



1 October 2007

Dear member of Congress,

We the undersigned organizations urge you to support **HR 2634, the Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2007.**

The Jubilee Act cancels impoverished country debt; removes harmful economic conditionalities from the cancellation process; mandates transparency and accountability from governments and international financial institutions; and establishes a framework for more responsible and transparent lending practices in the future.

This is timely legislation. Congress is seeking to find a new direction for international trade policy, and we contend that debt cancellation should be one component of a new, pro-active agenda on trade. This would help level the economic playing field and encourage healthy, fair economic relations between our countries.

Trade and finance, often addressed as separate issues, are integrally related. Indeed, current financial policies promoted by the World Bank and International Monetary Fund regarding the management of impoverished country debt may well undermine U.S. trade policy.

1. Extreme debt burdens undermine labor and environmental standards

Heavy debts create pressures at odds with the new Congressional leadership's stated commitment to enhance labor and environmental protections. As long as so many countries are under a stranglehold of debt, they face the pressure to attract foreign investment by *any means necessary*, including looking the other way when global firms violate labor and environmental standards.

Thus, while the recent "deal" by some Congressional Democrats to incorporate labor and environmental standards into trade agreements reflects a positive shift in the debate, we need to go much further to protect the rights of workers and the environment both here and abroad.

2. Current conditions for debt relief promote overexploitation of natural resources that distorts global trade and undermines the environment

The conditions that international financial institutions place on impoverished countries grappling with indebtedness encourage rapid expansion of exports, typically through overexploitation of natural resources. The result has been a glut of primary products on the international market that has lowered prices for producers (rarely consumers). For example, the coffee crisis in the international market several years ago was brought on by oversupply directly related to mandated

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structural reform. This resulted in the loss of employment for millions of laborers and the displacement of hundreds of thousands of small farmers around the world.

A study¹ of 18 heavily indebted poor countries in 2004 concluded that falling terms of trade for these countries erased gains from early debt relief initiatives. Conditionality that leads to the overexploitation of resources is a long-term disaster. Debt cancellation would allow developing countries to pursue more sustainable development strategies.

3. Onerous conditions have made developing countries weak trade partners by driving down wages and undermining domestic markets

For decades, international financial institutions have mandated that heavily indebted countries cut social service spending, eliminate subsidies for small producers and consumers, and privatize key state industries. The World Bank and IMF also routinely require borrowing countries to limit the amount they pay government employees. These conditions have diverted resources to the payment of debts, at great cost to the people. To this day, throughout the Global South, governments routinely pay more to service debts than they expend on health care or education. The burden of debt also means less money to buy U.S.-made products. According to the Institute for Policy Studies, heavily indebted countries' share of U.S. exports dropped from 11.1% in 1980 to 7.7% in 2003.²

Surely it is not in the long-term interest of the United States to demand policy measures in impoverished countries that lead to the overexploitation of resources, denial of basic services to people, and the erosion of our own labor and environmental standards in a wasteful race to the bottom. Trade and financial policies that provide maximum flexibility for our partners to pursue development objectives is a benefit to all of us in the long run.

We urge you to support the Jubilee Act as an important step in building more humane and sustainable economic policies.

Sincerely,
(In alphabetical order)

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¹ M. Nureldin Hussain, and Bernhard G Gunter (2005) External Shocks and the HIPC Initiative: Impacts on Growth and Poverty in Africa, *African Development Review*, Dec. Vol. 17 Issue 3, p461-492

² Sarah Anderson, "Debt Boomerang 2006: How Americans Would Benefit from Cancellation of Impoverished Country Debts," Institute for Policy Studies, March 2006.

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