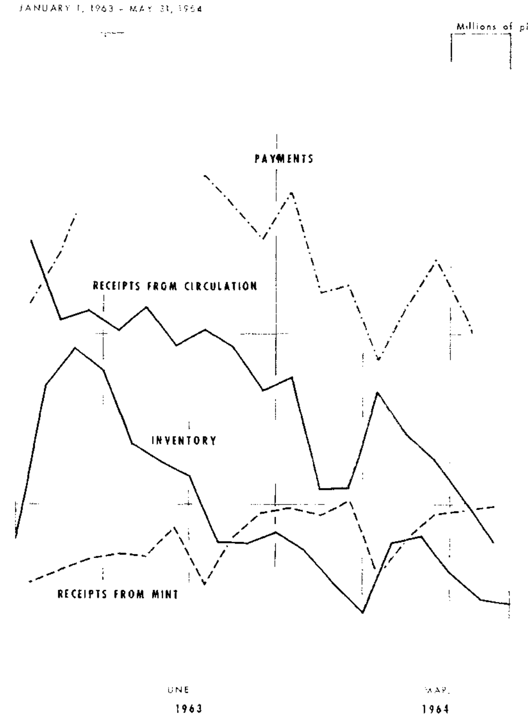
Statement Concerning the Coin Shortage

We are experiencing a critical coin shortage that can be overcome only by a rapid and substantial increase in production. Normally, coins flow into circulation and back into the Federal Reserve Banks in much the same manner as currency does. But in recent years demand for coin has grown in unprecedented fashion. As commercial banks have found themselves with less and less excess coin, the return flow to the Reserve Banks has dwindled. Deliveries of new coin from the mint have risen, but this added supply has been more than offset by the drying up of return flows of coin from circulation. Today, as shown in the accompanying chart, the return flow has shrunk to the point where it is now less than the amount of new coin received from the mint; in more normal times, the return flow was nine times as great as receipts from the mint. In consequence, inventories have fallen to the point where the Reserve Banks have been unable to deliver coins on request, but instead have been forced to ration coins in order to distribute the limited supply on a fair basis.

As the shortage has become more critical, we have considered various methods of dealing with it. To meet the heavy seasonal demand for coins in late 1963, we tried to induce larger return flows of coin by accepting deposits of wrapped coin from banks and by paying transportation charges on shipments from nonmember banks, but we achieved only limited success. We have previously recommended that the Treasury be authorized to discontinue changing the mintage date on coins each year, and we now support the Secretary's proposal for legislation to this effect. Keeping the 1964 date, particularly on Kennedy half dollars, should lessen the extent to which coins are withdrawn from circulation by collectors and speculators.

So far as distribution is concerned, the Federal Reserve Banks are endeavoring to use all practical means to assure that the

FEDERAL RESERVE BANK COIN RECEIPTS, PAYMENTS, AND INVENTORY
JANUARY 1, 1963 - MAY 31, 1964



NOTE.—Exclusive of silver dollars. Inventory figures are for the end of the month, except for Jan. 1, 1963. All others represent totals for the month.

NOTE.—Statement of William McChesney Martin, Jr., Chairman, Board of Governors of the Federal Reserve System, before the Legal and Monetary Affairs Subcommittee of the Committee on Government Operations of the House of Representatives, July 1, 1964.

supply of coins available to them is distributed fairly and efficiently among the commercial banks. But, in our considered judgment, the only real solution to the present coin shortage problem lies in a substantial increase in the production of coin.

We are gratified that the Senate has completed action on H. R. 10532, the Treasury-Post Office appropriations bill, which would provide the funds needed for construction of the new mint in Philadelphia, as well as for full-time operations at the existing mints, and we hope that agreement will soon be reached between the two Houses so that the bill may be speedily signed into law.

But we cannot wait for the new mint to solve our problem. Production must be increased substantially this year and next, and the new mint will not be in operation soon enough for that. Estimates by the Federal Reserve Banks of their coin requirements for fiscal year 1965 (as were shown in an accompanying table) indicate a need for 6.8 billion pieces, considerably more than the 4,970 million pieces (excluding silver dollars) contemplated by H.R. 10532. The need for increased production is heightened by the fact that demand for coins can be expected to rise seasonally later this year.

Needs of this kind are extremely difficult to predict with accuracy, and these estimates could be substantially above or below the mark. But we in the Federal Reserve System are convinced that the only safe course at this point is to flood the market with coins in order to remove the incentive to hold on to excess coin, and that normal considerations of cost and efficiency in production are of secondary importance at this time. We have urged the Secretary of the Treasury to take steps to increase production, and we welcome the recent announcement of proposals to accomplish substantial increases in the fiscal year 1965. Increases are sorely needed, particularly before the seasonal increase in demand that may be expected this fall, and we urge the Congress to provide whatever funds and authority may be required for this purpose.