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HOUSE OF REPRESENTATIVES

REPORT
114–265

DEFAULT PREVENTION ACT

SEPTEMBER 18, 2015.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. RYAN of Wisconsin, from the Committee on Ways and Means, submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 692]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 692) to ensure the payment of interest and principal of the debt of the United States, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

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I. SUMMARY AND BACKGROUND

A. Purpose and Summary

The Default Prevention Act, H.R. 692, as ordered reported by the Committee on Ways and Means on September 10, 2015, requires the Secretary of the Treasury (Treasury) to issue new debt when the statutory debt limit is reached to pay principal and interest on debt held by the public and provide Treasury access to Social Security Trust Funds notwithstanding the debt limit. The bill would also prohibit the newly issued obligations from being used to compensate Members of Congress. Lastly, if the authority is exercised, the legislation requires the Secretary to submit to Congress a weekly accounting of the principal on mature obligations and interest that is due or accrued and any obligations issued pursuant to the new authority.

B. Background and Need for Legislation

The consequences of the U.S. Government failing to make timely and complete payment on Treasury debt, that is, a default, could be severe. A default would not only be a great discredit to our Nation's standing in the world, it would raise borrowing costs, which, in turn, would threaten our ability to finance essential government functions. In addition, a default could push the country into recession. The legislation removes the risk of default by providing a mechanism to ensure that principal and interest on debt obligations are paid. Furthermore, it authorizes and requires Treasury to make principal and interest payments on securities held by the Social Security trust funds to ensure that Social Security benefits can be paid in full.

C. Legislative History

Background

H.R. 692 was introduced on February 3, 2015, and was referred to the Committee on Ways and Means.

Committee hearings

The debt limit has been discussed on February 3, 2015 at a "Hearing on the President's Fiscal Year 2016 Budget," which featured Secretary Jack Lew. In addition, the committee held two hearings during the 113th Congress dedicated to the issue. The committee held a January 22, 2013 "Hearing on the Debt Limit," which examined the Congress's borrowing power and operation of the debt limit. Additionally, the Oversight Subcommittee held an April 10, 2013 hearing, "Examining the Government's Ability to Continue Operations When at the Statutory Debt Limit," which examined the government's ability to prioritize its obligations and continue operations should the U.S. Treasury reach its statutory debt limit and exhaust extraordinary measures.

Committee action

The Committee on Ways and Means marked up H.R. 692, the Default Prevention Act, on September 10, 2015, and ordered the bill favorably reported (with a quorum being present).

II. EXPLANATION OF THE BILL

A. DEFAULT PREVENTION ACT

PRESENT LAW

The Constitution grants Congress sole authority over the fiscal powers to tax, spend and borrow:

> The Congress shall have Power to lay and collect Taxes, Duties, Imposts, and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States . . . To borrow Money on the credit of the United States.[1]

Congress exercises its borrowing authority by placing restrictions on public debt. Until World War I, Congress typically authorized limited amounts of debt, with defined maturity and redemption terms, for specific projects. Upon America's entry into World War I, Congress passed the Second Liberty Bond Act of 1917 to ensure liquidity necessary to meet obligations as presented. The Act delegated control over day-to-day borrowing activity, subject to various limitations, to the Executive branch. In 1939, Congress enacted legislation creating the first aggregate debt limit, then $45 billion.

It is important to note that because the power to borrow resides in Congress, the debt limit is not actually a limitation on the executive's power to borrow. Rather, the statute containing the debt ceiling is a grant of authority to the President that he would not otherwise have. When that authority runs out, it is the Constitution that prevents the President from attempting to borrow on the credit of the United States.

The current debt limit is $18.1 trillion. This consists of both debt held by the public and debt held by the government, both carrying the full faith and credit guarantee. Debt held by the public consists of securities the Treasury has issued to investors, and currently amounts to $13.1 trillion. The balance is debt held by the government in the form of non-marketable Treasury securities, the majority of which, $2.8 trillion, is held by the Social Security Trust Funds.

According to the Treasury Department, the U.S. Government reached the current debt limit of $18.1 trillion on March 16, 2015. Since that time, Treasury has employed "extraordinary measures" to avoid exceeding the debt limit. These measures temporarily forestall the need to exceed the ceiling by shuffling funds among accounts, as well as suspending certain payments and programs. The Treasury Department expects extraordinary measures to last through late October plus a brief additional period. The Congressional Budget Office expects cash balances and extraordinary measures to last through mid-November to early December at which point the debt limit will need to be addressed.

[1] U.S. Const., art. 1 § 8, cl, 1–2, 5.

REASONS FOR CHANGE

To permanently remove the risk that the United States could default on its debt obligations, and ensure that the Social Security Trust Funds can be accessed to pay full benefits when the debt limit is reached, it is necessary to require the Treasury Secretary to roll over existing debt and honor principal and interest commitments by issuing debt outside of the limit solely for these purposes.

EXPLANATION OF PROVISIONS

The bill provides that in the event the debt of the United States Government reaches the statutory limit, the Treasury Secretary shall issue debt to the extent necessary to pay principal and interest on certain obligations as defined. Obligations for which debt shall be issued are limited to those obligations held by the public or the Social Security Trust Funds. Obligations issued pursuant to this authority are exempt from the statutory debt limit only to the extent such obligations would otherwise cause the limit to be exceeded. Section 2 also requires a weekly report from the Treasury that accounts for obligations due and amounts issued if the authority under the bill is exercised.

EFFECTIVE DATE

The bill provision becomes effective upon enactment.

III. VOTES OF THE COMMITTEE

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the vote of the Committee on Ways and Means in its consideration of H.R. 692, The Default Prevention Act, on September 10, 2015.

The bill, H.R. 692, was ordered favorably reported as amended by a roll call vote of 23 yeas to 15 nays (with a quorum being present). The vote was as follows:

VOTES OF THE COMMITTEE

In compliance with the Rules of the House of Representatives, the following statement is made concerning the vote of the Committee on Ways and Means during the markup consideration of H.R. 692, "Default Prevention Act," on September 10, 2015.

The bill H.R. 692 was ordered favorably reported without amendment to the House of Representatives by a roll call vote of 23 yeas to 15 nays (with a quorum being present). The vote was as follows:

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Ryan	X			Mr. Levin		X	
Mr. Johnson	X			Mr. Rangel		X	
Mr. Brady	X			Mr. McDermott		X	
Mr. Nunes				Mr. Lewis		X	
Mr. Tiberi	X			Mr. Neal		X	
Mr. Reichert	X			Mr. Becerra		X	
Mr. Boustany	X			Mr. Doggett		X	
Mr. Roskam	X			Mr. Thompson		X	
Mr. Price	X			Mr. Larson		X	
Mr. Buchanan	X			Mr. Blumenauer		X	
Mr. Smith (NE)	X			Mr. Kind		X	
Ms. Jenkins	X			Mr. Pascrell		X	

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Paulsen	X	....	....	Mr. Crowley	....	X	....
Mr. Marchant	X	....	....	Mr. Davis	....	X	....
Ms. Black	X	....	....	Ms. Sanchez	....	X	....
Mr. Reed	X	....	....				
Mr. Young	X	....	....				
Mr. Kelly	X	....	....				
Mr. Renacci	X	....	....				
Mr. Meehan	X	....	....				
Ms. Noem	X	....	....				
Mr. Holding	X	....	....				
Mr. Smith (MO)	X	....	....				
Mr. Dold	X	....	....				

IV. BUDGET EFFECTS OF THE BILL

A. Committee Estimate of Budgetary Effects

In compliance with clause 3(d) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the bill, H.R. 692, as reported. The Committee agrees with the estimate prepared by the Congressional Budget Office (CBO), which is included below.

B. Statement Regarding New Budget Authority and Tax Expenditures Budget Authority

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no new or increased budget authority. The Committee states further that the bill involves no new or increased tax expenditures.

C. Cost Estimate Prepared by the Congressional Budget Office

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the CBO, the following statement by CBO is provided.

U.S. Congress,
Congressional Budget Office,
Washington, DC, September 16, 2015.

Hon. Paul Ryan,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 692, the Default Prevention Act.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Meredith Decker.

Sincerely,

Keith Hall.

Enclosure.

H.R. 692—Default Prevention Act

H.R. 692 would allow the Department of the Treasury to issue debt to pay principal and interest on debt held by the public and debt held by the Old-Age and Survivors Insurance Trust Fund and

Disability Insurance Trust Fund, if the statutory limit on debt is reached. The bill would require the Treasury to provide a weekly report to the House Committee on Ways and Means and the Senate Committee on Finance outlining the exempted transactions until a new debt limit is enacted.

CBO estimates that enacting H.R. 692, by itself, would not affect direct spending or revenues because it would not change any of the government's tax or spending policies. Therefore, pay-as-you-go procedures do not apply. In addition, CBO estimates that the bill would not significantly add to the Treasury's administrative costs; any such costs would be subject to the availability of appropriated funds.

H.R. 692 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

The CBO staff contact for this estimate is Meredith Decker. This estimate was approved by Theresa Gullo, Assistant Director for Budget Analysis.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was as a result of the Committee's review of the provisions of H.R. 692 that the Committee concluded that it is appropriate to report the bill, as amended, favorably to the House of Representatives with the recommendation that the bill do pass.

B. Statement of General Performance Goals and Objectives

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance goals and objectives for which any measure authorizes funding is required.

C. Information Relating to Unfunded Mandates

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 (Pub. L. No. 104–4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, or tribal governments.

D. Congressional Earmarks, Limited Tax Benefits, and Limited Tariff Benefits

With respect to clause 9 of rule XXI of the Rules of the House of Representatives, the Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not contain any congressional earmarks, limited tax benefits, or limited tariff benefits within the meaning of the rule.

E. Duplication of Federal Programs

In compliance with Sec. 3(g)(2) of H. Res. 5 (114th Congress), the Committee states that no provision of the bill establishes or reauthorizes: (1) a program of the Federal Government known to be duplicative of another Federal program; (2) a program included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111–139; or (3) a program related to a program identified in the most recent Catalog of Federal Domestic Assistance, published pursuant to the Federal Program Information Act (Pub. L. No. 95–220, as amended by Pub. L. No. 98–169).

F. Disclosure of Directed Rule Makings

In compliance with Sec. 3(i) of H. Res. 5 (114th Congress), the following statement is made concerning directed rule makings: The Committee estimates that the bill requires no directed rule makings within the meaning of such section.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

With respect to clause 3(e) of rule XIII of the Rules of the House of Representatives, the bill, as reported, includes no provisions proposing to repeal or amend an existing statute or part thereof. Therefore, no additional materials otherwise required to be included in this report or accompanying document under that clause are required to be included with respect to this bill.

VII. DISSENTING VIEWS

The Democratic Members of the Committee strongly oppose this legislation, which is, in effect, a plan for an unprecedented default on the full faith and credit of the United States. We are further concerned that the plan contained in the legislation would prioritize payment of debts to bondholders, including those in China, Switzerland, and the Cayman Islands, over our obligations to America's veterans, seniors, students, and troops in harm's way.

H.R. 692 would allow the Department of the Treasury to continue borrowing money to pay Chinese and other foreign bondholders, but not to pay our servicemembers, not to pay the doctors and hospitals that care for our seniors on Medicare, not to pay American small businesses, and not to pay our veterans—including those who became disabled protecting our country. Let us be clear: under this legislation, the effect would be to pay China first, and some Americans not at all.

As we learned the last time the Majority forced this legislation through the House, just entertaining the idea that the United States will no longer pay all of its bills on time and in full does real damage to our economy and our credibility.

The Council of Economic Advisors estimated that the 2013 debt limit standoff and government shutdown cost us 120,000 jobs, just as our economic recovery was taking hold. The Government Accountability Office (GAO) reported that in 2013, investors took the "unprecedented action of systematically avoiding certain Treasury securities—those that matured around the dates when the Department of the Treasury projected it would exhaust the extraordinary measures." The effect of that was to disrupt public and private credit markets, driving up borrowing costs for the federal government, homeowners, and businesses. GAO estimated that the total increased borrowing costs on securities issued during the last debt limit crisis were $70 million.

Economists across the political spectrum have warned that to default on creditors other than private bondholders and the Social Security Trust Funds—as this legislation envisions—would do catastrophic damage to our economy. To put it in context, the short-term reduction in federal spending and the resulting fiscal shock from a default would be about two and a half times as large as the contraction that would have been caused by the recent "fiscal cliff." At our Ways and Means Committee hearing on this topic two years ago, MIT Economist Simon Johnson warned that a default could reduce GDP by 20 to 30 percent and double the unemployment rate.

Rather than enacting a plan for who gets paid and who doesn't in a default, Congress should quickly take action to ensure that the United States pays all of its bills, on time and in full, just as we always have in the past. As the Secretary of the Treasury Jack

Lew said the last time the House considered this legislation, it is simply "default by another name."

We oppose this legislation and urge our Republican colleagues to avoid repeating their mistakes.

Sincerely,

SANDER LEVIN.
CHARLES B. RANGEL.
JIM MCDERMOTT.
JOHN LEWIS.
RICHARD E. NEAL.
XAVIER BECERRA.
LLOYD DOGGETT.
MIKE THOMPSON.
JOHN B. LARSON.
EARL BLUMENAUER.
RON KIND.
BILL PASCRELL, JR.
JOSEPH CROWLEY.
DANNY K. DAVIS.
LINDA T. SÁNCHEZ.

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