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2D SESSION

H. R. 5319

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

MAY 18, 2010

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. 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 (109th Congress), 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) 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.

(4) The Federal debt stands at more than $12,863,000,000,000.

(5) According to a report issued by the Department of the Treasury on April 15, 2010, entitled ''Major Foreign Holders of Treasury Securities'', foreign holdings of United States Treasury securities stood at more than $3,750,000,000,000 at the end of February 2010. China was the single largest holder with holdings of more than $877,000,000,000.

(6) 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 26, 2010, entitled ''Preliminary Report on Foreign Holdings of U.S. Securities At End—June 2009'', assigns nearly $650,000,000,000 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.

(7) Despite efforts by the Department of the Treasury to provide more timely information, the data that the Department releases is typically outdated. For example, the latest figures in the February 26, 2010, report on all United States securities were 8 months old.

(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 Commis-

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

(11) According to the February 3, 2009, report, although the People's Republic of China has embraced the Generally Accepted Principles and Practices for Sovereign Wealth guided by the International Monetary Fund, China's actual outward-investment practices are far from transparent.

(12) On March 13, 2009, Chinese Premier Wen Jiabao demanded that the Obama Administration ''guarantee the safety'' of American bonds, stating, ''We have lent a huge amount of money to the U.S.''.

(13) According to the Department of Defense's 2009 report to Congress entitled, ''Military Power of the People's Republic of China'', the leaders and strategists of the People's Liberation Army (PLA) often consider China's strategy in terms of building ''comprehensive national power''. The report contends that China's growing regional and global economic stature will result in ''a more active external posture in which it [China] demonstrates a willingness to assert its interests . . .''.

(14) Additionally, the Department of Defense report states that, ‘‘China's sustained economic growth . . . has enabled China to focus greater resources on building, equipping, and training the PLA without overwhelming the economy.''. Though the PLA's official budget has more than doubled from $27,900,000,000 in 2000 to $60,100,000,000 in 2008, the report states that the official budget ‘‘does not capture the totality of military expenditure.''. The report maintains that, ‘‘Continued economic development, central to China's emergence as a regional and global power, remains the foundation of the [Chinese Communist] Party's popular legitimacy and underwrites its military power.''.

(15) On January 29, 2010, the Department of Defense notified Congress of its intent to sell various defensive arms, valued at $6,400,000,000, under the Foreign Military Sales program to Taiwan in accordance with the Taiwan Relations Act (22 U.S.C. 3301 et seq.).

(16) On February 2, 2010, at a semiweekly media briefing, Ma Zhaoxu, spokesman of China's foreign ministry, criticized these pending arms sales to Taiwan, threatening sanctions against United States companies involved in the sales.

(17) PLA 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 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.''.

(18) The PLA has also referenced the concept of nonmilitary aspects of deterrence in written statements. As a PLA textbook, ''The Science of Military Strategy'', observes, 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.''.

SEC. 3. 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. 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 instruments 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 (3)—

(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 economic 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, or the Comptroller General of the United States makes a determination under section 6(b)(3), 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 time line 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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