are no further questions, I would like to move along to the next panel. Let me thank all of you again for your service and for being here today, and we will take just about a minute break to shift name plates around and get the next panel up.

Thank you.

Okay. We are ready to proceed with the second panel. We are going to try to move along fairly rapidly here, so we are going to try to stay as close to that five minutes as we can. I may start ratcheting things up here simply because of the session on the floor, et cetera.

However, having said that, your testimony is very valuable. We will go in the order in which you are seated, and we will start with Mr. McMahon—I have already mentioned all of you in the earlier introductions; I think you are all here—who is the East Coast director of the National Automatic Merchandising Association.

Actually, you people shifted around the order almost entirely here.

Mr. Noe is a coin collector and coin dealer who has served as the vice chairman of the Citizens Coinage Advisory Committee.

Jay Johnson, a former member, is the immediate past director of the United States Mint, who is now director of Business Development for Collectors Universe.

Mr. Tam is the cash management specialist for a public transit agency.

So all your testimony is very important. We are pleased to have you here.

And with that, we will start with you, Mr. McMahon.

STATEMENT OF THOMAS C. MCMAHON, EAST COAST DIRECTOR, NATIONAL AUTOMATIC MERCHANDISING ASSOCIATION

Mr. MCMAHON. Thank you, Mr. Chairman.

My name is Tom McMahon. I am senior vice president and chief counsel of the National Automatic Merchandising Association.

I realize that we are running late, so I am going to summarize very briefly my statement.

The vending industry has been a strong proponent of a circulating dollar coin for about 25 years.

We very much support H.R. 3916. We think that it stands a pretty good chance of stirring up interest in the dollar coin, and we hope that it might lead to more use of that dollar coin.

Our industry sells about \$30 billion a year of food and beverages to the American people through vending machines. We think that if this legislation works and it leads to the circulation of more dollar coins, it could have a positive impact on our industry of about \$1 billion per year.

That would be about an increase of \$300 million in sales because, right now, we lose sales to degraded or worn-out \$1 bills, and all of those sales would be captured if the American people had a dollar coin in their pocket or purse.

We also spend about \$700 million a year on service calls due to jammed bill acceptors. A lot of that cost would be eliminated if the American people had a circulating dollar coin.

So we support the legislation because it would have a positive economic impact on our industry.

We have four suggestions that we think would lead to a circulating dollar coin which would help our industry.

One is enact the Presidential Coin Act of 2004. As I said earlier, we think it stands a good chance of stimulating interest in the \$1 coin and getting more people to use.

Two—and this is very important—get the Susan B. Anthony dollar coin out of circulation. Too many people do not know what it is. It is not a problem for our industry. Vending machines accept both the Susan B. and the Golden Dollar coins. But the over-the-counter retailer who wants to try the program ceases the program as soon as he goes to a bank and gets a role of coins half of which are Susan B's.

So the second step after enacting H.R. 3916—I think that is the number of it—would be get the Susan B. Anthony dollar coin out of circulation.

The third step that you can take to ensure the success of this coin is make the Golden Dollar coin available to the American people. And you can start with Federal buildings.

This government cannot go to McDonald's or 7-Eleven or Wal-Mart or anybody else in the private sector and urge them to use dollar coins and make coins available to their customers if the Federal Government itself does not do it. And, right now, except for stamp vending machines in post offices, it is not doing it.

So that is the third step. Make the coin available and start with the Federal Government itself.

And the fourth is, engage the Nation's retailers in the Presidential Coin Program. If Wendy's offers Presidential coins to its customers, and those coins bring business in the door, you can bet McDonald's will follow suit. And if Target offers Presidential coins to their customers, and those coins bring business in the door, you can bet Wal-mart will follow also.

If you take those four steps, I think we will have a reasonably successful circulating dollar coin that will help our industry, and the American people will then have a convenient, useful, cost-efficient alternative to the \$1 bill.

Thank you.

[The prepared statement of Thomas C. McMahon can be found on page 69 in the appendix.]

Mr. CASTLE. Thank you, Mr. McMahon. Thank you for the suggestions.

We will go down the line.

Mr. Noe?

STATEMENT OF THOMAS NOE, VINTAGE COINS AND COLLECTIBLES AND A MEMBER OF THE CITIZENS' COINAGE ADVISORY COMMITTEE

Mr. NOE. Thank you very much. Thank you, Chairman.

Representative Maloney, thank you so much for letting me speak here today.

Good afternoon, everyone.

My name is Tom Noe. I am president of Vintage Coins and Collectibles located in Maumee, Ohio.

As a collector of coins and other historic memorabilia since 1962 and a full-time numismatist, or coin dealer, for over 30 years, I am truly honored to address this committee on a number of issues related to H.R. 3916.

Let me begin by congratulating Congressman Castle for his continued leadership on behalf of all of the collectors and dealers of United States coinage.

I think an editorial by Beth Deisher in the March 22 issue of Coin World sums it up best: "The 50 States Quarters Program has become the most successful coinage program in U.S. history."

I see no reason why a new circulating \$1 coin depicting the former Presidents of the United States will not be as successful.

Furthermore, the size of the dollar coin will allow larger images and more relief and details than that of the quarter dollar.

As chairman of the Ohio Commemorative Quarter Commission, I learned that people do care about our coinage. We had over 7,000 design suggestions for the Ohio quarter alone. The healthy debate within the state on which design to ultimately recommend for the governor's approval caused many citizens to analyze the state's rich heritage and history.

More importantly, the increase in the U.S. collector base has been too large to even measure. Grandparents, parents and children flock to banks and coin shops looking for the newly minted state quarter. It has given a father and son or a mother and daughter a reason to collect something together. This is something I have not seen since my childhood over 40 years ago when U.S. silver

coinage and the occasional Indian head penny or buffalo nickel were still available.

The final point to the States Quarter Program has been the tremendous demand for those coins from teachers who wish to use all of them in their classrooms as tools to teach American history of all 50 States. That is why I think a \$1 coin depicting U.S. Presidents is an idea whose time has come. What better way to teach children about our U.S. heritage than to issue four new coins annually that can be used as an impetus to learning?

Another portion of 3916 I would like to address is the design portion.

The ability to design a larger portrait by moving required dates, mint marks and mottoes to the coin's edge will enhance the historical significance by making the President the focal point of each and every coin.

As vice chairman of the Citizens Coinage Advisory Committee, the number one complaint we hear from our members is the lack of relief and details on many of the state quarters. The \$1 coin will give the artists and designers the ability to work with the U.S. Mint and their sculptors to create dramatic and dynamic coins we can all be proud of.

The last area I would like to comment on is Section 4 of H.R. 3916, regarding the introduction of the First Spouse Bullion Coin Program.

As we learned from the success of the States Quarter Program, U.S. citizens like new coinage and paper money.

In a recent Internet poll, people were asked, "What do you think about the new \$50 design?" With over 250,000 responses in a day, 80 percent said they liked it and only 4 percent responded that they did not like it.

A new gold bullion coin depicting America's First Ladies will be very successful and a welcome change. I also project that the sales will be extremely high due to not only the design change, but also the fact that the content will be .9999 percent pure gold.

We will finally have a gold bullion coin to compete directly with the Canadian maple leaf and other world .999 percent gold coins.

I would be remiss if I did not take a moment to comment on U.S. coinage in general.

I look at the States Quarter Program as a good start in the total redesign of U.S. coinage. H.R. 3916 takes it all one step further. This would be a great opportunity to analyze all U.S. coinage in regards to design, size, content and use for the visually impaired.

It has been almost 100 years since the Lincoln penny was introduced in 1909. Let us all work together—Congress, the United States Mint, the dealers, the collectors and the media—to plan the future of U.S. coinage for the next 100 years.

In conclusion, I would like to commend the sponsors of this bill and offer any assistance that you might require to ensure the successful passage of this bill and the subsequent minting and marketing of these coins.

I know I speak for the millions of collectors and thousands of dealers when I say that we look forward to these new coins and the future total redesign of all U.S. coinage.

Mr. Chairman, thank you very much, and I would be happy to answer any questions.

[The prepared statement of Thomas Noe can be found on page 74 in the appendix.]

Mr. CASTLE. Thank you, Mr. Noe, we appreciate that.

Jay Johnson, it is a pleasure to have you back with us, sir.

STATEMENT OF JAY W. JOHNSON, FORMER DIRECTOR OF THE MINT AND NOW DIRECTOR OF BUSINESS DEVELOPMENT, COLLECTORS UNIVERSE, INC.

Mr. JOHNSON. Thank you, Mr. Chairman, Ranking Member Congresswoman Maloney. I thank you very much for this opportunity to testify before you and the committee on this exciting piece of legislation. And I said it is exciting because of reaction I have heard from coin collectors, coin dealers, and folks I have talked to in recent weeks since this legislation was announced.

Let me say that, for the most part, all of the reaction has been positive. Naturally, as anyone who is involved with coin collectors knows, you can find a lot of varied opinions about any coin redesign.

But, overall, collectors like the idea of new designs on U.S. coins. Many have called for redesign for years.

What I think is an obvious goal of this legislation is more than just coin redesigns. The multiple goals of trying to re-ignite the interest in coin collecting, increase the use of the dollar coin in regular circulation and help promoting the educational history of our Nation are all excellent reasons to make changes to a relatively new coin, like the Golden Dollar or the Sacagawea Dollar.

I can tell you, as Mint Director, I made it one of my goals to be a booster, a promoter, a strong advocate for the Golden Dollar. It debuted prior to my arrival at the Mint with what we remember was a spectacular TV advertising campaign and promotion at some stores.

Despite this—and for many other reasons, which have been enumerated today—the general public has not seen nor have they used regularly the dollar coin on a circulating basis.

Yet, the amazing popularity of the Mint's 50 States Quarters Series increased the circulation, the personal accumulation, the collectibility and the popularity of not just quarters but all coins. And that is just one reason, I believe—one reason alone—that the dollar Presidential Coin Program will help to do much the same for the little-used Sacagawea Dollar.

Also, as a former member, I also appreciate the sense-of-Congress language in this legislation, which gives the Mint directives to promote the new Presidential dollar coins in all areas of commerce.

Coin collectors—indeed, many in numismatic businesses—have urged for years there be new designs. The 50 States Quarter Series proved the ultimate correctness of their views. It was an idea that helps generate new revenue for Federal coffers. It also generates new collectors who come to appreciate the story that new and old coins tell about our history.

I also applaud the legislation for the addition of the bullion part of this dollar coin program and the additional revenues it can bring

to government coffers, as well as an interest in innovative coinage from the U.S. Mint.

Other mints of the world produce bullion coinage, but you should know the U.S. leads all the other countries in its bullion production and is the most prized of bullion coins.

So new, collectible and valuable gold coins can and should be another source of revenue for Federal coffers.

To those who collect U.S. gold coins, this offers another numismatic addition as a collectible, as well as another choice for gold buyers who appreciate these gold coins for their bullion value, their beauty and their value.

And this concludes my testimony. I would be happy to answer questions.

[The prepared statement of Hon. Jay W. Johnson can be found on page 54 in the appendix.]

Mr. CASTLE. Thank you very much, Mr. Johnson, we appreciate it.

Mr. Tam, you are the cleanup there.

STATEMENT OF CHUNG CHUNG TAM, REVENUE SYSTEMS ENGINEER, CHICAGO TRANSIT AUTHORITY, REPRESENTING THE AMERICAN PUBLIC TRANSPORTATION ASSOCIATION, CHAIRMAN, REVENUE MANAGEMENT COMMITTEE

Mr. TAM. Thanks.

Mr. Chairman and members of the subcommittee, on behalf of the American Public Transportation Association, APTA, thank you for this opportunity to testify for the Presidential \$1 Coin Act of 2004, which would provide for the issuance of new \$1 coins and other purposes.

My name is Chung Chung Tam. I am chair of the APTA's Revenue Management Committee, and I also chair APTA's Financial Management Committee of the Universal Transit Fare Card Standards Program.

I am a revenue systems engineer with the Chicago Transit Authority, CTA.

Transit systems have been longtime supporters of efforts to increase the use of dollar coins, and they strongly support the efforts of this committee in that regard. The use of dollar coins clearly reduces costs for operators of public transit systems.

APTA's 1,500 public and private member organizations serve the public by providing safe, efficient and economical public transportation service and by working to ensure that those services and products support national economic, energy, environmental and community goals.

APTA member organizations include public transit systems and commuter railroads; design, construction and finance firms; product and service providers; academic institutions; and State associations and departments of transportation.

More than 90 percent of the people who use public transportation in the United States and Canada are served by APTA transit system members.

Mr. Chairman, in the face of budget constraints at the local, State and Federal levels, the Nation's transit systems are operating in the most cost-effective ways they can. In the past, APTA was

pleased to be a member of the Dollar Coin Coalition that advocated broader use of the dollar coin. Our members have backed up their rhetoric with action.

Most transit systems around the country accept the dollar coin. In that regard, a September 2002 GAO report on the new dollar coin includes an appendix showing that 19 of the top 20 transit systems in the country accept the dollar coin.

Our transit system members do so for practical reasons. The dollar coin is very cost effective in transit operations. Transit systems, especially those in major metropolitan areas, are some of the largest processors of \$1 bills in the country. On an annual basis, they can collect and process millions of pieces of currency.

One transit system has quantified the cost of processing dollar bills. They determined that the cost to process \$1,000 worth of \$1 bills is approximately \$10.11. The cost to process the same amount in dollar coins is \$1.22.

The difference is that handling paper currency is much more labor intensive. Coin processing is more efficient due to the use of technology and the availability of counting machines.

In addition, the processing of coins by fare boxes and vending machines is faster than bill processing. Since the Federal Reserve requires that paper currency be face up when stacked, transit agencies must stack and face all bills by hand.

In addition, more agencies are procuring fare boxes which can validate currency and coins. This validation may increase boarding time on buses due to bill condition, bill rejections and bill jams, which could require scheduling more buses and increase operating costs.

The expense of theft-deterrent equipment and associated resources also result in increased costs.

If transit agencies were able to realize the cost savings associated with the use of dollar coins, they would be able to use those resources to keep fares stable and promote the increased use of public transportation.

Mr. Chairman, we are thus very supportive of efforts to increase the use of the dollar coin. But there clearly are barriers to widespread use of the dollar coin, and the GAO report I cited earlier identifies a key one.

The report States as follows: "The most substantial barrier is the current widespread use of the dollar bill in everyday transactions and public resistance to begin using the dollar coin."

The report goes on to say that: "Until individuals can see that the government intends to replace the dollar bill with the dollar coin, they will be unlikely to use the coins in everyday transactions."

Therefore, Mr. Chairman, while we support this and other efforts to increase the usage of the dollar coin, APTA would also support efforts to phase out the use of \$1 bills as part of the effort to implement the exclusive use of \$1 coins in the country.

Having said that, we are supportive of efforts such as the Presidential \$1 Dollar Coin Act of 2004, which we trust would increase the public's acceptance of dollar coins in general and thus increase the use of the dollar coins to pay for transit fares.

In addition to the savings realized by public transit agencies and other businesses that deal in small denominations, there would be significant cost savings to the Nation if the \$1 bill were replaced with the \$1 coin.

Both the Federal Reserve and the GAO have projected savings of \$456 million annually on average over 30 years, in addition to the savings for public transportation systems, if the dollar bill were replaced with the dollar coin.

Mr. Chairman, we appreciate and thank you for your efforts to increase the use of \$1 coins and to promote the public's acceptance of dollar coins in everyday use.

Clearly, the counting and handling of paper currency is much greater than the cost of counting and handling coins. Just as clearly, increased use of dollar coins in public transportation systems would reduce operating costs at those systems and permit more of the limited resources available to public transit to go to improving transit service.

We believe this legislation, which is modeled on the minting and introduction of the successful 50 States Quarter Program, has a good chance of increasing the use of dollar coins.

We agree that minting coins that identify Presidents and their terms of service would increase awareness of our Presidential history and increase the popularity of the new coins.

We appreciate the thoughtfulness with which you have developed this legislation and its objectives.

We look forward to working with you and the members of this committee in advancing this legislation that could be very cost effective for the Nation's transit systems.

Thank you.

[The prepared statement of Chung Chung Tam can be found on page 77 in the appendix.]

Mr. CASTLE. Thank you, Mr. Tam.

Let me do a couple of things.

One, Mr. Greenwood, a member of Congress, has written a letter to the Federal Reserve and a letter to Chairman King asking that his letter be submitted for the record. I will just summarize it briefly.

It just basically expresses concerns that they have had with the Federal Reserve about the lack of cooperation with respect to obtaining of Sacagawea coins and Susan B. Anthony coins—a concern, by the way, I have heard otherwise.

Without objection, it is part of the record.

[The following information can be found on page 88 in the appendix.]

We welcome Mr. Bell from Texas to the subcommittee hearing.

We are going to go pretty fast and maybe almost waive our questions, unfortunately, because of several things. We are going to be voting shortly. We want to do the markup. Secretary Rumsfeld and others are coming over here at 4:30.

So I apologize for that. I just want to say a couple of things. We thank you. Your testimony is of vital importance.

I do want to ask, though, Mr. Johnson and Mr. Noe, if I can, to comment on something you may have heard me comment on to Ms. Fore, and that is, in a addition to the .9999 bullion, there is some

discussion now of doing the spouses in a lower-cost type of coinage that could be used for collectors items, part of the educational aspect of it, in addition perhaps to doing a limited number of bullion coins.

Are there concerns with that? Do you embrace it? I know you may be hearing it for the first time today, but I would be interested in your almost offhand comments because you have not had a chance to really study it.

Mr. NOE. Mr. Chairman, Representative Maloney, I think there is always concern with the low cost as far as the collectibility goes. I think it might be good for schoolchildren to be able to use these for an educational tool.

But we found, if you go back to even 1976 when they did bicentennials bronze metals, that type of thing, they do not sell for any premium. They are probably worth considerably less than what they came out in 1976 for.

So, as far as collectibility and value added down the road, I would say there is not a lot. Educationally, there may be some merit to it.

Mr. CASTLE. What if you did the bullion coins, too, which would be the collectible part of it?

Mr. NOE. I think the bullion coins would be important to go along with it. I will tell you that the bullion coins will get collected whereas the other issues probably will not be collected as readily, I would not think.

Mr. CASTLE. Mr. Johnson?

Mr. JOHNSON. I agree that the metals, they have the metal program now for the Presidents, and it is not as popular as I think it should be. It is a great program.

But I think all the alternatives that you can provide in terms of collectibility are great for the numismatic business. It is something that you give a variety of choice to people. If you made this a coin, it would be even more popular.

It is difficult at a half-ounce of gold to have kids have a collection of First Ladies. That is going to be difficult for children. But, you know, I do not know that that bullion program is aimed at children.

As I say, I think it will increase revenues and it will increase interest in all aspects of the U.S. gold coin program.

Mr. CASTLE. If that bullion program is aimed at children, they have a heck of an allowance, is all I can say.

In the interest of time, I am not going to pursue questions, except I want to say to Mr. Tam, that we may want to get back to you on some issues of where you get your coins and circulation. Staff may get in touch with you on follow-up written questions on that particular subject.

Mr. McMahan, as you might imagine—again, you may want to do this in writing as well—but we are very interested in your whole business's involvement in furthering the use of coins.

You and I had that conversation before. I want to make sure that we are on the same wavelength if we do this, that you are going to be able to be helpful in that area in terms of advertising and the use of it. I just was not as comfortable with that last time as I would like to be, so we would like to get into that.

But I am going to skip that for now, if we may, because it would take us several minutes to go through it.

And let me just make sure that Ms. Maloney or Mr. Bell does not have anything they wish to ask before we go to the markup.

Mrs. MALONEY. I just want to thank particularly the Chairman and all of the panelists.

And I would like to be associated with the Chairman's comments on the quarter program and the possibility that a lower-cost one would be very effective with children.

Who would have believed that every school child in America is now collecting the quarters? And the most asked question I get from my daughters' friends, "Can you get me this quarter? Can you get me that quarter? Can you get me the quarter book?"

If this type of thing took off with schoolchildren with the First Ladies or with the Presidents at a lower-cost coin, it is true, in the past it has not worked, but it has not been targeted for schoolchildren. So, possibly, it would work.

In any event, it is a very exciting field. And it is a bill that actually raises money for the Treasury, which is important in these days.

Thank you. I yield back the balance of my time.

Mr. CASTLE. Mr. Bell? Do you have any comments, sir?

Mr. BELL. Thank you, Mr. Chairman.

I would join with Congresswoman Maloney. My kids are constantly asking me can I get them a quarter. But since they are only 6 and 8, they are just taking the quarter and putting it in the gum machine and they are not collecting them as her kids are.

The only question I have is to the design of the dollar coin and its impact on use. The bill, as its stated, a national survey and study by the General Accounting Office has indicated that many Americans who do not seek or who reject the new dollar coin for use in commerce would actively seek the coin if an attractive educational rotating design were to be struck on the coin.

And that's really the only question I have for the panelists and perhaps in the earlier testimony addressed it, but I missed it.

Has it really been a design problem? Or has it also been somewhat of a marketing problem in regard?

Mr. MCMAHON. A marketing problem insofar as our industry is concerned.

Mr. CASTLE. We have a problem.

Mr. BELL. I am sorry, is there a problem with the sound reproduction or the—

Mr. MCMAHON. Can you hear me now?

Mr. CASTLE. No, something died.

Mrs. MALONEY. Just talk loud.

Mr. CASTLE. Yes.

Mrs. MALONEY. Just talk loud at this point.

Mr. BELL. Yes, we have got to keep moving. Can you answer it briefly and loudly?

Mr. MCMAHON. Yes.

Mr. CASTLE. I am sorry, Mr. McMahon, we are going to have to suspend.

Mr. MCMAHON. Okay.

Mr. CASTLE. We do need to get this straightened out. Is it back?

Do you want to reiterate that or briefly summarize?

Mr. MCMAHON. Yes, yes.

If you want the coin to work, if you ever have another hearing on this, have someone from the retail community here testifying and see if you can figure out from them if they are going to back this program or not. If they do, the coin will succeed; if they don't, the coin will fail.

Mr. CASTLE. I think based on that, if you have any further questions, it will have to be yes or no at this point.

If not, we appreciate very much all of you testifying. It is of vital importance in terms of building where we are going on this.

And with that we will adjourn the panel. And the subcommittee will turn to its markup at this point, after we get everybody in place.

We will take a moment or two.

[Whereupon, at 3:58 p.m., the subcommittee was adjourned.]

A P P E N D I X

April 28, 2004

Opening Statement

Chairman Michael G. Oxley
Committee on Financial Services

“Money Matters: Coin and Currency Design and Counterfeiting Issues”

**Subcommittee on Domestic and International Monetary Policy, Trade and
Technology**

April 28, 2004

I'd like to begin by commending Chairman King for holding this hearing today.

The security of our nation's currency is one of the more important issues under this Committee's jurisdiction. The work done by the organizations represented by the four members of the first panel is vastly important to ensuring that security. No matter how often consumers use credit cards, coins and currency are the basic mediums by which we conduct commerce in this country and it's important that those coins and those bills are well designed to thwart the efforts of counterfeiters.

I'd also like to praise the law enforcement efforts of the United States Secret Service, which, in addition to guarding the president, is the watchdog over the security of our nation's money. The Secret Service's original mission was to stop counterfeiting, and even as their role evolved over the years, they continue to do a tremendous job protecting our nation's currency. That mission is not focused solely on the United States either -- the Secret Service works overseas with their law-enforcement counterparts in other nations as well. I am hoping that Deputy Director Townsend tells us a little about that overseas mission here today. Additionally, this Committee, in the PATRIOT Act, was able to give the Secret Service a few more tools to fight counterfeiters, and I hope to hear today if they need more.

Finally, I'd like to address the Presidential Dollar Coin program offered by Mike Castle here today. The dollar coin has the potential to save businesses billions of dollars if it is available to the niche population that has a need for it. However, for a number of reasons it never achieved the success it should have when it was introduced in 2000. I think the Castle bill will provide some solutions, especially by creating a demand for the coin rather than trying to

force it into circulation. I like the educational opportunities the coin presents, and I particularly like that the bill would put the Statue of Liberty on the reverse of the coin. Mr. Castle isn't going to say this, but I will: In 1997, when Congress approved the original Golden Dollar program, the legislation left the House with more than four hundred votes to put the Statue of Liberty on the coin. Somehow, before it got to the President, that important symbol disappeared. Especially after 9/11, I think all of us think that having Lady Liberty on our currency would be an excellent addition.

With that, and my thanks to both Mr. Castle and to Chairman King for organizing this hearing, I yield back the balance of my time.

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Remarks
Money Matters: Coin and Currency Design hearing
Chairman Peter T. King
April 28, 2004

First of all, let me thank Mike Castle, both for chairing the hearing in my absence and for all he has done in Congress in general, and, in this instance, on coinage. We all know how popular his 50-state quarter program has been, and I believe his Presidential Dollar proposal will be just as popular.

I would like to say that I find the idea appealing and look forward to being able to own some President Theodore Roosevelt circulating dollars, which I hope I will be able to display with commemorative silver dollar coins for TR that I am seeking to have issued in 2006 to mark the 100th anniversary of Roosevelt being awarded the Nobel Peace Prize.

The beneficiary of the surcharge proceeds from the sale of the coins called-for in H.R. 2404 would be Roosevelt's summer home Sagamore Hill at Oyster Bay in my district, now part of the National Park Service and in need of some restoration as well as a visitor's center. That bill currently has 100 co-sponsors, well on the way to the 290 needed for consideration, but I urge any Members here who are not co-sponsors to sign up.

I also want to say that I appreciate all the hard work of the government witnesses, particularly the Secret Service out there on the front line combating counterfeiting of our currency worldwide, and I want to thank the government witnesses and the private-sector witnesses who testified here today.

With that I yield back the balance of my time.

Presentation of Thomas A. Ferguson

Director of the Bureau of Engraving and Printing

United States Department of the Treasury

Before the House Financial Services Committee

Subcommittee on Domestic and International Monetary Policy, Trade and
Technology

To be submitted for the record

April 28, 2004

Mr. Chairman and Members of the Subcommittee:

Thank you for holding this hearing and inviting me to testify. I appreciate the opportunity to report on the Bureau of Engraving and Printing's (BEP) role in the Nation's counterfeit deterrence program.

The security of United States currency was enhanced last fall with the introduction of redesigned \$20 Federal Reserve Notes, which include subtle background colors. This marked the culmination of a multi-year, cross-agency effort that included unprecedented outreach and collaboration with industry stakeholders to develop a new design. The new design is aimed at deterring threats to the security of the Nation's currency posed by technology advances in digital printing and reproduction technology. Counterfeit deterrence efforts continue as we prepare for the introduction of a redesigned \$50 note

later this year, followed by a redesigned \$100 note and potentially a new \$10 note in subsequent years. At this time, no decisions have been made concerning changes to the \$5 note and no changes are planned to the \$1 and \$2 notes. These efforts are coordinated and led by the Advanced Counterfeit Deterrence (ACD) Steering Committee, chaired by the Treasury Under-Secretary for Domestic Finance, Brian Roseboro, with the participation of other Treasury policy officials, and representatives from the Federal Reserve, U.S. Secret Service and BEP.

In order to provide the public with the most secure and reliable notes, the ACD Steering Committee has developed and follows a comprehensive counterfeit strategy that depends on:

- 1) high quality currency designs with effective overt and covert counterfeit deterrence features
- 2) a well planned and executed public education program, and
- 3) aggressive law enforcement.

Fortunately, the U.S. has one of the finest law enforcement agencies in the world to aid in its fight against counterfeiters, the U.S. Secret Service. They will testify here today about their efforts in greater detail. I will focus my comments on the currency redesign effort and the associated public education program.

The redesigned series 2004 \$20 note contains an array of sophisticated counterfeit deterrent security features, some of which are visible and easily recognizable to the public (i.e., the subtle background color, the symbol of freedom eagle, the watermark, security thread, color shifting ink) and some of which are covert or machine readable only. The "signature" covert feature of the redesigned \$20 note is an anti-digital counterfeiting system that was developed under the auspices of the international Central Bank Counterfeit Deterrence Group in cooperation with major digital printer and software manufacturers. The U.S. effort on this initiative was led by the Federal Reserve. The anti-digital system, which is being used in a number of countries, relies on a hidden "marker" embedded in the note design that can be read or detected by new technology digital printers and software. This new systemic design feature heralds a vibrant and growing partnership between the public and private sector to protect the Nation's currency, and is intended to thwart increased counterfeiting of currency using digital reprographic technology. This is a significant investment in the future of currency and will greatly assist in preventing counterfeiting as the anti-digital technology becomes dominant in the marketplace.

To date, more than 1.2 billion of the new \$20 notes have been issued into circulation since their introduction last fall which represents about 25% of the twenties currently in circulation. The introduction of the \$20 note was relatively problem free. BEP worked with currency processing equipment manufacturers for more than a year before

introduction to ensure a successful transition to using the redesigned notes in person-to-machine transactions.

On April 26th, Secretary of the Treasury John Snow unveiled the new design \$50 note which will be issued into circulation starting in the fall of this year. I have samples of the redesigned note with me today to show you. The new \$50 note contains the same family of robust counterfeit deterrent features as the \$20 note. However, the background color will be different to help the public differentiate the various denominations. As with the introduction of the \$20 note, BEP is working with currency processing equipment manufacturers as well as the vending community to ensure a smooth transition to the redesigned \$50 note by providing industry with test notes at least six months in advance of circulation.

For the redesigned \$100 note, the ACD Steering Committee has directed the BEP to issue a solicitation to the private sector seeking additional counterfeit deterrent features that may be added to the \$100 note to further protect it. The \$100 note, which is the most circulated U.S. note internationally, is subject to the most sophisticated counterfeiting attempts. These possible new features will be subject to adversarial analysis by an interagency working group to determine which feature(s) will be most effective against international counterfeiting threats while providing a durable currency.

Public Education

The Public Education Program is a critical element of the overall anti-counterfeiting effort in the United States as well as around the world. The American dollar is the most recognized, trusted, and accepted currency in the world. While the new features render the notes more secure, the success of government anti-counterfeiting efforts depend foremost on the public and cash-handlers as the first line of defense. To defend against accepting counterfeit notes, the public must be aware of the potential counterfeiting threat and, most importantly, they must know how to authenticate their notes.

Results from research conducted before and after the Series 1996 currency introduction established the basis for the strategies followed in the Series 2004 Public Education Program. Research performed concerning the redesigned currency provided an understanding of consumer beliefs and attitudes regarding currency, counterfeiting issues and the best means of communicating to the public.

The media strategy was planned to concentrate the greatest share of paid media dollars in the visual medium that people spend the most time with: television. Research conducted one month following the fall 2003 paid media program revealed that public awareness of impending currency changes went from 30% to over 80%, and that the public's ability to describe one of the counterfeit features increased by over 10%.

It is the responsibility of the government to provide the public with the information required to protect themselves from fraud or economic loss associated with counterfeiting. The public education program was designed to provide this information to the public and maintain the integrity of the dollar, both at home and abroad. The better informed the public is, the less likely they are to fall victim to currency counterfeiters. It is our responsibility as stewards of the U.S. currency system to protect the public, by enhancing the security of our currency through redesigning it, and by informing the public on how to protect their hard-earned money.

With the release of the redesigned \$50 note, the Public Education Program will continue; however, due in part to the overall success of getting the message out during the \$20 program, it will be conducted on a much smaller scale than the initial campaign and will consist of no paid media in the U.S. The messages will mainly focus on changes to the \$50 and lay the groundwork for subsequent changes in future note designs.

This concludes my opening remarks, Mr. Chairman, and I will be happy to respond to any questions you or other members of the Subcommittee may wish to ask.



**DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220**

**Testimony of Henrietta Holsman Fore, Director
United States Mint**

**Before the House Financial Services Subcommittee on Domestic and International
Monetary Policy, Trade and Technology**

**“Money Matters: Coin and Currency Design and Counterfeiting Issues”
April 28, 2004**

Chairman King, Congresswoman Maloney, members of the subcommittee, thank you for inviting me here today to discuss some of the recent programs carried out by the women and men of the United States Mint, and to address American coin design. The United States Mint’s mission is to fulfill our Congressionally mandated role as the Nation’s coiner of money and, as we have done since 1792, we will continue to proudly mint and issue, coins, medals and numismatic items that Congress authorizes in legislation.

With the benefit of 212 years of history and experience, the United States Mint of 2004 believes that redesign of America’s coinage sparks interest in our history, culture, values and beliefs as a nation. It also serves to invigorate education, reminding Americans of all ages about significant people, places and events of the past. Most recently, the enormously successful 50 State Quarters® Program and the redesign of the nickel, have demonstrated that Americans embrace coin redesign. In the brief time I have with you, I will discuss these successes, as well as H.R. 3916, the Presidential \$1 Coin Act of 2004, our views on the impediments to the circulation of the Golden Dollar, and our efforts to work with the Federal Reserve to better predict coin circulation and demand.

Overview

As we maintain the highest standard of quality for all of our existing products, we proudly remain at the service of the United States Congress and our Nation. We are pleased to implement any coin redesign package that Congress passes and the President approves. We also are poised to perform the necessary research; and therefore, are already working diligently to research, test, and evaluate the manufacturing processes that the United States Mint would implement to execute the proposed coin programs in the most efficient and effective manner, and in a way that imposes the least cost on taxpayers and our customers.

As you know, the resounding success of endeavors like the 50 State Quarters® Program is attributable to the collaborative energies and perseverance of the talented people on your staffs, at the Department of the Treasury, at the United States Mint, and those in the coin collecting and distributing community, and in small and large businesses — all of whom share a passion and commitment to the long-term success of such coin redesign programs. Working together, I am confident that we can deliver to the American people the coin programs provided by this bill in a manner that best assures the viability, popularity, and longevity of our efforts to revitalize the design of United States coinage.

Coin Redesign

2004 has heralded in great excitement in coinage redesign.

50 State Quarters[®] Program

With the release of the Michigan State quarter in January of this year, we passed the halfway point of the 50 State Quarters[®] Program that was legislated by Congress in 1997 and began with the Delaware State quarter in 1999. Earlier this month we launched the 27th quarter in the Program on the grounds of the John F. Kennedy Space Center in Florida.

This program has spurred a true renaissance of coin design, and a renewed enthusiasm for coin collecting in America. Our data estimate the number of people collecting the 50 State Quarters[®] Program coins to be in excess of 130 million, or nearly one person in every household. It is the most popular numismatic program in the history of the United States and, at its midpoint, the 50 State Quarters[®] Program is responsible for the United States Mint's depositing more than \$4 billion to the United States Treasury General Fund. Circulating production for the 50 State Quarters[®] Program has ranged from 2.3 billion annual production rate in 2003 to a high of 6.5 billion produced in 2000, with an average annual mintage of 4.3 billion quarters.

The program is successful because of the coins themselves. They are each a work of art, reflective of our American values, a small piece of history you carry in your pocket. And while each state's quarter is unique, popular themes have emerged throughout the series that reinforce this assertion.

Exploration and innovation are themes depicted on the Virginia, North Carolina, Ohio, Missouri, Florida and Iowa quarters. Liberty and independence are predominant on the Delaware, Pennsylvania, New Jersey, Connecticut, Massachusetts, New York and Illinois quarters. The beauty and bounty of the land are celebrated on the quarters of Georgia, South Carolina, Rhode Island, Vermont, Mississippi and Arkansas.

Through this widely collected coin program, we seek to reinforce the bond between education and our Nation's coinage with the United States Mint's education program and its popular United States Mint H.I.P. Pocket Change website. H.I.P., in this case, stands for History In Your Pocket, and it is from this website that teachers and students of all ages have downloaded lesson plans more than 1.5 million times since the start of the 50 State Quarters[®] Program.

Westward Journey Nickel Series[™]

This year we also have delivered to the American public the first newly designed five-cent coin in 66 years. The American 5-Cent Coin Design Continuity Act of 2003 is a celebration of our Nation's enduring spirit of exploration and discovery as it commemorates the bicentennials of the Louisiana Purchase and the Lewis and Clark expedition. Through this coin program, the Nation is remembering or learning about for the first time, one of the most defining periods in America's history. We are telling a story through a series of designs that began earlier this year and will continue through 2005. In 2006, the program is authorized to conclude with obverse and reverse images of Thomas Jefferson and his stately residence, Monticello, although they may be different than the image used immediately before the program began or any of the images used throughout the program.

By commemorating the bicentennials of the Louisiana Purchase and the Lewis and Clark expedition, this legislation has further strengthened the link between the value of American coinage and the value that we, as a society, place on our coinage's symbolism and its continuing role in the education of our citizens. As a result, new nickel lesson plans have been developed and they, too, are being downloaded in homes and classrooms around the Nation. These lesson plans teach geography, history, science, art, culture and arithmetic.

From the time the 2004 new nickel designs were first unveiled in November, Americans have embraced this change to their change. At a recent ceremony to launch the first design of 2004, held beneath the majestic Gateway Arch in St. Louis, Missouri, a nickel exchange resulted in more than one million new nickels being purchased in just two hours.

In August, the United States Mint will release the second new nickel of 2004 and we are confident that the public will receive it with similar enthusiasm. In total, we expect to mint over one billion new nickels in 2004, an increase of 58 percent over 2003 nickel production. This increase reflects the demands of increasing trade and commerce and the interest among numismatic collectors. As with all of our circulating coinage, production of the nickels will be determined by demand, but we are confident that the excitement and support we have seen for this year's nickels will carry over into 2005.

United States Mint Design and Materials Initiatives

The United States Mint has launched the Artistic Infusion Program to enrich and invigorate the designs on United States coins and medals. The United States Mint regards this program as an essential facet of the "renaissance" in coin and medal design. With the assistance of the National Endowment for the Arts, the United States Mint has selected 18 Master Designers from a field of professional artists in the visual arts field, and six Associate Designers from a field of undergraduate and graduate students studying visual arts, to participate in the program. These artists, ranging in age from 20 to 79, include sculptors, engravers, graphic designers, painters and water colorists from Georgia to Utah and from Connecticut to California. Along with the United States Mint sculptor/engravers, they have submitted their first design assignments, creating beautiful and evocative designs for the 2005-dated nickel in the Westward Journey Nickel Series™. Coin design is a fine, ancient art and we look forward to producing new, enduring images that reflect the values of our great Nation -- liberty, democracy, the quest for knowledge, and the bounty of our land.

Similarly, the United States Mint is evaluating the latest techniques and the materials being used to manufacture coins around the world. As you know, the specific composition of all United States circulating coinage, except the dollar coin, is legislated by Congress. So that Congress has the most current information on the various materials that the United States Mint can use to make coins, we have undertaken to renew our commitment to research.

The United States Mint has not comprehensively reviewed coinage materials since World War II. The review was conducted in the 1940s because of wartime shortages in strategic materials. However, since then, every circulating coin's composition has changed at least once. In addition, we are currently faced with metal prices that have risen dramatically over the past year. Since January 2003, the market prices of Zinc, Nickel and Copper have increased by approximately 32 percent, 48 percent and 74 percent, respectively.

The success of our recent coin programs is tied directly to Congress's legislation, which authorizes our work. As I stated earlier, the United States Mint is at your and our Nation's service. We will proudly manufacture those coins, medals and numismatic products authorized through the legislative process.

H.R. 3916, the Presidential \$1 Coin Act of 2004

Now, let me briefly touch upon the piece of legislation to be considered by the Subcommittee later during this hearing--H.R. 3916, "The Presidential \$1 Coin Act of 2004." We applaud the efforts of Congress to honor the history of our Nation. Honoring the Nation's First Spouses on a numismatic item is noble and timely.

The United States Mint has learned a great deal from its previous experiences with coin redesign and dollar coin programs. A design change will make the coin more attractive to collectors, but likely will have no appreciable effect on how many are used in retail transactions. There are barriers against Golden Dollar circulation such as network effect, and higher distribution and handling costs. A design change will not mitigate these barriers.

As you know, the United States One Dollar Coin Act of 1997 authorized a dollar coin that is golden in color; has a distinctive edge, and tactile and visual features that make the denomination of the coin readily discernible; is the same size as the previous Susan B. Anthony Dollar (26.5 mm in diameter); and depicts an eagle on its reverse. The coin also was to have similar metallic, anti-counterfeiting properties as the Susan B. Anthony Dollar coins.

After planning over a two-year period, Golden Dollar production began in late 1999 and the United States Mint introduced the coins in 2000. Over one billion coins were produced in the first two years of production. Since then, however, circulating demand has dropped steadily. The United States Mint has over 262 million Golden Dollars in inventory and we estimate that 300 million are in commercial circulation. It is estimated that Golden Dollars make up only about 4 percent of the total number of daily one-dollar notes and dollar coin transactions. Americans are holding onto two-thirds of the Golden Dollars (over 600 million) and not re-circulating them. Based on these results, the change in design of the dollar coin may have sparked initial enthusiasm and collector interest, but it appears to have had a modest effect on its circulation. We now produce about 10 million Golden Dollars per year to satisfy the numismatic community, which wants to purchase Golden Dollars produced in the current year rather than Golden Dollars from past years that are in inventory.

Furthermore, for those businesses that choose to use the Golden Dollar, additional barriers exist: commingling of the Golden Dollar with the Susan B. Anthony in mixed rolls and bags; lack of sustained consumer demand; the cost of converting coin operated machines; and high costs incurred by armored carriers and banking institutions for handling coins.

United States Mint and Federal Reserve Efforts

The United States Mint continues to work with the Federal Reserve Bank to improve coin demand forecasting, improve coin ordering systems, reduce order lead-time (the span of time between when Federal Reserve orders are placed and fulfilled by the United States Mint), and to pre-position coin (shipping coins to Federal Reserve terminals). We appreciate the opportunity we have to further forge a strong relationship with the Federal Reserve.

The United States Mint and the Federal Reserve are currently moving toward a two-week lead-time for ordering coin. Shortening the lead-time between orders will greatly improve the accuracy of coins orders to true demand for coin.

The United States Mint is also considering re-packaging coins to ship in smaller increments, such as smaller bags and wrapped coin, to support distribution.

In the numismatic market, there are several ways the United States Mint can promote and support the distribution of dollar coins. These numismatic channels will help ensure that collectors can obtain all of the coins that would be released under this program in addition to obtaining them in circulation.

One avenue is through offering for sale, bags and rolls. The United States Mint currently sells 25-coin rolls and 2,000-coin bags directly to consumers. Customers purchase all products directly from the United States Mint through our website and our toll free number. The annual numismatic demand for the Golden Dollar is approximately 5.4 million coins per year rolls and bags.

Another method is through the sale of annual sets. The United States Mint produces annual proof and uncirculated versions of each circulating coin. These are our most popular collectibles. The addition of newly redesigned coins to these sets will further attract collectors and provide another opportunity for customers to obtain a complete set. The United States Mint will develop special sets that further satisfy the needs of the collectible market. These products may include first day coin covers, coin and die sets and a dollar coin proof series. The United States Mint is producing 5.1 million Golden Dollars annually to meet demand for proof and uncirculated sets.

Partnerships and licensing agreements also have proven successful. The United States Mint currently has partnerships with the United States Postal Service and the National Archives and Records Administration to develop historical and educational products that further support coin programs. These include the 50 State Quarters and Greetings from America products and the upcoming Lewis and Clark Coinage and Currency set. The United States Mint also has licensing agreements with private companies to create and distribute products that promote coin programs.

And lastly, the United States Mint could explore opportunities with other agencies and commercial banking institutions to install exchange machines that allow consumers to trade in bills and other coin denominations for new dollar coins.

Conclusion

In conclusion, I would like to share how our commitment to meet customers' needs has been recognized. The United States Mint was ranked the highest of Federal agencies in the University of Michigan Business School's American Customer Satisfaction Index (ACSI) for 2003. The ACSI measures over 180 American private corporations and between 60 and 70 government agencies annually.

Thank you, Mr. Chairman; I would be pleased at this time to answer any questions.
###

Testimony of Jay W. Johnson before the Subcommittee on Domestic and International Monetary Policy, Trade and Technology on H.R. 3916, The Presidential \$1 Coin Act of 2004.

Mr. Chairman,

Thank you for the opportunity to testify before you and this committee on this exciting piece of legislation. I say it's exciting because of the reaction I have heard from coin collectors, dealers and folks I have talked to in recent weeks since it was announced. Let me say that, for the most part, all of the reaction has been positive. Naturally, as anyone who's been involved with coin collectors, numismatists and traders in 'the business'...you can also find a lots of varied opinions about any coin re-design, but overall, collectors like the idea of new designs on United States coins. Many have called for re-design for years.

But what I think is an obvious goal of this legislation is more than just coin re-designs. The multiple goals of trying to re-ignite interest in coin collecting...increase the use of the dollar coin in regular circulation...and help promote the educational history of our nation...are all excellent reasons to make changes to even a relatively new coin...like the Golden Dollar or the Sacagawea Dollar.

I can tell you that as Mint Director, I made it one of my goals to be a booster, a promoter and a strong advocate for the Golden Dollar. It debuted prior to my arrival at the Mint with what we all remember was a spectacular TV advertising campaign...and promotion at some stores. Despite this...and for many other reasons...the general public has not seen nor have they used the Golden Dollar coin on a regular circulating basis. Yet, the amazing popularity of the U. S. Mint's "50 State Quarter " series increased the circulation, the personal accumulation, the collectibility and the popularity of not just quarters...but all coins.

That's just one reason, I believe, that this Dollar presidential coin program will help to do much of the same for the little-used Sacagawea Dollar. Also, as a former Member, I can appreciate the 'sense of Congress' language in this legislation which gives the Mint directives to promote the new Presidential Dollar coins in all areas of commerce. I agree there does not have to be an expensive campaign, but it should be a priority of the Mint to use all it's resources do all in can in seeking ways to promote, publicize, push for and work with commercial entities to gain the widest possible use and acceptance of these Presidential Dollar coins.

I know from personal use and my own attempts to promote the use of dollar coins that it can and should be a useful part of all of our circulating coinage. As I am sure you will hear from a representative of the coin machine industry, more and more vending machines, money changers, parking meters, car washes and transportation systems are equipped to use the current size dollar coin. I note the line in the legislation which also suggests equipment which accepts dollar coins be marked so consumers know of this dollar coin acceptance.

Coin collectors...indeed...many in numismatic businesses...have urged for years that there be new designs on American circulating coins. The 50 State Quarter series proved the ultimate correctness of their views. It was an idea that helps generate new revenue for the federal coffers. It also generates new collectors who come to appreciate the story new and old coins tell about our history. And the 50 State Quarters program has generated new pride in history and images in each state as this 10 year program continues to be the most successful coin collecting ever. If the Presidential Dollar coin program can provide just a portion of the success of the 50 State Quarter series, it too will add more needed revenues to our federal coffers...boost our knowledge of Presidential history...and be a another boost to the hobby and business of coin collecting. I should point out that the Mint, in a study of the success of the 50 State Quarters program impact, found hundreds of additional jobs, not to mention, millions of additional dollars reaped by private companies who leaped on the 50 State Quarter bandwagon. So, I think that, in a similar fashion, this Dollar Presidential coin can boost private numismatic revenues as well as the additional revenues coming to the federal government.

I should also mention that, as Mint Director, I met with other Mint Directors from around the world who often looked to the success of the 50 State Quarters program and hoped they could replicate it. I think this Dollar Presidential coin program will make other Mints even more jealous of the innovation and ingenuity of the Congress and the U.S. Mint by, in-effect, following one amazingly successful coin program with yet another one.

I also applaud the legislation for the addition of the bullion part of this Dollar Coin program...and the additional revenues it can bring to the government coffers, as well as interest in innovative coinage from the U.S. Mint. Other Mints of the world produce bullion coinage, but you should know that the U.S. leads all other countries in it's bullion production...and is the most prized of bullion coins. So new, collectible and valuable gold coins can and should be another source of revenue for federal coffers. To those who collect U.S. gold coins...this offers another numismatic

addition as a collectible...as well as another choice for gold buyers who appreciate these gold coins for their beauty AND value.

When I knew I was going to be nominated as Director of the U.S. Mint, I remember telling a friend who said...is there a future is this...how much longer are coins going to be around? Well, I had been doing quite a bit of reading of numismatic literature...books and magazines...and the history of coins, so I told him coins had been around for a long time...and despite the moves to credit cards, smart cards, newly designed paper money and all sorts of substitutes for cash...that coins are much more than small round pieces of metal with images stamped on them. They are a story of our history. They are a touchable, tangible, visible, and highly useful image of the sovereignty of our country. That is why the authors of the U.S. Constitution made sure to create the Mint. It is why coins will always be with us...and these new Presidential Dollar coins will, I hope, join that remarkable numismatic history while at the same time bringing in new federal revenues and expanding the always-true saying that every coin is a 'piece of history in your hands.'

For release on delivery
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April 28, 2004

Statement of
Jeffrey Marquardt
Associate Director, Division of Reserve Bank Operations and Payment Systems
Board of Governors of the Federal Reserve System
before the
Subcommittee on Domestic and International Monetary Policy, Trade and Technology
of the
Committee on Financial Services
U.S. House of Representatives

April 28, 2004

Thank you for inviting me to report on the Federal Reserve's activities in support of new currency design and coin distribution. There has been a great deal of activity in the past few years. To deter counterfeiting, in October 2003, the Reserve Banks issued a redesigned \$20 note, and on Monday, we helped unveil the design for the new \$50 note, which will be issued beginning this fall. Last month, the Reserve Banks distributed the first of two new nickel designs to be issued in 2004 as part of the Westward Journey series. The Reserve Banks also continue to distribute a newly designed quarter every ten weeks as part of the fifty-state quarter program. Before turning to the specific issues raised by the Subcommittee, it may be helpful to describe briefly the Federal Reserve's roles in currency issuance and coin distribution.

Currency Issuance and Coin Distribution

One of the Federal Reserve's key responsibilities is to ensure that enough currency and coin is available to meet the public's needs. In that role, the Reserve Banks provide wholesale cash--currency and coin--services to depository institutions, which, in turn, provide cash services to the general public.¹

Each year the Federal Reserve Board determines the need for new currency, which it purchases from the Department of the Treasury's Bureau of Engraving and Printing (BEP) at approximately the cost of production. The Reserve Banks issue Federal Reserve notes at face value, and these notes are recorded as liabilities on the Reserve Banks' balance sheets. The Reserve Banks, as required by law, pledge collateral (principally U.S. Treasury securities) equal to the face value of currency in circulation. Federal Reserve notes accounted for about 95 percent of the almost \$716 billion of currency and coin in circulation as of March 31, 2004. The Federal Reserve's role in providing coins is more limited. The United States Mint (the Mint)

¹ The Federal Reserve provides cash services to more than 10,000 of the 19,000 banks, savings and loans, and credit unions in the United States. The depository institutions that choose not to obtain cash services directly from the Federal Reserve obtain cash services through correspondent banks.

issues circulating coins that the Reserve Banks purchase at face value and distribute, at the wholesale level, to depository institutions. These institutions, in turn, provide coins to the public. The Reserve Banks now distribute about 90 percent of coin orders and deposits through operators of coin terminals, which are predominantly armored carriers. Coins represent about five percent of total currency and coin in circulation, or about \$35 billion, as of March 31, 2004.

Currency Design

Although the Secretary of the Treasury, and not the Federal Reserve, has authority to approve new currency designs, the Federal Reserve works actively and collaboratively with the Treasury, the Secret Service, and the BEP to analyze and recommend counterfeit deterrence strategies to the Secretary. We monitor and analyze currency flows and counterfeiting data both domestically and internationally to understand better the use of U.S. currency, as well as incidents of counterfeiting. The Federal Reserve also maintains close contact with commercial banks that provide currency internationally, as well as with other central banks, to monitor counterfeiting activity at the international level.

Counterfeit-deterrent features in U.S. currency continue to evolve to ensure public confidence in the security of Federal Reserve notes. The Series-2004 design changes to the \$20 note added complex colored line patterns and a system to deter digital counterfeiting, while maintaining the watermark, security thread, and color-shifting ink of the 1996 design. Ongoing research is aimed at defending against future threats, especially those posed by continued improvements in, and the low-cost availability of, inkjet printers and other devices used to digitally counterfeit U.S. currency. For instance, the Federal Reserve and the BEP have devoted significant resources to a twenty-seven nation effort, through the Bank for International Settlements, to combat color copier and inkjet counterfeiting. The Federal Reserve appreciates the assistance of a number of private companies in the United States and abroad that have

worked with us voluntarily to deploy technology in their products that will protect their customers and the public from the risks of counterfeit currency. These efforts are a key component of the three-pronged U.S. counterfeit deterrence strategy that relies on currency designs, public education, and law enforcement. Although the focus of today's hearing is primarily on design issues, I would like to emphasize that public education and law enforcement also play a vital role in counterfeit deterrence.

Adjustments by Reserve Banks to Improve Coin Distribution

Turning to recent experience with coins, for the past several years, the Reserve Banks have worked to reduce inefficiencies by implementing a program to manage their coin distribution from a national perspective. For example, the Reserve Banks now provide the Mint with a single monthly coin order for all districts, together with five-month projections of future needs.² The Reserve Banks have also worked closely with armored carriers and depository institutions to understand their processes and constraints in meeting the public demand for circulating commemorative coins. The result is a better balance of coin inventories across the country.

The Federal Reserve worked with the Mint to implement the popular fifty state quarter program in 1999, the golden dollar coin in 2000, and most recently, the Westward Journey nickel program. The fifty state quarter and Westward Journey nickel programs have been both innovative and challenging, as implied by the term "commemorative circulating coin" that is used to describe the coins issued in the programs. Innovative, because the goal is to satisfy the demand for both a transactional and commemorative coin in a single coin, which is distributed through the normal wholesale distribution channels and whose design changes frequently.

² It is difficult to forecast demand for circulating coins. The normal demand for coins is highly seasonal and reflects retail cycles. Demand for coin is highest during summer and year-end holidays, and relatively low for the rest of the year.

Challenging, because frequent design changes have affected the Reserve Banks' inventory and payment processes that are designed to meet wholesale demand efficiently. Challenging also because heightened public expectations that circulating commemoratives will be widely available can place added pressure on the wholesale distribution system.

To adjust to these new commemorative circulating coins, the Reserve Banks have changed their payment practices. For example, as the Mint issues each new coin design, Reserve Banks have suspended their normal practice of first paying out previously circulated coins to depository institutions, and instead have paid out the new designs for initial introductory periods ranging from a few weeks to two years, in the case of the golden dollar.

Demand for Dollar Coins

The Mint and the General Accounting Office (GAO) have identified a number of factors that influence the demand for dollar coins. The title of the GAO's 2002 report, *New Dollar Coin Marketing Campaign Raised Public Awareness but not Widespread Use*, confirms the Federal Reserve's experience in distributing dollar coins.³ Publicity campaigns and promotions raise public interest in coins as collectibles but do not address the impediments to transactional use. Table 1 provides a rough estimate of the number of golden dollars available for use in transactions.

The GAO reported a number of barriers to widespread circulation of dollar coins, including the following:

- *Co-circulation with dollar notes*: the public generally prefers to carry notes because they weigh less.

³ *New Dollar Coin Marketing Campaign Raised Public Awareness but not Widespread Use*. GAO-02-896, September 2002.

- *Network effects*: there is interdependency of demand, in that individuals are unlikely to use dollar coins until retailers stock them, and retailers will not stock them until the public uses them. Banks and armored carriers will not invest in inventory and equipment to handle the coins until they perceive significant demand for the coins.
- *Higher fees for distribution of coins rather than notes*: armored carriers charge higher fees to transport coins than notes, and charge to roll both new and recirculated coins.

While all of these factors affect the demand for dollar coins, surveys and reports consistently identify the dollar note as the principal barrier to successful circulation of dollar coins. Nevertheless, dollar coins are regularly used in certain markets. Overall for 2003, the Reserve Banks report average monthly dollar coin payments of \$15.2 million, average monthly receipts of \$9.5 million, and average monthly net payments of \$5.7 million. Operators of vending and Postal Service machines, public transit, and some toll roads dispense dollar coins in change. The Reserve Banks' largest depository-institution customers have indicated that public transit authorities and the Postal Service are the principal users of dollar coins. Although neither of these groups has expressed a preference for one design of dollar coin over another, other businesses have requested that Reserve Banks make available golden dollars segregated from Susan B. Anthony (SBA) coins. Reserve Banks, however, do not sort individual coins and have no machines that are able to distinguish between the two types of circulating dollar coins.

Susan B. Anthony coins, however, could be removed from circulation if the Mint were to purchase dollar coins received by Reserve Banks from circulation, sort the coins, and destroy the SBAs or place them into long-term storage. We understand that the premise of such a program is that the public's total demand for dollar coins could increase if unmixed golden dollars were available rather than commingled SBAs and golden dollars. In general, a program to remove SBAs from circulation would need to consider the seigniorage that could be gained from greater

circulation of golden dollars in relation to the costs of the program, and the potential savings to society from an overall increase in the use of dollar coins relative to one-dollar notes.

Recent Experience with Dollar Coins, Quarters, and Nickels

The recent experience of the Reserve Banks with changes in coin design has generally been that inventories and operating costs for coins have increased. Reserve Banks acquired sufficient inventories of dollar coins in the first two years of golden dollar circulation to satisfy the demand by depository institutions for most of the following two years. Despite efforts by the Reserve Banks, the Mint, and depository institutions to manage demand, inventories of quarters at Reserve Banks are now more than triple their 1999 level. From 1999 to 2003, Reserve Bank direct costs for distributing coins have increased at an average annual rate of about 12 percent, three times the rate of Reserve Bank direct costs for distributing currency.⁴

The increases in Reserve Bank coin inventories and costs result largely from a mismatch between the Federal Reserve's role as the wholesale distributor of coins to depository institutions and public demand for commemorative coins in small quantities. The Reserve Banks' coin distribution system is designed to satisfy depository institutions' needs for large quantities of coins for transactional purposes. Publicity about new coin designs understandably encourages consumers' interest in the coins, but so far much of the demand has reflected individuals' desires to collect one or two coins of each design. In this situation, frequent changes in design result in large initial payments of new design coins to depository institutions and the subsequent return of coins after the initial demand for collectibles and on-going transactional demand have been met.

In addition, the Reserve Banks and depository institutions absorb the costs of ordering and distributing coins that are broadly intended for transactional use, including circulating

⁴ For comparison, the Reserve Banks also introduced four new note designs during this period: Series-1996 \$20 notes in 1999, Series-1996 \$5 and \$10 notes in 2000, and Series-2004 \$20 notes in 2003.

commemoratives.⁵ Overall, the wholesale coin distribution system is designed to be efficient for distributing large numbers of coins for transactional purposes, but is less efficient at distributing the relatively small number of coins needed to satisfy public demand for commemoratives.

Dollars

Chart 1 at the end of my statement shows that net payments of dollar coins surged to more than \$558 million in 2000, but dropped sharply in the succeeding years. Publicity and efforts to stimulate demand caused net payments of dollar coins to rise sharply in 2000, and payments continued at an elevated, though decreasing, rate through 2002. During 2003, total net payments of dollar coins to circulation were about \$69 million, which represents a return to a level of annual payments experienced in the five years before the introduction of the golden dollar created temporary heightened demand. On March 31, 2004, Reserve Banks held more than \$92 million in dollar coins, approximately the target inventory level for meeting transactional demand.

Quarters

The Federal Reserve has issued a new state quarter design every ten weeks since January 1999. The public's interest in the widely publicized state quarters caused the Reserve Banks to distribute as many as 1.6 billion pieces of a single state quarter design in the early days of the program.⁶

⁵ In contrast, legislation requires the Mint to recover its costs for distributing numismatic coins that are specifically intended to meet the demand of collectors. As a consequence, the Mint must charge a mark-up over the face value of coins that creates a relative disincentive for the public to obtain circulating commemoratives directly from the Mint.

⁶ Virginia state quarters released in October 2000.

Chart 2 shows that Reserve Bank quarter inventories averaged nearly \$621 million in 2002. Knowing that existing inventories will satisfy transactional demand for some time, the Reserve Banks, since 2002, have ordered 450 million of each new state quarter, an amount that satisfies consumer demand. Although this initiative reduced the growth of Reserve Bank quarter inventories, on March 31, 2004, the Reserve Banks still held more than \$515 million in quarters, which is approximately \$183 million more than the target level for the upper limit of inventory needed to satisfy transactional demand.

Nickels

The Federal Reserve and the Mint used lessons learned from the golden dollar and state quarter programs to manage the distribution of the new Westward Journey nickel designs. A number of factors seem to have influenced a more orderly initial rollout of the first new nickel in the program. Modest initial publicity about the new design tempered public demand, and perhaps most importantly, there will be no more than two new nickel designs this year and next. Transactional demand for nickels is significantly lower than for quarters, allowing the Reserve Banks to reduce their inventories of old design nickels for months in anticipation of the issue of the new design. The Reserve Banks initially ordered 300 million nickels, which were positioned in most of their locations before the release date. The objective was to make sufficient quantities available in the first four weeks of circulation when demand is highest for commemorative coins. The initial introduction has gone smoothly. It is still a bit early, however, to assess fully the success of these measures in managing inventories of nickels.

Conclusion

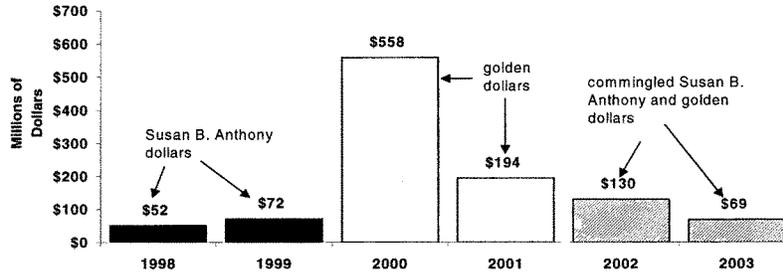
The Federal Reserve is working closely with the BEP and the Secret Service to define the appropriate timing for introducing design changes for the \$100 Federal Reserve note, and to

assess whether to add additional counterfeit deterrence features to the \$5 and \$10 notes. With regard to coins, it is important to recognize that there are significant uncertainties about the effects of additional changes to circulating coin designs, particularly to dollar coins. The Federal Reserve's experiences since 1999 suggest that flexibility in implementing new coin programs, along with care in publicizing them, will allow us to address better the inventory and distribution challenges of these programs. For example, the smooth introduction of the first new nickel and experience thus far suggests that there are advantages to releasing no more than two new designs per year. This rate of introduction, at least for widely circulating coins, allows the Reserve Banks more time to draw down inventories of old designs and build up stocks of new designs for the initial distribution. If experience shows over time that higher rates of introduction can be managed effectively, the Reserve Banks and the Mint could increase the rate of introduction in accordance with carefully prepared plans. In addition, alternative distribution strategies that complement wholesale distribution could be explored.

Finally, we would advise against unduly stimulating public interest in new designs, which appears to cause intense initial interest and to place significant pressure on Reserve Banks and depository institutions, with limited long-term changes in transactional demand. We are very concerned that there could be significant public frustration with depository institutions and the Reserve Banks if expectations are not met for the distribution of new coins. If long-term demand grows slowly, depository institutions and the Reserve Banks may need to limit the amount of dollar coins that they order in order to manage their inventories effectively. If and as long-term demand does increase, the Reserve Banks will work closely with the Mint to meet demand in accordance with their obligation to provide for an elastic currency.

Chart 1

Reserve Bank Dollar Coin Net Payments



Note: In calendar years 2000 and 2001, the Reserve Banks distributed only golden dollars.

Table 1

Estimated Number of Golden Dollars in Circulation

(millions of pieces, as of March 2004)

Number of Golden Dollars Minted for Circulation ¹	1,400
Estimated Number of Golden Dollars in Reserve Bank Inventory (75 percent of commingled inventory)	(69)
Number of Golden Dollar Coins Held in Mint Inventory	(300)
Estimated Number of Golden Dollars in Circulation	1,031
Estimated Number of Golden Dollars held by Depository Institutions	n.a.
Estimated Number of Golden Dollars held as Collectibles (67 percent in 2000 Coinstar Poll) ²	(690)
Estimated Number of Golden Dollars Available for Use in Transactions	341
Memo:	
\$1 Notes in Circulation	7,800
Estimated Number of Golden Dollars Available for Use in Transactions as a Share of Golden Dollars Available for Use in Transactions and \$1 Notes in Circulation ³	4.2%

1 The estimated number of Susan B. Anthony coins minted from 1976 through 2000 is 970 million, of which an estimated 23 million remain in Reserve Bank inventory commingled with golden dollars (includes Reserve Bank inventory at coin terminals).

2 The estimated 67 percent held as collectibles is applied to the estimate of all golden dollars held outside of Reserve Bank and Mint inventories, including an unknown amount of inventories held by depository institutions.

3 The GAO has reported that it believes the estimated share is closer to one percent based on alternative survey methodology (see *Widespread Use*, p. 37).

Chart 2

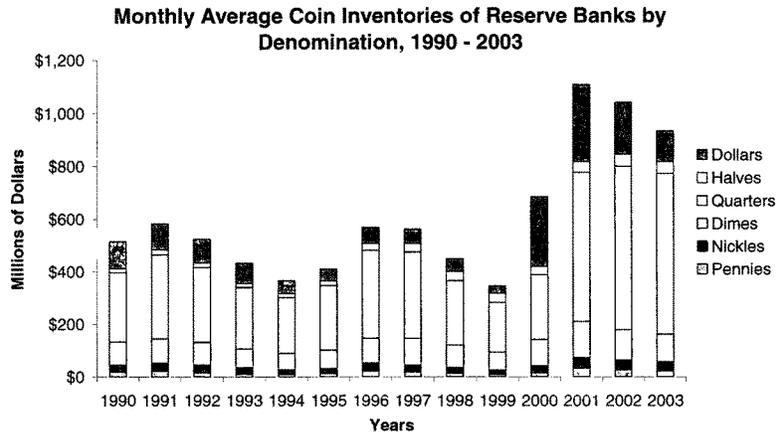
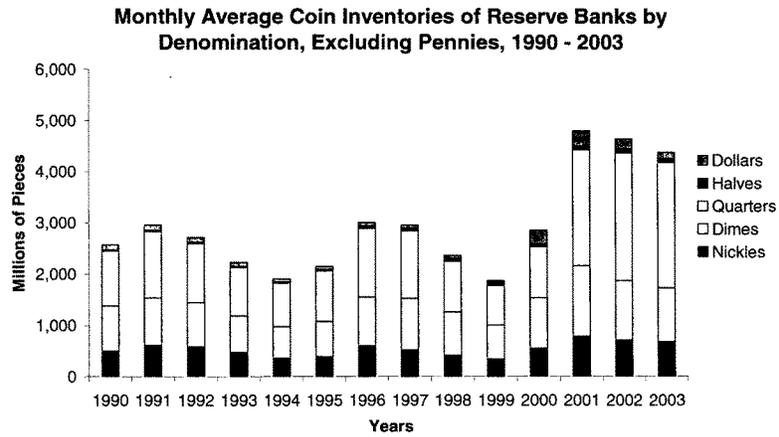


Chart 3



Note: Pennies accounted for about 2.4 billion pieces in 2003 and are not shown in order to preserve the scale of the chart.



Serving the Vending, OCS and Foodservice Management Industries

**Testimony of the National Automatic
Merchandising Association**

Wednesday, April 28th, 2004

**The Subcommittee on Domestic and
International Monetary Policy**

**H.R. 3916, The Presidential \$1 Coin
Act of 2004**

Good Afternoon. My name is Tom McMahon. I'm Senior Vice-President and Chief Counsel of the National Automatic Merchandising Association. Mr. Chairman, I want to thank you and the entire Committee for this opportunity to spend a few minutes talking about the dollar coin, its design, things we might do to get more Americans to use the dollar coin, and H.R. 3916, the Presidential \$1 Coin Act of 2004.

First, the Presidential \$1 Coin Act of 2004: the National Automatic Merchandising Association, representing some 2400 companies serving food and beverages through vending machines to more than 10 million Americans every working day, supports this legislation. In our view, The Presidential \$1 Coin Act is a thoughtful, legitimate attempt to generate interest in the dollar coin, and, we hope, lead to wider use of the coin in commerce. We appreciate the sponsorship of this measure by Congressman Castle and Congresswoman Maloney.

A widely circulating dollar coin would favorably impact our industry by at least \$1 billion per year. The \$1 billion estimate is comprised of \$300 million in increased sales and \$700 million in reduced costs if the coin circulated widely. The industry estimates its annual sales at \$30 billion. It estimates lost sales due to rejected \$1 bills of at least 1% of

sales, or \$300 million. We estimate at least one service call per year, per machine is due to a jammed bill acceptor. A widely circulating dollar coin would eliminate virtually all of these service calls. With 7 million food and beverage vending machines in the nation, and \$100 per service call, the industry would save \$700 million in costs. Lower costs lead to lower prices.

Before moving on to four suggestions about how to get the dollar coin circulating, a word about the quality of circulating U.S. currency: Our members are deeply concerned about a policy under consideration at the Federal Reserve, known as the Currency Recirculation Policy announced in the Federal Register in October of last year. Under this policy, commercial banks will face a recirculation fee of \$5 to \$6 per bundle (1,000 notes) of currency returned by a bank that contains fit currency if the bank orders new currency of the same denomination in the same week. In other words, under this policy, a bank will face a penalty if it returns fit currency to the Federal Reserve but no penalty if it returns unfit currency to circulation. This will lead to a degrading of US currency and more lost sales in our industry.

In comments filed with the Federal Reserve Board on January 12th, 2004, NAMA expressed serious concerns about this policy and asked that the Board, before adopting this policy, determine the effect the policy would have on the fitness of U. S. currency and on the vending industry. To date, we have received no reply from the Federal Reserve. A letter from the Chairman of this Subcommittee to the Federal Reserve Board supporting our request would be greatly appreciated.

Now back to the matter of dollar coins and what can be done to get more of them into the hands of the American people. We have four suggestions:

- 1) Enact the Presidential Coin Act of 2004. Dollar coins bearing the images of our Presidents, starting with George Washington in January 2006, would stand a good chance of stimulating interest and wider use of the dollar coin.
- 2) Get the Susan B. Anthony dollar coin out of circulation. Although vending machines like Susan B.'s as much as Golden Dollar coins---they both work equally well in vending machines---people don't like Susan.B's. Some people don't know what they are. And retailers who have started a program to offer dollar coins to their customers have discontinued their programs as soon as they saw Susan. B's mixed in with Golden Dollar coins when they received coins from the bank. The Susan B. is a major impediment to the success of the Golden Dollar coin. Our industry might be able to help the Federal Reserve and the Mint get Susan. B's out of circulation.
- 3) Make the Golden Dollar Coin available to the American people. Start with federal buildings. Thousands of Post Offices, military installations, federal office buildings and the like do not offer the coin over the counter to the American people. Presidential Dollar Coins will provide the perfect opportunity to begin to offer the coin to the American people. The United States Government prints \$1

bills and makes \$1 coins. Why are both government products not available to Americans on federal government property?

- 4) Engage the nation's retailers in the Presidential Coin program. If Wendy's offers Presidential Coins to its customers and those coins bring business in the door, you can bet McDonalds will follow suit. If Target offers Presidential Coins to their customers and those coins bring business in the door, you can bet Walmart will follow.

The American people will then have a convenient, useful, cost efficient alternative to the \$1 bill.

Thank you.

Statement for the Record of
Thomas W. Noe
President, Vintage Coins and Collectibles
Before the
Committee on Financial Services
United States House of Representatives
April 28, 2004

Good afternoon. My name is Tom Noe and I am the President of Vintage Coins and Collectibles located in Maumee, Ohio. As a collector of coins and other historic memorabilia since 1962 and a fulltime numismatist (coin dealer) for over 30 years, I am truly honored to address this committee on a number of issues related to H.R. 3916.

Let me begin by congratulating Congressman Castle for his continued leadership on behalf of all collectors and dealers of United States coinage. I think an editorial by Beth Deisher in the March 22nd issue of Coin World sums it up best, and I quote "The 50 states quarters program has become the most successful coinage program in U.S. history." (end quote).

I see no reason why a new circulating one-dollar (\$1) coin depicting the former presidents of the United States won't be as successful. Furthermore, the size of the dollar coin will allow larger images and more relief and details than that of the quarter dollar.

As chairman of the Ohio Commemorative Quarter Commission, I learned that people do care about our coinage. We had over 7,000 design suggestions for the Ohio quarter alone. The healthy debate within the state on which design to ultimately recommend for the Governor's approval caused many citizens to analyze the state's rich heritage and history.

More importantly, the increase in the U.S. collector base has been too large to measure. Grandparents, parents and children flock to banks and coin shops looking for the newly minted state quarter. It has given a father and son or mother and daughter a reason to collect something together. This is something I have not seen since my childhood over forty years ago, when U.S. silver coinage and the occasional Indian head penny or buffalo nickel were still available.

The final point to the state quarter program has been the tremendous demand for those coins from teachers who wish to use them in their classrooms as tools to teach the American history of all 50 states. That is why I think a one-dollar (\$1) coin depicting U.S. Presidents is an idea whose time has come. What better way to teach children about our U.S. heritage than to issue four new coins annually that can be used as an impetus to learning.

Another portion of H.R. 3916 I would like to address is the design portion. The ability to design a larger portrait by moving required dates, mint marks and mottoes to the coin's edge will enhance the historical significance by making the President the focal point of each and every coin.

As Vice-Chairman of the Citizens Coinage Advisory Committee (CCAC), the number one complaint we hear from our members is the lack of relief and details on many of the state quarters. The one-dollar (\$1) coin will give the artists and designers the ability to work with the U.S. Mint and their sculptors to create dramatic and dynamic coins we can all be proud of.

The last area I would like to comment on is Section 4 of H.R. 3916, regarding the introduction of the First Spouse Bullion Coin Program. As we learned from the success of the state quarter program, U.S. citizens like new coinage and paper money. In a recent Internet poll, people were asked, "What do you think about the new \$50 bill design?" With over 250,000 responses, eighty percent (80%) said that they liked it and only four percent (4%) responded that they did not like it. A new gold bullion coin depicting America's First Ladies will be very successful and a welcome change. I also project that sales will be extremely high due to, not only the design change, but also the fact that the content will be .9999 percent pure gold. We will

finally have a gold bullion coin to compete directly with the Canadian Maple Leaf and other world .999 percent gold coins.

I would be remiss if I didn't take a moment to comment on U.S. coinage in general. I look at the state quarter program as a good start in the total redesign of U.S. coinage. H.R. 3916 takes it one step further. This would be a great opportunity to analyze all U.S. Coinage in regards to design, size, content, and use for the visually impaired.

It has been almost one hundred years since the Lincoln penny was introduced in 1909. Let's all work together, Congress, U.S. Mint, dealers, collectors and the media to plan the future of U.S. coinage for the next 100 years.

In conclusion I would like to commend the sponsors of this bill and offer any assistance that you might require to ensure the successful passage of this bill and the subsequent minting and marketing of these coins.

I know I speak for the millions of collectors and thousands of dealers when I say that we look forward to these new coins and the future total redesign of all U.S. coinage.
Thank you, Mr. Chairman. I would be happy to answer any questions you might have.

TESTIMONY OF THE
AMERICAN PUBLIC TRANSPORTATION ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY,
TRADE AND
TECHNOLOGY OF THE
HOUSE COMMITTEE ON FINANCIAL SERVICES
ON DOLLAR COIN LEGISLATION

April 28, 2004

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APTA is a nonprofit international association of over 1,500 public and private member organizations including transit systems and commuter rail operators; planning, design, construction and finance firms; product and service providers; academic institutions; transit associations and state departments of transportation. APTA members serve the public interest by providing safe, efficient and economical transit services and products. Over ninety percent of persons using public transportation in the United States and Canada are served by APTA members.

INTRODUCTION

Mr. Chairman and members of the subcommittee, on behalf of the American Public Transportation Association (APTA), thank you for this opportunity to testify on the Presidential \$1 Coin Act of 2004 (H.R. 3916), which would provide for the issuance of new one dollar coins and other purposes. My name is Chung Chung Tam. I am Chairman of APTA's Revenue Management Committee, and I also Chair APTA's Financial Management Committee - Universal Transit Fare Card Standards Program. I am a Revenue Systems Engineer with the Chicago Transit Authority. Transit systems have been long-time supporters of efforts to increase the use of dollar coins, and they strongly support the efforts of this Committee in that regard. The use of dollar coins clearly reduces costs for operators of public transit systems.

ABOUT APTA

APTA's 1,500 public and private member organizations serve the public by providing safe, efficient, and economical public transportation service, and by working to ensure that those services and products support national economic, energy, environmental, and community goals.

APTA member organizations include public transit systems and commuter railroads; design, construction and finance firms; product and service providers; academic institutions; and state associations and departments of transportation. More than

ninety percent of the people who use public transportation in the United States and Canada are served by APTA transit system members.

PUBLIC TRANSPORTATION SUPPORTS USE OF DOLLAR COIN

Mr. Chairman, in the face of budget constraints at the local, state and federal levels, the nation's transit systems are operating in the most cost-effective ways they can. In the past, APTA was pleased to be a member of the Dollar Coin Coalition that advocated broader use of the dollar coin. Our members have backed up their rhetoric with action: most transit systems around the country accept the dollar coin. In that regard, a September 2002 GAO report on the "New Dollar Coin" includes an appendix showing that nineteen of the top twenty transit systems in the country accept the dollar coin.

Our transit system members do so for practical reasons. The dollar coin is very cost effective in transit operations. Transit systems, especially those in major metropolitan areas, are some of the largest processors of one dollar bills in the country. On an annual basis they can collect and process million of pieces of currency. One transit system has quantified the cost of processing dollar bills. They determined that the cost to process one thousand dollars worth of one dollar bills is approximately \$10.11. The cost to process the same amount in dollar coins is \$1.22.

The difference is that handling paper currency is much more labor intensive. Coin processing is more efficient due to the use of technology and the availability of counting machines. In addition, the processing of coins by fareboxes and vending machines is faster than bill processing. Since the Federal Reserve requires that paper currency be "faced" when stacked, meaning that all dollar bills must be stacked with the portrait of

George Washington facing the same direction, transit agencies must stack and face all bills by hand. In addition, more agencies are procuring fareboxes which can validate currency and coins. This validation may increase boarding time on buses due to bill condition, bill rejections and bill jams, which could require scheduling more buses and increased operating costs. The expense of theft deterrent equipment and associated resources also result in increased costs. If transit agencies were able to realize the costs savings associated with the use of dollar coins, they would be able to use those resources to keep fares stable and promote the increased use of public transportation.

BARRIERS TO USE OF DOLLAR COIN

Mr. Chairman, we are thus very supportive of efforts to increase the use of the dollar coin. But there clearly are barriers to widespread usage of the dollar coin, and the GAO report I cited earlier identifies a key one. The report states as follows: "The most substantial barrier is the current widespread use of the dollar bill in everyday transactions and public resistance to begin using the dollar coin." The report goes on to say that: "until individuals can see that ... the government intends to replace the dollar bill with the dollar coin, they will be unlikely to use the coin in everyday transactions." Therefore Mr. Chairman, while we support this and other efforts to increase the usage of the dollar coin, APTA would also support efforts to phase out the use of one dollar bills as part of an effort to implement the exclusive use of one dollar coins in this country.

Having said that, we are supportive of efforts such as the Presidential \$1 Dollar Coin Act of 2004 (H.R. 3916) which we trust would increase the public's acceptance of dollar coins in general and thus increase the use of the dollar coins to pay for transit fares.

ADDITIONAL SAVINGS

In addition to the savings realized by public transit agencies and other businesses that deal in small denominations, there would be significant savings to the nation if the one dollar bill were replaced with the one dollar coin. Both the Federal Reserve and the GAO have projected savings of \$456 million annually, on average over 30 years, in addition to the savings for public transportation systems, if the dollar bill were replaced with the dollar coin.

CONCLUSION

Mr. Chairman, we appreciate and thank you for your efforts to increase the use of one dollar coins and to promote the public's acceptance of dollar coins in every day use. Clearly the counting and handling of paper currency is much greater than the cost of counting and handling coins. Just as clearly, increased use of dollar coins in public transportation systems would reduce operating costs at those systems and permit more of transit's limited resources to go to improving transit service.

We believe that this legislation, which is modeled on the minting and introduction of the successful "50-State Quarter Program," has a good chance of increasing the use of dollar coins. We agree that minting coins that identify Presidents, and their terms of

service, would increase awareness of our Presidential history and increase the popularity of the new coins. We appreciate the thoughtfulness with which you have developed this legislation and its objectives. We look forward to working with you and the members of this Committee in advancing this legislation that could be very cost-effective for the nation's transit systems.

**STATEMENT OF MR. BRUCE A. TOWNSEND
Deputy Assistant Director, United States Secret Service**

**Before the Committee on Financial Services
Subcommittee on Domestic and International Monetary Policy,
Trade and Technology**

U.S. House of Representatives

April 28, 2004

Good afternoon, Mr. Chairman. I would like to thank you, as well as the distinguished Ranking Member, Ms. Maloney, and the other members of the subcommittee for providing an opportunity to discuss currency issues and the role of the Secret Service in the enforcement of our counterfeiting laws. Let me say at the outset of this hearing that the Secret Service has long enjoyed its relationship with this subcommittee, and we are extraordinarily grateful for your longstanding support of our mission and our employees.

As this subcommittee is aware, the Secret Service has been responsible for the integrity of our currency since 1865. It is our founding mission. And while we recognize that the public today is far more aware of our protective mission with regard to the President, Vice President and other officials, it is important to understand that every special agent on a protective detail today began his or her Secret Service career investigating counterfeiting cases and other financial crimes.

I want to assure the members of this subcommittee that counterfeit currency investigations remain a high priority for the Secret Service. Although our agency was transferred to the Department of Homeland Security in March of 2003, we retained all of our personnel, resources and investigative jurisdictions and responsibilities. Additionally, we have preserved important ties and relationships with key entities in the Department of the Treasury, including our colleagues at the Bureau of Engraving and Printing (BEP), as well as at the Federal Reserve. The Secret Service has maintained that economic security is vital to homeland security, and as such, the safeguarding of our financial infrastructure and monetary framework continues to be a paramount objective of our worldwide investigative efforts.

It is estimated that some \$670 billion of genuine U.S. currency is currently in worldwide circulation, and as much as two-thirds of this is circulated overseas. While current levels of counterfeiting represent a tiny fraction of this amount and do not have a meaningful impact on our economy as a whole, the losses incurred by individual or businesses from these counterfeit notes can be significant.

Because of the dollar's stability and value, as well as its widespread use overseas, it continues to be a target for transnational counterfeit activity. The counterfeiting of U.S. currency also continues to be associated with organized crime and drug trafficking.

Recent trends in the counterfeiting of U.S. currency indicate a growing globalization in production and distribution of counterfeit notes. Because not all nations report the passing of counterfeit currency, other than their own, it is difficult to provide precise figures detailing how much counterfeit U.S. currency is passed on a global scale each year. The Secret Service estimates that approximately \$37 million in counterfeit U.S. dollars were passed successfully in the United States in FY2003. This would represent about a 14% reduction from the amount of counterfeit U.S. currency passed in the previous fiscal year.

Secret Service statistics also show that approximately \$63 million in counterfeit U.S. currency was seized last year by the Secret Service and other authorities worldwide. Of this amount, approximately \$10.7 million was seized in the United States. The remaining notes were seized overseas, with over \$31 million seized in Colombia alone.

It is also interesting to see the different methods utilized by counterfeiters both within the United States and outside of our borders. Last year, more than 42% of all counterfeit currency passed domestically was printed outside of the U.S. using traditional offset printing techniques. Virtually every note that was produced overseas and passed in the U.S. was produced by offset printing. In contrast, 46% of the counterfeit currency passed domestically last year was produced within the U.S. by individuals using digital technology such as home computers and color copiers.

In recent years, the Secret Service has enhanced its international anti-counterfeiting efforts. Today, our agency maintains 17 foreign offices and continues to target strategic locations throughout the world where significant counterfeiting activity is detected through joint task forces with our foreign law enforcement partners. Our investigative history has proven that the effective suppression of counterfeiting operations requires a close partnership between our foreign field offices and their local law enforcement counterparts, as well as an immediate response by the law enforcement community in order to develop investigative leads generated when a new counterfeit note is detected or an arrest is made. The Secret Service has long believed that the strategic placement of personnel promotes more aggressive law enforcement operations because agents are able to respond in a timely and consistent manner. Also, the ongoing presence of our agents in foreign locales allows the Secret Service to build the same trusted partnerships with our foreign law enforcement counterparts as we have successfully built with our local police partners in the United States.

Today, Colombia is the single largest producer of counterfeit U.S. currency in the world, accounting for approximately 26%, or \$10 million, of the \$37 million in counterfeit dollars passed in the United States last year.

Colombian counterfeiting operations tend to employ many of the same distribution networks and methods as those used in the trafficking of narcotics. The Secret Service is following a trend that indicates counterfeiting activity may increase in Latin America as Colombian organized crime and others take advantage of the counterfeiting opportunities associated with "dollarization", which is the process of a foreign country adopting the U.S. dollar as its own currency. Counterfeit printing plant suppressions and seizures in Colombia show that a number of Colombian counterfeiters are producing lower denomination counterfeit U.S. currency for distribution in fully "dollarized" countries. In December of 2001, the Secret Service detected over \$40 million in counterfeit U.S. currency intended for distribution in Ecuador, a country with a dollarized economy. In July of 2002, and again in January of 2003, counterfeit U.S. \$1 coin operations were suppressed in Colombia. These coins, the Sacagawea or 'Golden Dollar,' were intended for distribution in Ecuador due to a preference for \$1 coins as opposed to \$1 Federal Reserve Notes (FRN).

In May of 2001, the Secret Service entered into a historic agreement with the government of Colombia to combat organized financial crime. This agreement included the establishment of a vetted anti-counterfeiting force (VACF) using agents from the Departamento Administrativo de Seguridad (DAS) and the Departamento de Investigaciones Judiciales de Inteligencia (DIJIN) of the Colombian National Police.

These VACF units work in conjunction with Secret Service agents from our Bogotá Resident Office in the identification and suppression of counterfeiting operations in Colombia. Through July of 2003, the cooperative effort between the Secret Service and Colombian law enforcement has resulted in the seizure of \$124 million in counterfeit U.S. currency, the suppression of 38 manufacturing operations, 165 counterfeit-related arrests, as well as the seizure of miscellaneous contraband (narcotics, explosives and firearms, and counterfeit U.S. visas).

An additional aspect of this collaboration was the enhancement of Colombian laws relating to counterfeit U.S. currency. A new Colombian counterfeiting statute mandates that anyone possessing over \$10,000 in counterfeit U.S. currency serve a minimum of three (3) years and a maximum of eight (8) years in prison, with no possibility of probation.

As a result of these efforts, there has been a 37% reduction in Colombian-produced counterfeit currency passed in the United States, from approximately \$15.3 million passed domestically in FY2002 to approximately \$9.6 million passed in FY2003. This collaboration with the Colombian government has been a success story, and the Secret Service is eager to work with this subcommittee and the Congress to obtain the authority to continue these efforts both in Colombia and other troubled regions.

The economic and social conditions that fostered significant counterfeiting of U.S. currency in Colombia are not restricted to South America. More recently, the breakup of the Soviet Union triggered the growth of organized crime networks throughout the former Soviet Bloc countries in Eastern Europe. Bulgaria has experienced a significant growth

in organized crime activities, with groups becoming involved in narcotics trafficking, smuggling, illegal arms distribution, money laundering, and the production and distribution of counterfeit U.S. currency.

Most of the Bulgarian counterfeit notes are printed on custom-produced counterfeit paper and are printed using the offset and typographic processes. These notes are then distributed in the United States, using Bulgarian organized criminal networks already in place in a number of American cities.

In March of 2002, the Secret Service joined forces with the Bulgarian National Service for Combating Organized Crime to form the Bulgarian Counterfeit Task Force (BCTF). This task force -- based in Sofia, Bulgaria -- was established to address the rising trend of counterfeit U.S. currency production in Bulgaria, a nation that now ranks among world leaders in terms of offset counterfeit production. Since 1996, over \$14 million in counterfeit U.S. currency manufactured in Bulgaria has been passed and/or seized worldwide, resulting in over 100 related arrests. Secret Service agents working with the BCTF have seized over \$5.6 million and suppressed several counterfeiting operations.

As new technologies continue to emerge, the challenges facing law enforcement are significant. The rapid and continual advancement of reprographic technology has enabled an expanding criminal element to conduct a variety of crimes. These advancements mean large quantities of counterfeit currency and other obligations can be reproduced quickly and efficiently. Today's criminals need relatively little knowledge or specialized training to print counterfeit currency or other financial obligations. Utilizing equipment ranging from inexpensive color copiers, scanners, computers and inkjet printers, to large commercial presses, a counterfeiter or criminal organization can flood a region with counterfeit currency.

Domestically, the Secret Service is attacking counterfeit production and circulation utilizing a two-pronged approach. First, with our partners in the Department of the Treasury and the Federal Reserve, we are continuing with the redesign of our currency. As a member of the Advanced Counterfeit Deterrence Committee (ACD) and the Currency Redesign Committee, we have an active role in the research, design, and introduction of the new currency. The Secret Service is continually studying cutting-edge anti-counterfeiting technologies for future redesigns of U.S. currency. Second, and also in conjunction with the Treasury Department, the Secret Service has pursued an active dialogue with private industry to create a joint effort aimed at curbing the dramatic increase in digitally-produced counterfeit currency. It is the desire of all involved parties to allow for the creation of digital products that satisfy Treasury standards and the consumer market.

Public education and training continues to play a large role in the Secret Service's efforts to suppress the manufacturing, distribution and sale of counterfeit U.S. currency, both domestically and abroad. Secret Service personnel conduct training seminars in topics such as combating counterfeit, financial crimes, and computer forensics in an effort to

assist our domestic and foreign counterparts in their local law enforcement communities and augment the Secret Service's mission.

In 1996, the Bureau of Engraving and Printing (BEP) issued the first major redesign of U.S. currency in over 50 years. The new design included a number of security features intended to make it easier for the public to authenticate their currency, as well as making digital reproduction efforts more difficult and costly for counterfeiters. The series 1996 (\$20, \$50, and \$100 denominations) and 1999 (\$5 and \$10 denominations) designs have proven to be effective in reducing the rate of counterfeit notes detected in a given quantity of genuine notes examined when compared to the rate of counterfeit notes found with older designs.

In late 2003, the BEP introduced the newly-designed \$20 FRN. As the subcommittee is aware, the BEP has recently unveiled a new design for the \$50 FRN, and a design change for the \$100 denomination will follow within the next two years.

In the invitation to testify here today, the subcommittee requested an evaluation of the effectiveness of the \$20 note that has been recently redesigned and introduced into circulation. The new notes have only been in circulation for a few short months, and our findings are therefore somewhat preliminary. We have seen increases in the counterfeiting of these new notes, which is not historically uncommon as redesigned currency is introduced. In the coming months, the Secret Service intends to closely monitor this activity and to work with our partners here at the table to determine the effectiveness of these new security features and make improvements where possible.

Mr. Chairman, this concludes my prepared remarks. I would be pleased to answer any questions that you or members of the subcommittee may have.

JAMES C. GREENWOOD
8th DISTRICT, PENNSYLVANIA
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SUBCOMMITTEES:
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Congress of the United States
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Washington, DC 20515-3808
April 18, 2004

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Congressman Peter King
Chairman
House Financial Services Subcommittee on
Domestic and International Monetary Policy
2129 Rayburn HOB
Washington, DC 20515

Dear Chairman King,

I note with great interest that your subcommittee is having a hearing today entitled "Money Matters: Coin and Currency Design and Counterfeiting Issues." I would like to bring to your attention an issue brought to me by my constituent, Bob Walker, that I believe to be relevant to your proceedings. Mr. Walker is the owner of a car wash and has a keen interest in the gold coin as it affects his business. I recently wrote to the Federal Reserve to make an inquiry on behalf of my constituent.

I would greatly appreciate your consideration of including both this letter and my letter to the Federal Reserve in the official record of your hearing. Thank you for this consideration.

Sincerely


James C. Greenwood

Enclosure

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March 23, 2004

The Honorable Alan Greenspan
Chairman
Federal Reserve System
Board of Governors
2001 Constitution Avenue NW
Constitution Avenue And 20th
Washington, D.C. 20551

Dear Mr. Chairman:

I am seeking your assistance on a matter that, while not as weighty as the future of our economy, the deficit, nor Social Security, is important to one of my constituents.

Bob Walker owns a car wash. When the Sacagawea gold coin was first minted he invested in a machine that can take his customers' paper bills, subtract the cost to wash their cars and dispense gold dollars in exchange. His customers enjoyed the novelty and patronized his business. He was able to purchase bags of these coins through his bank.

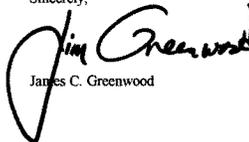
Now he has been told (as have I) by the Philadelphia Office of the Federal Reserve that the Sacagawea coins are stored in bags in which they are intermingled with Susan B. Anthony dollars and that it is not possible to sort out several thousand gold coins and ship them to his bank for purchase. The reason given is that since both types of dollar coins are unpopular, they will remain in bags in vaults for (I presume) decades to come.

It would solve Mr. Walker's problem if the Philadelphia Office could be persuaded to be helpful, and I am asking for your assistance with this.

I would also like to inquire as to what plans the Fed has for these coins. Are they simply going to sit in place from here to eternity, or will they be melted down and converted to something more useful, or do we think that someday the paper dollar will be eliminated in favor of these heavier and more cumbersome (albeit more durable) metal versions?

I look forward to your response on these weighty matters.

Sincerely,



James C. Greenwood

JCG:kc