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ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

Proposed Agenda

Monday, August 9, 1976

No EPB Executive Committee Meeting

Tuesday, August 10, 1976

No EPB Executive Committee Meeting

Wednesday, August 11, 1976

- | | |
|------------------------------------------------------------|----------|
| 1. Legislative status of synthetic fuels commercialization | ERDA |
| 2. Small size dollar coin | Treasury |

Thursday, August 12, 1976

- | | |
|-----------------------------------------------------------|---------|
| 1. Report of Task Forces to Improve Government Regulation | MacAvoy |
|-----------------------------------------------------------|---------|

Friday, August 13, 1976

No EPB Executive Committee Meeting



by both groups that the dollar and half dollar coin be eliminated, signifying their belief that the coins have no future role in our coinage system. Interestingly, however, most preferred the present size of these coins as opposed to a smaller, more convenient configuration. This reaction may be an indication of lack of motivation to promote a new coin and incur the additional cost of handling it. From their perspective, continuation of the dollar coin in its present cumbersome configuration is the next best alternative to eliminating it altogether, since it will not circulate in either case.

Of the other industries surveyed, only the vending and coin equipment manufacturers gave a favorable response to the introduction of the new dollar coin. At the present time, with the exception of a limited supply of very expensive bill changers, there are no dollar vending machines. Despite industry survey results to the contrary, one must seriously question whether such machines will be developed and installed on the speculation that consumers would obtain the coins to use them.

Existing Large Denomination Coins:

In recent years we have produced about 180 million "halves" and 60 million "dollars" annually. According to RTI projections there will be no significant increase in production requirements in the foreseeable future. In essence, we satisfy a numismatic type demand, with coins produced being immediately withdrawn from circulation.

One can only speculate on the reasons for the lack of circulation. From a consumer standpoint there are acceptable substitutes for each. Two quarters are equal in weight to the half and more acceptable in vending applications. The dollar bill is far less bulky and has almost universal application. The inconvenience of carrying an extra coin denomination is apparently not offset by any unique usefulness as compared to the alternatives.

More important is the reluctance of banks and retailers to inventory, handle, and dispense denominations

in addition to the penny, nickle, dime, and quarter. In their view this added handling represents an incremental cost without offsetting benefit. As a result, the only way a consumer can now obtain dollar or half dollar coins is by physically going to a financial institution and requesting them.

This reticence on the part of banks and retailers can only be reversed by making the consumer demand more intense. Unquestionably, the added convenience and purchasing power of a small size dollar coin would be a step in the right direction.

Cost:

The Mint believes that prior to introduction it should build an inventory of 500 million new dollar coins and an additional 600 million coins should be produced during the first year of distribution.

The cost implications of these assumptions follow:

	Production (Millions)		Cost (Millions)
Prior to Introduction:			
Inventory Accumulation	500	@ 3¢	\$15.0
Marketing Program			.7
Total			<u>\$15.7</u>
Annual Cost After Introduction	600	@ 3¢	\$18.0
LESS: Cease "old" dollar production	60	@ 6¢	(3.6)
Cease "half" dollar production	180	@ 3¢	(5.4)
Total			<u>\$ 9.0</u>

The above illustration of annual production costs assumes the concurrent elimination of the half dollar coin which is recommended. If that option were not followed the annual production cost would be \$5.4 million

higher, or \$14.4 million. In addition, the 600 million production rate for new dollars seems very optimistic. If demand were half that amount the annual savings from elimination of the existing dollar and half dollar coins would entirely offset the production costs of the new dollar.

Seigniorage:

Seigniorage on the existing dollar and half dollar coins amount to about \$140 million annually, of which \$55 million is related to dollar production. Annual production of 600 million new dollars would provide \$585 million in seigniorage. Even under the most pessimistic production assumptions, annual seigniorage would increase over present levels. Under Government accounting procedures seigniorage is neither a budget receipt nor an outlay but is treated as an offset against financing requirements. Regardless of the accounting treatment, however, seigniorage is the equivalent of a hidden tax and the benefits of any increase must be viewed in that light.

Production Capacity:

The Mint has adequate production capacity to produce dollar coins for the foreseeable future using existing facilities and equipment.

Size:

The Mint proposes that the diameter and thickness of the new dollar coin be sized between the existing quarter and half dollar. To aid blind persons and others in differentiating the coin from the quarter, a "security groove" is being considered for both the front and back of the coin. This groove would have the added advantage of providing protection from the use of "slugs" in vending machines. (Comment: I believe a security groove or some other means of easy identification by "feel" is very important since a sample coin which I have seen would be easily confused with a quarter.)

: Marketing:

Two basic marketing strategies are available. First is to try to convince the public, vending operators, etc. of the new coin's usefulness. Second, is to force the use of the coin (and the \$2 bill) by artificially limiting the supply of dollar bills. Given our commitment to non-government interference in the free market the second course is not likely acceptable.

Legislation:

Legislation would be required to change the size of the dollar and to permanently eliminate the half dollar denomination.

Recommendations and Option:

1. We should propose legislation to replace the existing dollar with a new coin of the same value but smaller in size.
 - The existing "dollar" does not circulate.
 - The new dollar has a good chance to become a useful, commercially viable denomination.

2. We should also propose legislation to eliminate the existing half dollar coin.
 - Like the dollar, the half does not circulate.
 - Elimination of the "half" will result in production savings which can help offset the production costs which will result if the new "dollar" gains high acceptance.

3. (Option) We should consider whether the "half" dollar should also be replaced by a more conveniently-sized coin.
 - While the option has not been examined, many of the factors which favor replacement of the dollar would apply equally to the half.

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George Dixon

AUG 2 1976

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

August 2, 1976

MEMORANDUM

TO: L. William Seidman 
Assistant to the President
for Economic Affairs

FROM: Ambassador Frederick B. Dent 

SUBJECT: First Six Months 1976 - Specialty Steel Imports

To keep you posted on international trade in specialty steel I am forwarding herewith an interoffice memorandum which delineates the imports situation for the first six months of this calendar year. You will note that the projection of imports for 1976 will be about 169,000 tons as compared with a level of 154,000 tons in 1975 despite the restraints which became effective July 14.

Attachment

SUBJECT: First Half Specialty Steel Imports

Specialty steel imports during the first half of 1976 totaled 92.5 thousand tons, an annual rate of 185 thousand tons compared with 1975 imports of 153.7 thousand tons. Imports by category were as follows:

	1975	<u>Jan-June 1976</u> <u>Annual Rate</u>
Sheet & Strip	66.0	90.5
Plate	17.5	24.2
Bar	29.2	24.9
Rod	16.9	20.1
Tool Steel	24.2	25.2

This performance of imports generally reflects the recovery reflected in domestic shipments, according to the latest data from Dick Simmons, with the major exception of plate. Domestic sales are off 16 percent for January-May 1976 (annual rate) compared with 1975, while imports for January-June 1976 (annual rate) are up nearly 40%.

Assuming that quota amounts available after June 30 are used by December 13, 1976, estimated annual 1976 imports would be as follows compared with 1975:

	<u>1975</u>	1976		
		<u>First Half</u>	<u>Unused Quota</u>	<u>Total</u>
Sheet & Strip	66.0	45.3	38.0	83.3
Plate	17.5	12.1	6.5	18.6
Bar	29.2	12.4	12.3	24.7
Rod	16.9	10.1	8.7	18.8
Tool Steel	24.2	12.6	10.7	23.3
TOTAL	<u>153.7</u>	<u>92.5</u>	<u>76.2</u>	<u>168.7</u>

This total could be understated by the amount imported from December 14-December 31, 1976 under the next quota period but could be overstated if all quota amounts available are not used between June 30 and December 13. Japanese shift provisions could have a small effect on some categories.

On the basis of the above estimates it appears that the quota program will likely limit imports in 1976 to no more than a 10% increase above 1975 level in all categories except sheet and strip.