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H. R. 2166

To increase transparency regarding debt instruments of the United States held by foreign governments, to assess the risks to the United States of such holdings, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 14, 2011

Mr. SAM JOHNSON of Texas introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To increase transparency regarding debt instruments of the United States held by foreign governments, to assess the risks to the United States of such holdings, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ‘‘Foreign-Held Debt Transparency and Threat Assessment Act’’.

SEC. 2. DEFINITIONS.

In this Act:

(1) APPROPRIATE CONGRESSIONAL COMMITTEES.—The term ‘‘appropriate congressional committees’’ means the following:

(A) The Committee on Armed Services, the Committee on Foreign Relations, the Committee on Finance, and the Committee on the Budget of the Senate.

(B) The Committee on Armed Services, the Committee on Foreign Affairs, the Committee on Ways and Means, and the Committee on the Budget of the House of Representatives.

(2) DEBT INSTRUMENTS OF THE UNITED STATES.—The term ‘‘debt instruments of the United States’’ means all bills, notes, and bonds issued or guaranteed by the United States or by an entity of the United States Government, including any Government-sponsored enterprise.

SEC. 3. FINDINGS.

Congress makes the following findings:

(1) On March 16, 2006, the United States Senate debated and then narrowly passed legislation, H. J. Res. 47, to increase the statutory limit on the public debt of the United States. In a statement published in the Congressional Record, then-Senator Barack Obama opposed the legislation and stated,

"The fact that we are here today to debate raising America's debt limit is a sign of leadership failure. It is a sign that the U.S. Government can't pay its own bills. It is a sign that we now depend on ongoing financial assistance from foreign countries to finance our Government's reckless fiscal policies.". Then-Senator Obama went on to say that "Increasing America's debt weakens us domestically and internationally. Leadership means that 'the buck stops here'. Instead, Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren. America has a debt problem and a failure of leadership. Americans deserve better.".

(2) On February 25, 2010, United States Secretary of State, Hillary Rodham Clinton, urged members of Congress to address the Federal budget deficit: "We have to address this deficit and the debt of the United States as a matter of national security, not only as a matter of economics. I do not like to be in a position where the United States is a debtor nation to the extent that we are.". The Secretary went on to say that reliance on foreign creditors has hit the United States "ability to protect our

security, to manage difficult problems and to show the leadership that we deserve.''.

(3) On February 16, 2011, Admiral Mike Mullen, Chairman of the Joint Chiefs of Staff, testified before the Committee on Armed Services of the Senate: ''Indeed, I believe that our debt is the greatest threat to our national security. If we as a country do not address our fiscal imbalances in the near-term, our national power will erode, and the costs to our ability to maintain and sustain influence could be great.''.

(4) The Department of the Treasury borrows from the private economy by selling securities, including Treasury bills, notes, and bonds, in order to finance the Federal budget deficit. This additional borrowing to finance the deficit adds to the Federal debt.

(5) The Federal debt stands at more than $14,345,000,000,000.

(6) According to a report issued by the Department of the Treasury on May 16, 2011, entitled ''Major Foreign Holders of Treasury Securities'', foreign holdings of United States Treasury securities stood at more than $3,175,000,000,000 at the end of March 2011. The People's Republic of China was

the single largest holder with holdings of more than $1,144,000,000,000.

(7) Despite efforts by the Department of the Treasury to identify the nationality of the ultimate holders of United States securities, including United States Treasury securities, data pertaining to foreign holders of these securities may still fail to reflect the true nationality of the foreign entities involved. For example, another Department of the Treasury report, issued on February 28, 2011, entitled ‘‘Preliminary Report on Foreign Holdings of U.S. Securities At End-June 2010’’, assigns $732,000,000,000 worth of United States securities to the Cayman Islands, a British overseas territory with a population of only 55,000 people. The Cayman Islands is not itself a large investor in United States securities; rather, it is a major international financial center and is routinely used as a place to invest funds from elsewhere.

(8) On February 25, 2010, Simon Johnson, an economics professor at the Massachusetts Institute of Technology and a former chief economist for the International Monetary Fund, testified before the U.S.-China Economic and Security Review Commission that United States Treasury data understate

Chinese holdings of United States Government debt and "do not reveal the ultimate country of ownership when debt instruments are held through an intermediary in another jurisdiction.". He stated that "a great deal" of the United Kingdom's increase in United States Treasury securities last year "may be due to China placing offshore dollars in London-based banks", which are then used to purchase United States Treasury securities.

(9) On February 25, 2010, Dr. Eswar Prasad, an economist at Cornell University, testified before the U.S.-China Economic and Security Review Commission that the amount of United States debt held by the People's Republic of China is much higher than United States Treasury data indicate. In his revised testimony, Dr. Prasad went on to explain that China is probably currently holding more than $1,300,000,000,000 in United States Treasury securities.

(10) According to a February 3, 2009, report by the Heritage Foundation, entitled "Chinese Foreign Investment: Insist on Transparency", the State Administration of Foreign Exchange (SAFE) of the People's Republic of China, the government body that purchases foreign securities, is the single larg-

est global investor and the largest foreign investor in the United States.

(11) According to a September 2008 Council on Foreign Relations report entitled ''Sovereign Wealth and Sovereign Power,'' ''. . . political might is often linked to financial might, and a debtor's capacity to project military power hinges on the support of its creditors . . . The United States' main sources of financing are not allies.''. The report goes on to argue that, ''the United States' current reliance on other governments for financing represents an underappreciated strategic vulnerability.''.

(12) In recent years, Chinese military officials have publicized the potential use of United States Treasury securities as a means of influencing United States policy and deterring specific United States actions. On February 8, 2010, retired People's Liberation Army (PLA) Major General Luo Yuan, from the PLA Academy of Military Science, stated in an interview with state-controlled media that China could attack the United States ''by oblique means and stealthy feints'', in retaliation for United States arms sales to Taiwan. He went on to say, ''Our retaliation should not be restricted to merely military matters, and we should adopt a strategic package of

counterpunches covering politics, military affairs, diplomacy and economics to treat both the symptoms and root cause of this disease. For example, we could sanction them using economic means, such as dumping some U.S. government bonds.''.

(13) The PLA has also referenced the concept of nonmilitary aspects of deterrence in written statements. A PLA textbook, ''The Science of Military Strategy'', observes that there are various forms of deterrence, including economic and technological, all of which need to be developed and consciously strengthened in order to maximize effect. These forms will only work ''with the determination and volition of employment of the force, and by dangling the word of deterrence over the rival's head in case of necessity.''.

(14) According to a May 16, 2011, report by ABC News, a congressional delegation of 10 United States Senators visited China in April 2011, and met with Chinese government officials. The news report indicates that, during one meeting, the Senators were reprimanded by a Chinese official regarding the mounting United States Federal debt.

(15) A February 7, 2010, report by Defense News suggests that China's extensive holdings of

United States Government securities have already directly influenced United States national security policy. According to an unnamed Pentagon official, Obama Administration officials softened a draft of a key national security document in order to avoid ‘‘harsh words’’ that ‘‘might upset Chinese officials at a time when the United States and China are economically intertwined.’’. The news report indicates that these officials ‘‘deleted several passages and softened others about China’s military buildup’’. This critical document, the 2010 Quadrennial Defense Review, provides an assessment of long-term threats and challenges for the Nation and is intended to guide military programs, plans, and budgets in the coming decades.

(16) The United States Government pays China a substantial amount of interest on China’s $1,144,000,000,000 in holdings of United States Government debt, and this enhances China’s ability to fund its own military programs.

(17) According to a March 4, 2011, report by Xinhua, the official press agency of the government of the People’s Republic of China, China plans to increase its 2011 military budget by 12.7 percent to 601,000,000,000 yuan (the equivalent of

$91,500,000,000). This increase is in addition to China's 2010 increase in its military budget of 7.5 percent.

(18) According to the Department of Defense's (DoD) 2010 report entitled "Military and Security Developments Involving the People's Republic of China," the DoD estimates China's actual total military-related spending for 2009 to be over $150,000,000,000.

SEC. 4. SENSE OF CONGRESS.

It is the sense of Congress that—

(1) the growing Federal debt of the United States has the potential to jeopardize the national security and economic stability of the United States;

(2) the increasing dependence of the United States on foreign creditors has the potential to make the United States vulnerable to undue influence by certain foreign creditors in national security and economic policymaking;

(3) the People's Republic of China is the largest foreign creditor of the United States, in terms of its overall holdings of debt instruments of the United States;

(4) the current level of transparency in the scope and extent of foreign holdings of debt instru-

ments of the United States is inadequate and needs to be improved, particularly regarding the holdings of the People's Republic of China;

(5) through the People's Republic of China's large holdings of debt instruments of the United States, China has become a super creditor of the United States;

(6) under certain circumstances, the holdings of the People's Republic of China could give China a tool with which China can try to manipulate the domestic and foreign policymaking of the United States, including the United States relationship with Taiwan;

(7) under certain circumstances, if the People's Republic of China were to be displeased with a given United States policy or action, China could attempt to destabilize the United States economy by rapidly divesting large portions of China's holdings of debt instruments of the United States; and

(8) the People's Republic of China's expansive holdings of such debt instruments of the United States could potentially pose a direct threat to the United States economy and to United States national security. This potential threat is a significant issue that warrants further analysis and evaluation.

SEC. 5. QUARTERLY REPORT ON RISKS POSED BY FOREIGN HOLDINGS OF DEBT INSTRUMENTS OF THE UNITED STATES.

(a) QUARTERLY REPORT.—Not later than March 31, June 30, September 30, and December 31 of each year, the President shall submit to the appropriate congressional committees a report on the risks posed by foreign holdings of debt instruments of the United States, in both classified and unclassified form.

(b) MATTERS TO BE INCLUDED.—Each report submitted under this section shall include the following:

(1) The most recent data available on foreign holdings of debt instruments of the United States, which data shall not be older than the date that is 7 months preceding the date of the report.

(2) The country of domicile of all foreign creditors who hold debt instruments of the United States.

(3) The total amount of debt instruments of the United States that are held by the foreign creditors, broken out by the creditors' country of domicile and by public, quasi-public, and private creditors.

(4) For each foreign country listed in paragraph (2)—

(A) an analysis of the country's purpose in holding debt instruments of the United States and long-term intentions with regard to such debt instruments;

(B) an analysis of the current and foreseeable risks to the long-term national security and economic stability of the United States posed by each country's holdings of debt instruments of the United States; and

(C) a specific determination of whether the level of risk identified under subparagraph (B) is acceptable or unacceptable.

(c) PUBLIC AVAILABILITY.—The President shall make each report required by subsection (a) available, in its unclassified form, to the public by posting it on the Internet in a conspicuous manner and location.

SEC. 6. ANNUAL REPORT ON RISKS POSED BY THE FEDERAL DEBT OF THE UNITED STATES.

(a) IN GENERAL.—Not later than December 31 of each year, the Comptroller General of the United States shall submit to the appropriate congressional committees a report on the risks to the United States posed by the Federal debt of the United States.

(b) CONTENT OF REPORT.—Each report submitted under this section shall include the following:

(1) An analysis of the current and foreseeable risks to the long-term national security and eco-

nomic stability of the United States posed by the Federal debt of the United States.

(2) A specific determination of whether the levels of risk identified under paragraph (1) are sustainable.

(3) If the determination under paragraph (2) is that the levels of risk are unsustainable, specific recommendations for reducing the levels of risk to sustainable levels, in a manner that results in a reduction in Federal spending.

SEC. 7. CORRECTIVE ACTION TO ADDRESS UNACCEPTABLE AND UNSUSTAINABLE RISKS TO UNITED STATES NATIONAL SECURITY AND ECONOMIC STABILITY.

In any case in which the President determines under section 5(b)(4)(C) that a foreign country's holdings of debt instruments of the United States pose an unacceptable risk to the long-term national security or economic stability of the United States, the President shall, within 30 days of the determination—

(1) formulate a plan of action to reduce the risk level to an acceptable and sustainable level, in a manner that results in a reduction in Federal spending;

(2) submit to the appropriate congressional committees a report on the plan of action that includes a timeline for the implementation of the plan and recommendations for any legislative action that would be required to fully implement the plan; and

(3) move expeditiously to implement the plan in order to protect the long-term national security and economic stability of the United States.

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