

CANADA

Dropping the penny: success!



It went peacefully, quickly and noiselessly. Since it started to go out of circulation a year ago (on February 4, 2013, to be exact), it has barely generated a murmur. Now we no longer talk about the penny except in the context of anecdote.

Yet some had predicted that dropping it would lead to difficulties serious enough to justify keeping it in the Canadian note and coinage system, for example:

- Prices would go up, since rounding to the nearest five cents at the register would not occur symmetrically (always rounding up).
- Demand for the other coins would go up noticeably (the other coins would compensate for the numbers).
- The precision of financial transactions would decline.
- We would lose a part of our heritage.
- There would be problems with modifying cash registers to round to the nearest five cents.
- Waiting lines at cash registers would lengthen in the weeks following the onset of the withdrawal process.

Looking back, it seems that removing the penny from circulation has gone very smoothly. Consumers are no longer collecting pennies in all sorts of containers, at home and elsewhere. Consumers, retailers and financial institutions no longer need to handle billions of the one-cent coins every year. We've gotten rid of something that was both useless and costly (the estimated cost for Canada was over \$150M per year). Moreover, the positive outcome of the Canadian experience is no different than what happened in a number of other countries that withdrew or eliminated coins with the smallest denominations.

Recently, the Royal Canadian Mint noted that it expected to recover barely four billion one-cent coins, only 25% of the coins produced since the start of the 1990s. This reflects the penny's near total lack of purchasing power and, in turn, a flagrant lack of interest in it. In fact, people were no longer paying attention to the pennies they had on hand, with some even tossing them in the garbage, a realization that clearly shows they should have been taken out of circulation nearly 25 years ago. This would have kept the Mint from producing some 20 billion pennies, and avoided the handling of hundreds of billions of coins in Canada.

Let's hope that the clear success of dropping the penny will allow us to make the next move with less political pressure, and with more reason and calm. The next step could potentially be getting rid of the nickel, as well as making existing coins smaller, as was done in New Zealand, for example. The second phase could even involve launching a five-dollar coin (see the conclusions of the study below). The goal is to reduce the total number and weight of the coins that people handle and carry. This process could start in five years. We must certainly not wait for another 25 years, with all the disadvantages and costs involved, before proceeding with additional changes.

For more information on this matter, see the Desjardins Group study released in 2008: 100th anniversary of the Canadian penny, an opportunity to re-examine the usefulness of our coins and bank notes in circulation, www.desjardins.com/en/a_propos/etudes_economiques/actualites/point_vue_economique/pve80409.pdf.

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NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

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