

Breaking the Cycle: Why Europe Must Back Climate Reparations

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December 16, 2021

Europe has exploited the Global South for centuries. First came colonialism and the rise of capitalism, then came the debt. Now, at a time when the Global South is struggling to cope with the effects of the climate and health crises, desperately needed funds are being diverted to wealthy creditors in the Global North in the name of debt repayment. Europe must put an end to this neocolonial geopolitics by issuing climate reparations in the form of debt cancellation and green payments.

Climate breakdown is the ultimate manifestation of an unjust world. After five centuries of European colonial exploitation, the Global South is facing the worst impacts of an ecological crisis it bears little responsibility for. Worse yet, the Global South has few means to prepare for this emergency because of its outstanding debt to the Global North. As Europe emerges into a geopolitical era defined by the exogenous shocks of a rapidly deteriorating biosphere, it must forge a political economy defined by equity, justice, and historical accountability. This cannot mean inadequate aid under a guise of altruism and the neat narrative of global development. Rather, it means cancelling all Global South debt and providing green payments for climate mitigation and adaptation. Above all, it means decolonising the global political economy by democratising international financial institutions.

Shape-shifting injustice

Since the 15th century, the Global South has been exploited as a cheap reservoir of nature and disposable human lives: millions of kilogrammes of silver were plundered, old-growth forests were felled for cash crop plantation, millions of indigenous Americans and Africans were enslaved, and many more died of European infectious diseases. Slavery was a humanitarian catastrophe that uprooted communities and eradicated entire cultures, leaving a legacy that continues to reverberate through systemic racism and unequal development. It was also a profound economic injustice. In North American colonies alone, Europeans extracted 222,505,049 hours of slave labour. Valued at US minimum wage with a marginal rate of interest, this forced labour is worth 97 trillion US dollars, a figure so large that it eclipses current global GDP.

From this colonial plunder grew an ascendant European capitalism. Resources scraped from the Global South flowed directly into European factories, especially in the United Kingdom, which churned out cheap commodities under the tutelage of a forcibly proletarianised peasantry. Resulting surplus was used to appropriate more land in the Global South and enslave more people, pulling nature and people into the circuits of global capital. Profits also funded the Industrial Revolution, enabling the emergence of fossil fuel-driven

capitalism and sowing the seeds of the present-day ecological emergency.

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Despite widespread decolonisation in the 1950s and 1960s, colonialism remains as the structural backbone of the global political economy. In fact, colonialism has shape-shifted from forced settlement into the present-day neocolonial debt regime. Rather than absorb the financial loss of its colonies, European countries, such as Belgium, the UK, and France, unloaded their debts to institutions like the World Bank onto their former colonies. This injustice was compounded by the fact that much of this debt was initially credited to European countries for the express purpose of continued colonial exploitation. Sadly, debt has been a routine part of European domination for centuries. In 1825, the French imposed an indemnity of 150 million gold francs on Haiti as compensation for its successful slave rebellion just 21 years earlier in 1804.

In the years after formal empire, the Global South remained an easy target for neocolonial exploitation, only this time at the hands of international financial institutions like the World Bank and IMF. After the 1979 "Volcker Shock," a US Federal Reserve policy that sharply increased interest rates to combat rising inflation, many developing countries dependent on borrowing at floating interest rates experienced severe and unexpected debt distress. Faced with soaring deficits, the Volcker Shock set off a sovereign debt crisis in the Global South. Mexico was the first country to announce debt default in 1982.

Help came with strings attached, specifically in the form of structural adjustment programmes, loan schemes that made much-needed aid conditional on neoliberal economic reforms including financial deregulation, free trade, and the privatisation of public goods. The programme became a pivotal policy in the Washington Consensus, the neoliberal agenda championed by the three most powerful Washington D.C.-based economic institutions, namely the IMF, the World Bank, and the US Treasury.

Pitched as a pathway to debt alleviation and development for the Global South, the programmes eroded social safety nets and facilitated the permeation of predatorial capital flows. Poverty soared and deficits continued to inflate. Caught on a ceaseless treadmill of debt, the Global South slipped from the yoke of forced settlement to indentured financial obligation.

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Debt, climate breakdown, and the global political economy

The extent of debt inequality is staggering. Recent data from the World Bank suggests that low- and middle-income countries alone owed 8.1 trillion dollars to foreign lenders in 2019, an increase of 383 billion dollars in comparison to 2018. This is part of a long-term upwards trend, with developing country deficits inflating from an average of 40.2 to 62.3 per cent of GDP between 2010 and 2020. Yet it is these debt distressed countries that are acutely vulnerable to the ongoing Covid-19 pandemic and the impacts of climate breakdown. With debt gobbling up entire economies, little public expenditure is left for public health protocols and vital climate preparedness.

Belize is an apt depiction of this dynamic. At the exact moment when Belize was suffering from sea level rise, coral bleaching, flooding, and the economic impacts of Covid-19, its debt-to-GDP ratio ballooned to 85 per cent. The largest share of this debt (1,126.9 million dollars) is tied up in a “superbond,” a product of past debt restructurings now primarily owned by several investment and hedge fund firms, including Aberdeen Standard Investments. Belize also owes money to Venezuela (476 million dollars), China (318 million dollars), and Kuwait (35 million dollars). As for multilateral creditors, Belize is indebted to the Caribbean Development Bank (344 million dollars), the Inter-American Development Bank (288 million dollars), the World Bank (66.4 million dollars), and the European Investment Bank (66.4 million dollars).

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It is interesting to note that the multilateral creditors who nominally appear from the Global South (i.e., Caribbean Development Bank and Inter-American Development Bank) have strong ties to the Global North. For example, “non-borrowing members” of the Caribbean Development Bank, “who provide capital and have voting representation,” include Canada, Germany, Italy, and the UK. Likewise, non-borrowing members of the Inter-American Development Bank include 16 European countries, notably France, Germany, Italy, Spain, and the UK. It appears that Belize’s debt is thus largely controlled by the Global North, whether it be in the form of private sector credit (Aberdeen Standard Investments), indirect multilateral public credit (Inter-American Development Bank), or direct multilateral public credit (European Investment Bank).

To make matters worse, Spain and the UK, who appear to have some connection to Belize’s debt distress, are the very countries who colonised the country from the 16th century onwards. Already reeling from the impacts of a climate crisis it had virtually no role in causing and the economic repercussions of a punishing global pandemic, Belize has been forced to divert funds away from climate preparedness and basic public health measures to pay off former colonial powers.

This is the unfortunate reality that afflicts not just Belize but also many other developing countries in the Global South, such as Fiji and Mozambique. Yet developing countries are

also an increasing source of emissions, not least because of quick-fix, fossil-powered economic production meant to satisfy debt relief programmes. This makes for an inconvenient reality for Europe, whereby the impact of its continued exploitation of the Global South is now being felt within its own borders, in the form of disastrous climate events.

Most recently evidenced by catastrophic flooding in Germany and wildfires in Greece, Europe is coming to realise that wealth cannot protect against climate chaos and that peripheral exploitation is no different from domestic damage. Furthermore, it is becoming clear that the neocolonial global political economy will no longer continue to benefit Europe and the rest of Global North. Rather, it will become a climate nightmare, with the Global South, late to the game of fossil fuel-powered development, pumping out emissions that ultimately lead to flooding European cities and vicious continental fires.

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Not aid, but justice

To avoid climate breakdown, Europe must work to emancipate the Global South from outstanding debt and finance its green economic transition through a sustained climate reparations programme. Never has such a radical system change been so practical, with both the “beneficiary” and “loser” enjoying the mutual spoils of a stable planet and just political economy. Europe, however, will not be able to institute this change on its own. It may well catalyse the structural shift, but it will require a collective effort on behalf of the countries of the Global North, who thus far have richly benefited from the current political economic system.

Moreover, such structural change will require the blessing of China, which is now the largest official creditor in the world, surpassing all the World Bank, the IMF, and the OECD creditor governments combined. While it is difficult to categorise China as belonging to either the Global North or the Global South, it is undoubtedly a major power to be reckoned with, especially on the climate crisis. Europe must therefore coordinate with China, as well as the rest of the Global North, to restructure and ultimately put an end to the exploitative debt paradigm. That being said, Europe must take a leading role in shouldering the financial burden of climate reparations, given its colonial past and outsized culpability for climate breakdown (despite the dominant narrative, China still produces less than its fair share of emissions by an astounding 19 gigatons).

A European-led coalition for climate reparations would also deliver a long-awaited “win” for the United Nations Conference on Trade and Development (UNCTAD), a UN body led by countries from the Global South that has been pushing for economic justice since its creation in 1964. Today, the UNCTAD is calling for a debt jubilee (cancellation) of 1 trillion dollars for distressed economies as well as a 500-billion-dollar Marshall Plan for developing

countries suffering from the adverse effects of neocolonialism and climate change. Placing these demands at the centre of European geopolitics would sow the seeds of a new international paradigm defined by mutual reciprocity, not hierarchical domination.

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Pursuing reparations also means abandoning the prevailing aid regime. Despite Europe and the rest of the North's best marketing efforts, the current 100-billion-dollar climate funding pledge is an insulting attempt at solidarity. Not only has this funding pledge not been met for the past two years, but most of the committed funding itself comes in the form of loans rather than interest-free green payments. Even life-saving climate aid is not insulated from a rapacious neocolonial political economy. To achieve genuine climate justice, Europe and the rest of the Global North must supplant this exploitative aid paradigm with a fully-fledged reparations programme.

While such a reparations programme may seem overly idealistic, European countries are not strangers to the idea. The cruel irony is that reparations have compensated the coloniser, not the colonised. For example, the United Kingdom was still paying reparations to former slaveowners until 2015. At the same time, former prime minister David Cameron stood before the Jamaican Parliament and told Jamaicans that the time had come to leave historical grievances behind and to "get over" slavery. Reparations are possible, it just requires the necessary political will to make them a reality.

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Stepping stones towards a just global economy

One of the foundational steps towards climate reparations is the re-appropriation of private sector credit linked to the Global South. While foreign credit has traditionally been the domain of governments and international financial institutions, private actors have carved out a sizeable chunk of the neocolonial debt regime (as the case of Belize shows). This trend has been supercharged by more recent impacts of recession-era monetary policy. In response to the financial crisis, the European Central Bank implemented quantitative easing, which injected money into the economy to spur economic expansion. Paired with uniquely low interest rates, this monetary policy steered private sector investment into

risky, albeit potentially lucrative, areas. What resulted was a torrent of hot capital flows to the Global South. Once again, the Global South was exploited as the solution for a crisis of the Global North's making.

If Europe were to reform this risky monetary policy and recoup private sector credit, it would restore its economic sovereignty and allow for debt cancellation and green payments. A transitional policy could take shape in a climate-health-debt swap, a policy that builds on the established debt-for-environment swaps. This legal agreement allows debtor governments to make investments in their own currency in ecological sectors like climate resilience instead of monetary loan payments to creditor countries. Updated to match the pressures of Covid-19, a climate-health-debt swap would focus on investments that enhance both planetary and human health.

Alternative reforms that may be more palatable in the current political climate include the likes of financial regulation, technology transfer, and cracking down on capital flight. Financial regulation could steer private capital flows away from the South and tamp down on private sector involvement in sovereign debt accumulation. While not going to the extent of credit re-appropriation, this would be a welcome change that puts an end to an especially corrosive type of financial activity. Moreover, technology transfer would benefit countries in the South who lack the technical expertise and operational capacity to deploy renewables at scale. Lastly, curbing illicit capital flight, where domestic and foreign companies report false prices on trade invoices, would free up significant funds for cash-strapped developing countries and enable investment in climate adaptation and mitigation.

These reforms should be viewed as mere stepping stones to the ultimate necessity of cancelling debt and green payments. The present moment demands radical system change, not tinkering around the edges. Climate reparations are also a potential catalyst for the long-term need to democratise global governance. The operating structures of international financial institutions are deeply unequal and concentrates power in the hands of the wealthy. For example, voting power in the World Bank is determined by the financial shares of each country while influence in the IMF is allocated according to the size of national GDP. Apportioning voting power on behalf of wealth is a grave injustice considering the Global North accumulated its riches through colonial extraction. Ending the apartheid in global economic governance would allow for a democratic discussion over the economy and finally give power to the Global South's demands.

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A more democratic playing field may also trigger the decisive shift away from a growth-based economic system. The imperative to grow GDP by 2-3 per cent ever year clearly conflicts with the scientific necessity of cutting emissions in half by the end of the decade. Greening a growing economy is simply too slow for such drastic decarbonisation, not to mention that the gains of GDP growth are disproportionately captured by the wealthiest 1 per cent with few earnings trickling down to the most impoverished. Replacing a system that is devouring the world for the benefit of a rich minority with a new political economy dedicated to human flourishing and ecological stability should be the ultimate goal for an

equitable, just, and accountable European geopolitics.



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Published December 16, 2021

Article in English

Published in the *Green European Journal*

Downloaded from <https://www.greeneuropeanjournal.eu/breaking-the-cycle-why-europe-must-back-climate-reparations/>

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