

Why has Canada killed off the penny?

The Economist explains

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“WE WILL eliminate the penny,” declared Jim Flaherty, Canada’s finance minister, in his [budget speech last March](#). In May 2012 Canada duly stopped minting one-cent coins, which have been in circulation since 1858, when Canada established its own currency. [On February 4th the Royal Canadian Mint stopped distributing them](#), spelling the end for its least valuable coin. Why has Canada killed off the penny?

It is [not the first country](#) to have done away with its smallest unit of currency: in the past few decades Britain, France, Israel and Spain, among others, have done the same. Some countries, including Australia, Denmark, New Zealand, Norway and Sweden have gone further, successively phasing out several of their smallest coins. Now Canada has joined the club. Canadians using cash must [round to the new smallest denomination \(in this case, five cents\)](#), as happened in other countries following the elimination of small coins, though pennies will technically remain legal tender. Online and card payments will continue to be billed to the exact cent.

The Canadian penny has been eliminated because it is a waste of both money and time. Inflation has reduced its purchasing power by 95% since it was first minted domestically in 1908: back then a cent could buy goods that would cost C\$0.20 today, in other words. Once a small coin can no longer be used to buy individual items, but is used only to make change, it becomes [more trouble than it is worth](#). Canadian pennies cost 1.6 Canadian cents to manufacture, and the government expects to save C\$11m a year by eliminating them. But that sum, equivalent to 0.0006% of GDP, is small change. The real reason to eliminate pennies is that their feeble purchasing power means dealing with the coins, and making change to the nearest cent, is a uneconomic waste of time for consumers, retailers and small businesses. People instinctively recognise this, which is why pennies pile up in drawers, in jars and on bedside tables. The mint then has to issue more of them. “Pennies take up too much space on our dressers at home,” said Mr Flaherty. “We will, therefore, stop making them.”

The same arguments apply to the United States penny, which [costs 2.4 cents to make](#). But eliminating it would result in greater use of the five-cent coin, the nickel, which costs 11.2 cents to produce. So the American penny survives, at least for the time being. In Canada, meanwhile, coin collectors can buy a commemorative roll of 50 pennies from the last million minted for C\$9.95, or 20 cents for each coin. Those last pennies, at least, have earned their keep.

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