POLICY UPDATE

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Does Phasing Out the Penny Make Cents?

IMAGE: GETTY/ISTOCK, OLGA KAYA

The U.S. Mint began producing the penny more than 200 years ago. Since 1909, President Abraham Lincoln has been the face of the coin, though the penny has changed in appearance, size, and material over time. As the longest-tenured coin and lowest denomination in the United States, it's no surprise that the penny can be found in so many places: under couch cushions, in drawers, or, if lucky enough, on the ground facing heads up.

But the copper coin's days could be numbered. In May, the Treasury Department announced it would stop producing pennies early next year. Coinage costs have increased: It costs about 3.7 cents to produce one penny. Cash use has also declined in the United States; it is used in less than a quarter of daily transactions. This wouldn't be the first time the United States has removed a denomination of currency from circulation. It eliminated the half cent in 1857 and the $2.50 gold coin in 1930. Those earlier changes were both the result of legislation from Congress, which holds the power to coin money, according to Article I of the Constitution. While current law allows the secretary of the Treasury to mint, issue, and stop coin production, only Congress has the authority to remove a coin from circulation.

There have been numerous legislative attempts to end the penny over the years. This year alone has seen a flurry of bills from Congress, including the Common Cents Act, which passed out of the House Financial Services Committee in July with bipartisan support. According to the bill's sponsor, Rep. Lisa McClain, R-Mich., continuing penny production over the next three years would cost taxpayers $225 million. The legislation also makes cost-saving changes to the nickel, such as using zinc instead of copper.

Wake Forest University economics professor Robert Whaples has long argued that it would be more efficient for the government, and taxpayer dollars, to remove a coin that people are not reaching for and that holds such little purchasing power. In addition to the costs, "Using pennies means an increase in zinc and copper mining, an increase in energy use and pollution at these mines," he wrote in a 2012 op-ed.

According to a June blog post by Oz Shy from the Atlanta Fed, it is more burdensome to complete cash transactions involving multiple denominations of coins. Removing the penny could alleviate this burden, but the ultimate effect might be small because it is possible merchants and consumers are already rounding cash payments to the nearest 5 cents to reduce the complexity of making change.

The United States would not be the first country to remove its 1 cent coin. Many European countries, Australia, New Zealand, and Canada have already done so. When Canada announced its plan in 2012, the Royal Canadian Mint decided it would still allow consumers to use pennies in circulation, but their shrinking availability would eventually require cash transactions to be rounded to the nearest 5 cents.

Richmond Fed economists Zhu Wang and Russell Wong explored the U.S. Treasury's plan to stop producing pennies in a July 2025 *Economic Brief.* They noted that the social benefits of greater pricing flexibility might outweigh the production costs, and to the extent prices are rounded up to the nearest nickel, consumers would pay more over time. With data from the 2023 Diary of Consumer Payment Choice, a Federal Reserve-sponsored survey, the authors determined that about 35 percent of transactions ended in zero or 5 cents and would not be rounded if the penny were phased out; transactions are more likely to end in 3, 4, 8, or 9 cents than other digits and would be rounded up. When they scaled this up to account for the full adult U.S. population (258.3 million), they found this rounding would cost consumers $6.06 million each year.

There are other concerns and questions about the policy as well. Some worry that the penny phaseout might affect fundraising and charity efforts that rely on, and encourage, the donation of spare change like the penny. And if the penny is expensive to produce, the nickel costs even more: nearly 14 cents per coin. Increasing the production of nickels to compensate for the loss of the penny could ultimately raise costs for the Treasury, while Wang and Wong found that phasing out the nickel could substantially increase the cost to consumers from rounding to the nearest 10 cents. **EF**