RSC Republican Study Committee

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Legislative Bulletin……………………………………..………April 16, 2008

Contents:

Summary of the Bill Under Consideration Today:

Total Number of New Government Programs: 0

Total Cost of Discretionary Authorizations: $0

Effect on Revenue: $0

Total Change in Mandatory Spending: $0

Total New State & Local Government Mandates: 0

Total New Private Sector Mandates: 0

Number of *Bills* Without Committee Reports: 0

Number of *Reported* Bills that Don't Cite Specific Clauses of Constitutional Authority: 0

H.R. 2634—Jubilee Act for Responsible Lending and Expanded Debt Cancellation (*Waters, D-CA*)

Order of Business: The bill is scheduled to be considered on Wednesday, April 16th, subject to a structured rule (H.Res. 1103), making four amendments in order (summarized below).

Summary: H.R. 2634 would require the Secretary of the Treasury to begin negotiations within the Paris Club of Official Creditors (an informal group of the wealthiest countries that helps provide debt restructuring to indebted countries and their creditors), the International Monetary Fund (IMF), the World Bank, and other international financial institutions to:

- Cancel all debts owed to all the financial institutions by all eligible low-income countries;
- Finance such cancellations from the ongoing operations, procedures, and accounts of each institutions;
- Cancel **all** debts owed to the United States by all eligible low-income countries;
- Ensure that any waiting period for such cancellation is "not excessive" (not defined);
- Ensure that debt cancellation is not paired with reductions in other development assistance to the affected countries by the international financial institutions and bilateral creditors; and
- Encourage each eligible low-income country to allocate at least 20% of its national budget to such social services as basic health care, education, and clean water for all people in the country.

Eligible low-income countries would be those who:

- Are currently eligible for financing from the International Development Association but not the World Bank;
- Do not qualify for debt relief under the Heavily Indebted Poor Countries Initiative (HIPC) or the Multilateral Debt Relief Initiative (MDRI);
- Have "transparent and effective" budget management systems that ensure that the savings from debt relief go toward poverty reduction;
- Do not have an "excessive" level (not defined) of military expenditures;
- Have not "repeatedly" (undefined) provided support for acts of international terrorism;
- Are cooperating with international narcotics control efforts; and
- Do not engage in a "consistent pattern" (undefined) of "gross" violations (undefined) of internationally recognized human rights.

The Secretary would have to commence efforts within the international financial institutions to <u>limit the conditions for debt relief</u> for these newly eligible countries, except requiring a debtor nation to:

- Take steps (undefined) to ensure that the financial benefits of debt relief are applied to anti-poverty initiatives;
- Make policy decisions through transparent and participatory processes;
- Adopt an integrated development strategy;
- Implement transparent budget procedures, "good governance" (undefined), and effective anticorruption measures;
- Broaden public participation in, and understanding of, poverty reduction;
- Promote the participation of citizens and nongovernmental organizations in the economic policy choices of government; and
- Produce a publicly-available annual report on how the savings from debt cancellation were used.

The President would have to annually report to Congress on the condition-limitation activities just described.

The bill would also direct the Secretary of the Treasury to immediately begin efforts to promote more transparent lending processes within the international financing community. The Secretary would also have to work to adopt a binding international legal framework that prohibits creditors from taking financial advantage of debt relief through the terms of lending to beneficiary countries and that creates an independent entity to sanction violators of this framework.

The Secretary would also have to seek financing standards that assure, among other things, the avoidance of new "odious" debt (not defined), as well as the development of renewable energy and the transition away from the dependence on oil.

The Government Accountability Office (GAO) would have to conduct an audit of the debt portfolios of previous governments where there is "significant evidence" (not defined) that "odious, onerous, or illegal" loans (not defined) were made to the government.

The full record (redacted as necessary, with explanation) of the remarks of U.S. executive directors at meetings of the boards of directors of the international financial institutions regarding debt cancellations would have to be posted for public viewing on the Treasury Department's website.

The bill cites as one basis for this legislation the finding by a January 2007 report by the United Nations Human Rights Council that all low-income countries should be eligible for debt cancellation.

The bill also contains a sense of Congress that, while pressing forward on new debt-relief programs, the U.S. should become current in its existing debt relief obligations, including $595.8 million for outstanding arrearages to the International Development Association and regional development banks.

According to the Financial Services Committee, the bill would extend debt relief to 24 countries, although Vietnam is declining to participate, leaving the total at 23 countries. Eight countries would be immediately eligible, while the remaining 15 countries would need to improve their human rights and financial management practices to achieve eligibility. Total debt relief could exceed $6 billion.

Additional Background: The "Jubilee" in this bill's title refers to the Jubilee USA Network, an alliance of more than 80 religious denominations and faith communities, and human rights, environmental, labor, and community groups working for the cancellation of international debts "to fight poverty and injustice in Asia, Africa, and Latin America." http://www.jubileeusa.org/about-us. The network cites a biblical basis for its name and activities as follows:

> In the Jubilee Year as quoted in Leviticus, those enslaved because of debts are freed, lands lost because of debt are returned, and community torn by inequality is restored.
>
> Today international debt has become a new form of slavery. Debt slavery means poor people working harder and harder in a vain effort to keep up with the interest payments on debts owed to rich countries including the US and

> international financial institutions such as the International Monetary Fund (IMF) and the World Bank. The Jubilee USA Network brings together people to turn this reality around by active solidarity with partners worldwide, targeted and timely advocacy strategies and educational outreach. Please join us in working for Jubilee justice.

The Heavily Indebted Poor Countries Initiative (HIPC) has relieved about $50 billion in debt from 33 countries since 1996 (when the initiative was started).

The Multilateral Debt Relief Initiative (MDRI), spawned in 2005 by an agreement among the United States and other G-8 nations, and linked to the HIPC, has cancelled the debts of 22 nations to the International Monetary Fund (IMF), the World Bank, and the African Development Bank.

The HIPC focuses on debt reduction and reform, while the MDRI focuses on debt cancellation for countries who have completed, or will soon complete, their HIPC obligations.

RSC Bonus Fact: Most debt-relief countries under existing debt relief frameworks (HIPC and MDRI) are in Africa. http://www.imf.org/external/np/exr/facts/mdri.htm.

Committee Action: On June 7, 2007, H.R. 2634 was referred to the Financial Services Committee, which held hearings on it on November 8, 2007. On April 3, 2008, the committee marked up and ordered the bill reported to the full House by voice vote.

Possible Conservative Concerns: NOTE: The following concerns are based on the reported bill; some of the concerns would be addressed in the Manager's Amendment, summarized below.

Some conservatives may be concerned at how this bill could allow the expansion of debt relief eligibility to countries that have supported international terrorism. Governments that have "repeatedly" (undefined) supported such acts would not be eligible, but governments that have supported one act of terrorism, regardless of size, or perhaps intermittent acts of terrorism, would be eligible.

Similarly, some conservatives may be concerned about how this bill could allow the expansion of debt relief eligibility to governments that have violated human rights. Governments that do not engage in a "consistent pattern" (undefined) of "gross" violations (undefined) of internationally recognized human rights would not be eligible for the expanded debt relief; however, governments that have an inconsistent pattern of gross violations—or a consistent pattern of less-egregious violations—would be eligible for debt relief.

Furthermore, amalgamating all debts of certain countries as eligible for cancellation ignores the fundamental premise of the bill, to address debts that were made under extremely disadvantageous circumstances. Indebted countries might have legitimate, fair, and manageable debt obligations that should not be assumed to be unfair, especially since doing so would make it harder for these countries to get future loans from wary creditors.

Some conservatives may also object to the bill's description of privatization conditions and budget reforms (as part of debt cancellation) as "harmful."

The Secretary would also have to seek financing standards that assure, among other things, the avoidance of new "odious" debt (not defined), as well as the development of renewable energy and the transition away from the dependence on oil. Some conservatives may question the discouraging of oil, which is plentiful in many low-income countries, and the encouraging of renewable energy, which may be impractical for these nations at this stage in their development.

Some conservatives may also be concerned with the bill's negative approach to "excessive" military expenditures, a term that is left undefined and a consideration that does not account for future security concerns that an individual nation may face.

The bill cites as one basis for this legislation the finding by a January 2007 report by the United Nations Human Rights Council that all low-income countries should be eligible for debt cancellation. The UN Human Rights Council, with members such as Angola, China, Cuba, Nigeria, and Saudi Arabia, has, among other things, become known for its anti-Israel rhetoric and actions and would likely not be seen as a model for principles of relieving human suffering by many conservatives.

Lastly, some conservatives have also expressed concern that further debt relief fails to give poorer nations the long-term assistance they need, which would best come from encouraging private investment and trade in those nations. Enhanced debt relief could actually serve to reduce foreign private investment in poor nations.

Administration Position: The Statement of Administration Policy (SAP) for H.R. 2634 expresses opposition to the bill, for similar reasons to those noted above in the "Possible Conservative Concerns" section, but does not include a veto threat.
http://www.whitehouse.gov/omb/legislative/sap/110-2/saphr2634-r.pdf

Cost to Taxpayers: Because Congress must approve any agreements to cancel bilateral or multilateral debts, CBO reports that H.R. 2634, *per se*, would have no budgetary impact.

Does the Bill Expand the Size and Scope of the Federal Government?: The bill would expand the number of countries eligible for international debt relief, directly impacting U.S. taxpayers.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: The Financial Services Committee, in House Report 110-575, asserts that, "H.R. 2634 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9 of rule XXI."

Constitutional Authority: The Financial Services Committee, in [House Report 110-575](), cites constitutional authority in Article I, Section 8, Clauses 1 (the congressional power to promote the general welfare) and 3 (the congressional power to regulate interstate commerce).

Outside Organizations: The National Taxpayers Union (NTU) has expressed its opposition to this legislation [here]() and has indicated that it will rate this vote in its 2008 ratings of Congress.

Amendments Made in Order under the Rule: The structured rule (H.Res. 1103) makes in order the following four amendments, each debatable for ten minutes.

Frank (D-MA)/ Bachus (R-AL)/ Biggert (R-IL). Manager's Amendment. This amendment would:

- Make all governments who have supported acts of international terrorism (as opposed to just "repeatedly" supported such acts, as in the underlying bill) ineligible for expanded debt relief under this bill;
- Make all governments who engage in a pattern of gross violations of human rights ineligible for debt cancellation, as opposed to just those with a "consistent" pattern of such violations (as in the underlying bill);
- Require that countries eligible for debt cancellation under the bill must be complying with the State Department's minimum standards for combating human trafficking, cooperating with U.S. efforts to stop illegal immigration into the U.S., and committed to free and fair elections;
- Clarify that eligible countries must be cooperating ***with the United States*** on international narcotics control matters;
- Clarify that debt cancellation should not be offset by reductions in development assistance to other countries eligible for aid from the International Development Association;
- Clarify that no cancellation of debt by an international financial institution should harm the financial integrity of the institution; and
- Make various technical and clarifying changes.

Rohrabacher (R-CA). This amendment would make ineligible for debt cancellation under the bill any government that was not chosen by, and does not permit, free and fair elections.

Hastings (D-FL). This amendment would add a sense of Congress that, due to the current humanitarian and political instability in Haiti, including food shortages and political turmoil, the Secretary of the Treasury should use his influence to expedite the complete and immediate cancellation of Haiti's debts to all international financial institutions, or, if such debt cancellation cannot be provided, to urge the institutions to immediately suspend the requirement that Haiti make further debt service payments on debts owed to the institutions. The amendment notes that Haiti is scheduled to send $48.7 million in debt payments to multilateral financial institutions in 2008.

Weiner (D-NY). This amendment would modify the qualification for eligible low-income country to include those countries that are eligible for both International Development Association loans **and** World Bank loans (as opposed to just IDA loans in the underlying bill).

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