

Policy Debate: Climate Reparations¹

Economy Studies Essential Lecture

Instructor's Guide

Economy Studies Essential Lectures

These teaching packs are designed for 90-minute (online or offline) sessions that can be added to existing courses. They help students become familiar with an important topic that is often neglected. At some universities lectures and sessions are typically longer than 90 minutes and at others shorter. Feel free to adjust the material to make it fit with your context and purpose.

Introduction

As the Earth continues to warm up, we are facing increased destruction from climate change. It is likely that by 2027, the average temperature will rise more than 1.5°C above pre-industrial levels. This is the point at which climate scientists predict a significant increase in climate-related disasters. In the past few years, we have witnessed devastating floods in Pakistan, famine-inducing droughts across Europe and Northern Africa, and record-breaking temperatures. These events occur at a much higher rate in what is often referred to as developing countries or the global south.² However, these countries tend to have lower current and historical emissions. This carbon inequality has sparked a significant debate over who should be responsible for paying the damages caused by such catastrophes.

Climate reparations is an example of a policy that deals with the issue of how climate responsibility can be assigned that is not based on a country-by-country method, but instead by calculating each country's "fairshare" of the global carbon budget. Delegates at the COP28 talks in UAE in November 2023 agreed to establish a Loss and Damage Fund for countries affected by climate change, showing real world applications of climate reparations. However, a lot of work remains to be done to make this fund a functional one.

¹ This teaching pack is made in collaboration with Rethinking Economics.

² From hereon referred to as the global south.

Why teach students about climate reparations?

Teaching economics students about climate reparations enriches their educational experience by providing real-world relevance, promoting critical thinking, fostering interdisciplinary learning, and equipping them with valuable skills for both academic and practical applications. It also encourages ethical awareness, global perspective, and civic engagement, aligning with the broader goals of education in preparing students to address complex global challenges.

Climate reparations are a pressing real-world policy debate that connects economic theory to practical, global challenges. Climate reparations is also a key issue being discussed at the COP28 in the form of the loss and damages fund, making this a highly current and relevant topic for students. This relevance can increase students' motivation to learn and engage in discussions, as they can see the direct application of economic concepts to contemporary problems.

Climate change has significant economic implications, including damage to infrastructure, agriculture, and natural resources. Teaching students about climate reparations helps them understand the economic costs associated with climate change and the potential benefits of reparative measures in terms of preventing economic losses.

Economists play a crucial role in policymaking, and climate reparations are an emerging policy area. Teaching economics students about climate reparations equips them with the knowledge and skills needed to analyse, design, and advocate for policies that promote climate justice and sustainability.

How this lecture is designed

This lecture explores the various aspects of climate reparations, what it is, where it stems from, and how it can work in practice. This meant that the issue of sovereign debt also needed to be addressed, as it is highly related to issues when it comes to mitigating climate catastrophes.

Lesson Plan – Overview

Learning Outcomes

- Develop an understanding of the concept of climate reparations.
- Gain awareness of the various options, opportunities, and mechanisms available for implementing climate reparations.
- Acquire knowledge about the methodologies and frameworks used to estimate and assign climate responsibility, considering factors such as emissions, historical contributions, and vulnerabilities.
- Explore the interconnection between pre-existing social and economic inequalities and their direct impact on climate change.
- Ability to apply the acquired knowledge to analyse the relationship between climate reparations and their own personal background.

Transferable Skills Developed

- Develop critical thinking skills by learning how to assess the multiple perspectives of climate reparations
- Data and statistical analysis

Prior to session

Readings:

- [A just transition](#): how can we fairly assign climate responsibility? Jayati Ghosh - Explains different ways in which national climate responsibility can be measured and has useful graphs on national emissions across the world measured in multiple ways.

Further readings:

- [Why debt justice must include climate justice, CAN International](#)
- [Realising Climate Reparations: Towards a Global Climate Stabilization Fund and Resilience Fund Programme for Loss and Damage in Marginalised and Former Colonised Societies, Keston K. Perry](#)
- Real-world data: [A Good Life For All Within Planetary Boundaries](#)

Plan of Activities			
Duration	Teacher Activity	Student Activity	Resources needed
3 min	Climate science: Go through the key fact and science necessary		
5 min	<p>What are climate reparations (slides 5-9).</p> <ol style="list-style-type: none"> 1. How we respond to climate change. 2. Loss and damages. 3. Defining climate reparations. 		
15 min	<p>Inequality of Global Emissions (slides 10-15).</p> <ol style="list-style-type: none"> 1. Slide 8-13 are a collection of graphs illustrating the inequality of emissions. See appendix (end of slidedeck for other graphs). Pick and chose the one you see as appropriate. 2. Slide 14-15 summarises the graphs in words (for the less visual learning students) and works as a repetition. 		
7 min	Sovereign debt Inequality (slides 16-20)		
7 min	Case studies (slides 21-29): Pakistan, Zambia, Mozambique, and The Bahamas. Pick and choose between these countries.		
30 min	The mechanisms of reparations (slides 30-40).		

<p>18 min</p>	<p>Activity: Compare/analyse your own country (or a country of choice). Introduce students to the exercise, as well as showing them the website they will use (accessed through the qr code). Have the students work in pairs or groups.</p>	<p>Choose a country to explore their historical CO₂ emissions up to 2019 and other scenarios up to 2050</p> <p>Using the line charts:</p> <ol style="list-style-type: none"> 1. When did/will the country pass the fair share (1.5°C?) – and what does this tell you? 2. How does your country compare to other countries nearby and around the world? 3. Could climate reparations be used to address global inequalities that your country is part of? What could the benefits be? What could the problems be? 	<p>Computer</p>
<p>Total: 85 min</p>			

Lesson Plan – Detailed

Before getting into the details of climate reparations it is necessary to give a brief explanation of some key concepts from climate science that are used to measure climate reparation, as well as being crucial for understanding the motivation behind why people are calling for this policy. Then the lecture will explore what climate reparations actually are, followed by exploring the inequality of global (carbon) emissions. Sovereign debt is then explained, as it is heavily connected to the topic of climate reparations in practice, which is the last part of the lecture. The lecture is concluded with an activity that lets the students explore a country of choice.

Climate Science

This is a brief introduction to some terms and concepts from climate science that are relevant to this lesson.

Atmospheric CO₂-concentration

There are nine [planetary boundaries](#) proposed by climate scientist in 2009, one of which is climate change. Climate change is partially measured by the amount of CO₂-concentration in our atmosphere. To stay within the “safe operating space”, atmospheric CO₂-concentration should stay below 350 parts per million (ppm). The 350ppm threshold was surpassed in 1988 and today the atmospheric CO₂ concentration is 421 ppm.

Global Carbon Budget

In order to limit the world’s atmospheric CO₂ concentration and abide by the international commitment to limit global warming to as close to 1.5°C as possible, fossil fuel use (and by extension carbon emissions must fall dramatically). But how much carbon emitted while maintaining this commitment? This limit on temperature increases can be translated into a ‘carbon budget’, or the amount of carbon dioxide (CO₂) that can be emitted through the burning of fossil fuels by 2100 (and beyond) before the average global temperature rise exceeds 2°C. This translated to around 830 gigatonnes of carbon dioxide (GtCO₂) to be used from 2017.

Paris Agreement

Its overarching goal is to hold “[the increase in the global average temperature to well below 2°C above pre-industrial levels](#)” and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. [The world is not on track to limit warming to the Paris Agreement's lower target of 1.5°C](#), the IPR notes. Just 3% of global policies – based on their relative importance to emissions – are currently on track to this target. The last IPCC synthesis report (2023) estimates

that current policy may lead to warming as high as 3.2°C. The predicted outcomes are far more extreme and unpredictable the further the global average temperature rises. Thus, it's not just about staying under 1.5 or 2°C, but rather minimising the damage by keeping the warming as low as possible.

What are 'Climate Reparations'?

For a number of years climate policy-makers and international climate negotiators have argued that countries that have a high emission per capita owe compensation to countries that have a low emission per capita for climate-related damages and who face high costs due to climate related effects

There are two key ways in which we respond to climate change.

1. Mitigation of climate issues: reducing the effects of heating gases flowing into the atmosphere e.g. carbon capture; reducing the amount of carbon gases released
2. Adaptation to climate issues: adjustments to social or economic systems to moderate potential damages from climate change e.g. anticipating sea-level rises and building sea walls as a response)

However, although mitigation and adaptation measures are crucially important for future safeguarding, it does not account for the damages already being caused by climate change. This usually takes the form of extreme weather events such as storms, floods, hurricanes, draughts, wildfires, and land slides. These events also carry a huge economic burden on countries and local communities. For instance see table 1 in [Ripple et al. \(2023\)](#) for a list of various natural disaster over this last year, where many of them caused damages worth billions.

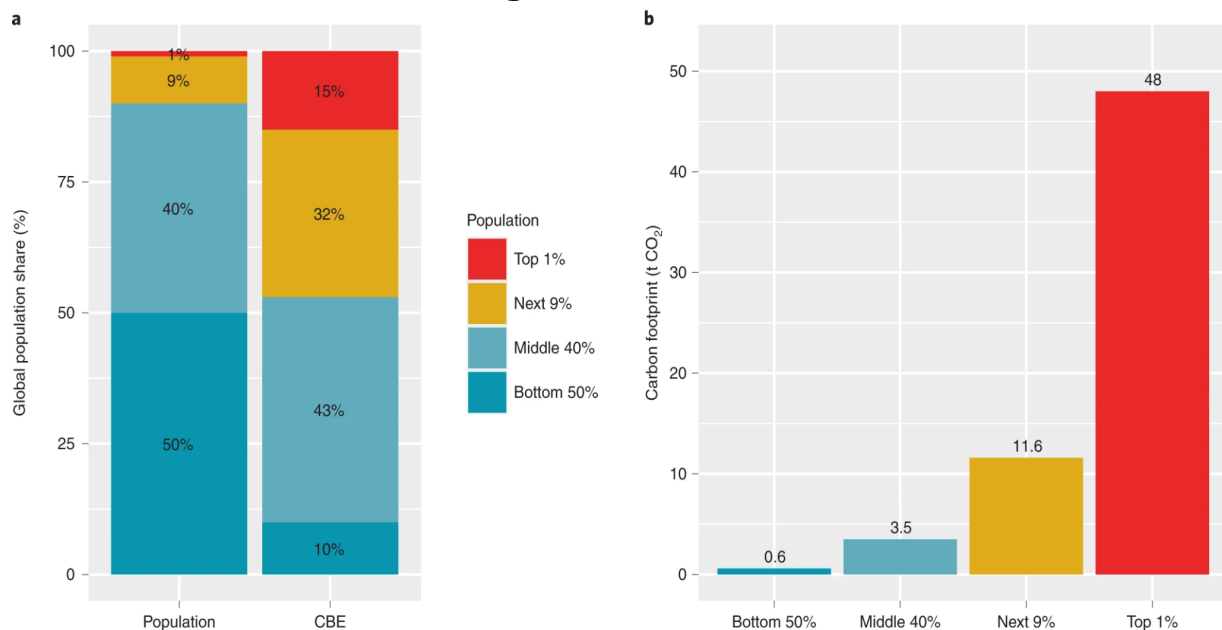
With the large burden of climate catastrophes, often piling on top of other economic issues, there is a larger debate on who are responsible to carry this economic burden. As the following section illustrates, the global south and the bottom 50% have emitted a lot less, both historically and currently. However, the global south is facing a lot of natural disasters driven by climate change. Thus, many countries are calling for compensation in some form. Climate reparations are compensation for harm caused by climate change by those who emit more to those that are under-emitting.

Inequality of Global Emissions

One of the key motivators for climate reparations is the vast inequality of global emissions. Both in historical (cumulative) and current emissions. Emissions is also highly linked to income inequality. At the same time, the smaller emitters face disproportionate economic consequences stemming from climate change. This has important implications for assigning climate responsibility.

Emissions are often calculated on a national or average ton CO₂ per capita basis, but there are large gaps in individual emissions both within and across nations.

Slide 13: Bruckner et al 2022 figure



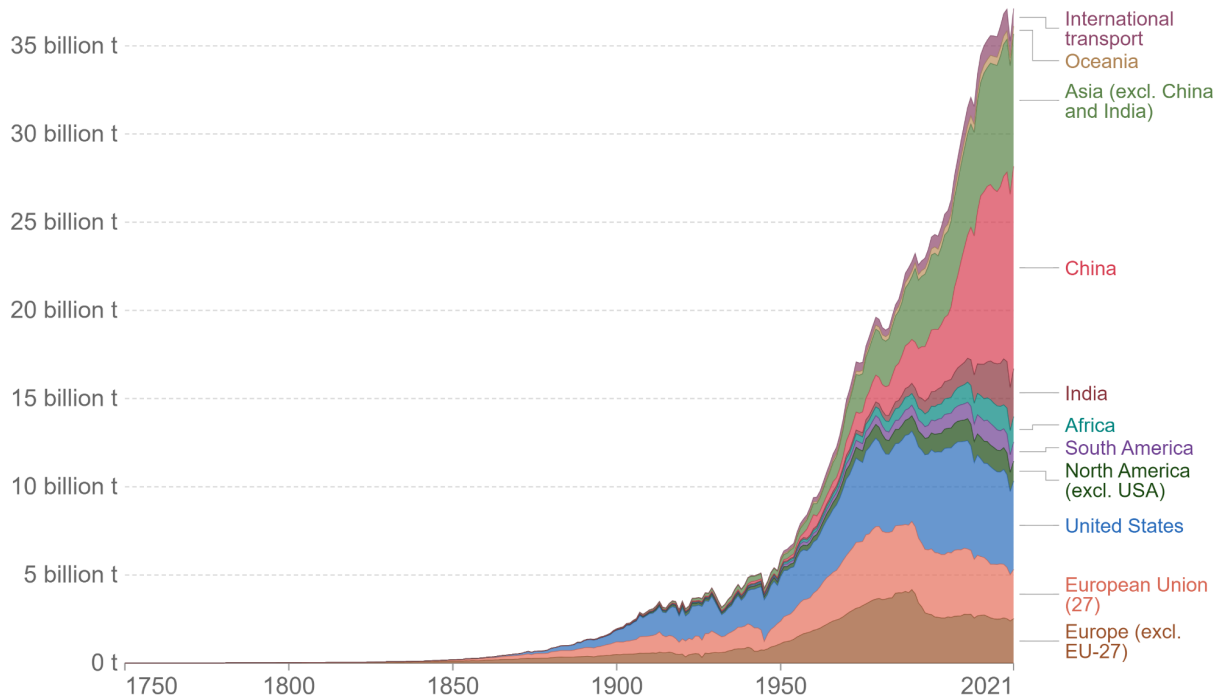
A) Population is split up according to current carbon emissions. The top 1% is the 1% of the global population who emit the most. For instance, the top 1% carbon emitters emit 15% of global emissions while the bottom 50% emit just 10%.

B) Shows the average carbon footprints of each of these population groups. The average carbon footprint in the top 1% was more than 75 times higher than that in the bottom 50%. The emissions of the dataset are measured in consumption-based terms.³

³ Bruckner et al. (2022): <https://www.nature.com/articles/s41893-021-00842-z>

Annual CO₂ emissions by world region

This measures fossil fuel and industry emissions¹. Land use change is not included.



Source: Our World in Data based on the Global Carbon Project (2022)

OurWorldInData.org/co2-and-greenhouse-gas-emissions • CC BY

1. **Fossil emissions:** Fossil emissions measure the quantity of carbon dioxide (CO₂) emitted from the burning of fossil fuels, and directly from industrial processes such as cement and steel production. Fossil CO₂ includes emissions from coal, oil, gas, flaring, cement, steel, and other industrial processes. Fossil emissions do not include land use change, deforestation, soils, or vegetation.

Slide 11 → 12: current → historical emissions

Carbon emissions are often shown in current emissions as in this graph. When looking at current emissions (slide 11) Asia is accountable for more than half of them, but when looking at historical emissions (slide 12) high income countries account for a much higher proportion of emissions.

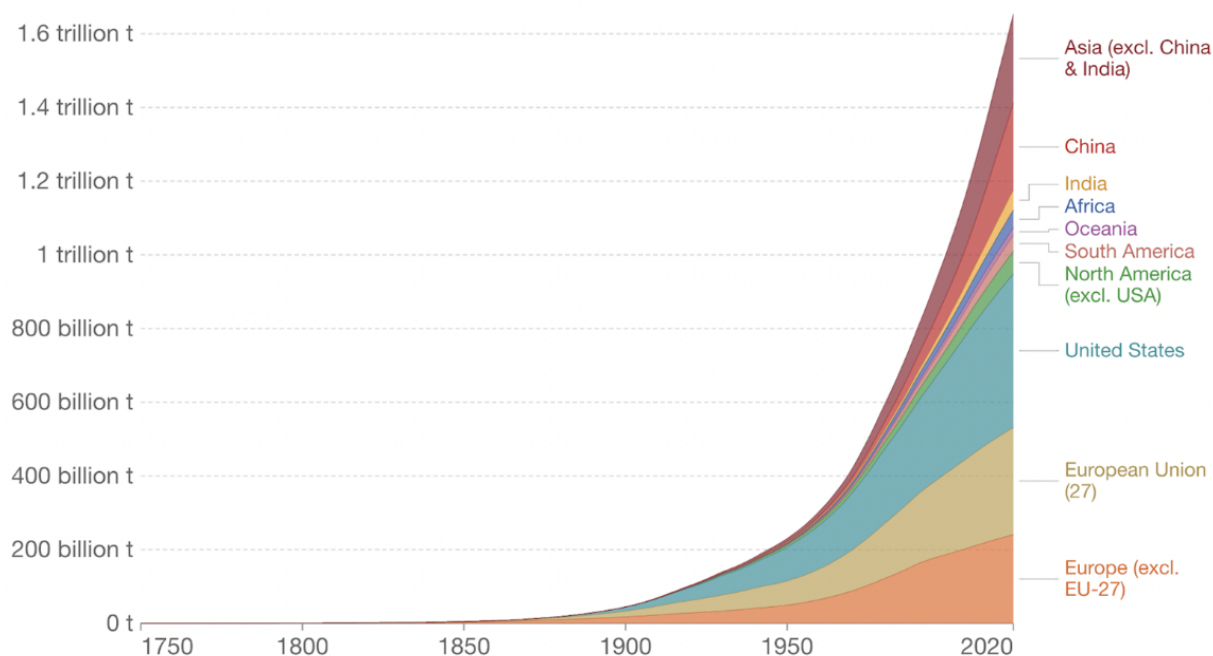
This has important implications for assigning climate responsibility, as the atmosphere can only contain a certain amount of GHG emissions (350ppm is estimated as the safe level) and this boundary has been transgressed by a minority of countries. This is what [Hickel refers to as the process of atmospheric colonisation](#).

Main reading for this topic goes into more detail on this: "[A just transition: how can we fairly assign climate responsibility?](#)"

Cumulative CO₂ emissions by world region

Our World
in Data

Cumulative carbon dioxide (CO₂) emissions by region from the year 1750 onwards. Emissions are based on territorial emissions (production-based) and do not account for emissions embedded in trade. This measures CO₂ emissions from fossil fuels and cement production only – land use change is not included.



Source: Our World in Data based on the Global Carbon Project

OurWorldInData.org/co2-and-other-greenhouse-gas-emissions • CC BY

Sovereign Debt Inequality

Slides 16-20: Sovereign Debt Inequality and its Extent

Even before the pandemic, highly indebted countries were struggling with overindebtedness, which has been exacerbated by the ongoing crisis. Over the last decade, sovereign debt in Lower Income Economies (LIEs) has increased from an average of over 40% of GDP to 49% in 2019.⁴ The debt vulnerability has been further exacerbated by the COVID-19 shock and Russia's war in Ukraine.⁵ The expansion of sovereign debt in the Global South has constrained public expenditures, especially on climate mitigation and adaptation. That is, debt is prioritised over crucial public expenditure.⁶ Countries in the Global South are currently spending 5 times more on debt repayments than they are addressing the impact of the climate crisis.

⁴ Eurodad 2020 https://www.eurodad.org/covid19_debt1

⁵ International Monetary Fund, 2022a, "Macroeconomic Developments and Prospects in Low-Income Countries—2022" IMF Policy Paper, (Washington).

⁶ Eurodad 2020

The increase in debt stocks has been accompanied by a parallel escalation of debt vulnerabilities, particularly as the borrowing has in many cases not funded productive investment. The burden of external debt is severely and disproportionately affecting the Global South, where 124 out of 154 developing countries and emerging economies are in a critical debt situation.⁷ Wealthier countries tend to have a high proportion of their public debt owed domestically, whereas countries in the Global South owe most of their debt to foreign and private creditors.⁸ Additionally, even when interest rates were close to zero, the cost of borrowing increased for most developing countries.⁹ Being heavily reliant on external financing makes them particularly vulnerable to external shocks such as currency fluctuations, pandemics, and climate crises.

Colonial Roots

The origins of the debt accrued by the Global South must also be seen in a historical context. Colonial powers extracted vast amounts of wealth and resources from their colonies, often leaving behind underdeveloped economies and infrastructure. When these colonies gained independence during the wave of decolonization in the mid-20th century, they inherited not only the challenges of nation-building but also the debts that had been incurred by their colonial rulers.¹⁰

Furthermore, some Global South countries found themselves burdened with debts accrued by illegitimate or authoritarian regimes. Argentina, for instance, experienced a series of military dictatorships that borrowed extensively, often for projects that did not benefit the general population.¹¹ The resulting debt crisis persisted even after the return to democratic governance, creating a daunting challenge for subsequent administrations.

Similarly, the Philippines and South Africa have grappled with the consequences of debts incurred during periods of political turmoil. In the case of the Philippines, the Marcos regime amassed significant debts, partly through corrupt practices, which remained a burden for years. South Africa's apartheid regime also borrowed extensively, and the transition to democracy in the 1990s did not automatically relieve the nation of its debt obligations.

⁷ Erlassjahr (2020). Global Sovereign Debt Monitor 2020. Global Sovereign Debt Monitor.

⁸ Bonizzi, B., Laskaridis, C., & Toporowski, J. (2015). Developing Countries' External Debt and International Financial Integration (FESSUD Working Paper No. 121).

⁹ UN Department of Economic and Social Affairs (2020) Policy Brief #72

¹⁰ Also known as onerous debt, which can be describes as unenforceable and illegitimate due to unreasonable terms, such as no real choice in taking on the debt and accepting its conditions (Mandel, 2006; Hanon, 2006)

¹¹ Gaona, A. (2001). The Illegal Foreign Debt: The Value and Likelihood of a Legal Ruling

The World Bank and IMF have through their debt programmes enforced a lot of economic and financial policies and thus influenced the political economy of many countries. A lot of the debt was forced onto them, as they were dependent on aid that was conditioned on being part of these programmes. There are many long-run effects of the conditionalities imposed, although the conditionalities imposed today are not as damaging as those given during the 1980s. Policies that involved opening up their markets, often prematurely, led to a drop in commodity prices for industrialised countries.

Nobel Laureate Stiglitz (2001) and even the IMF (Ostry, Loungani and Furceri, 2016) have recognised the lasting and harmful impact of these programmes. It can therefore be argued that the conditions have made it more difficult to repay debt, as well as interfering with the government's ability to cover basic services.

Case Studies

Slides 21-29: Country case studies

This section provides a number of case studies to be interrogated. Instructors can choose to focus on a few of the case studies here in more detail or to choose others.

Reparations in Practice

This section integrates the learning from previous sections on emissions and sovereign debt to discuss real-world policies and applications of climate reparations.

Slide 31: Loss & Damages Fund COP27

At COP27 in 2022, delegates agreed to establish a Loss and Damage Fund for countries affected by climate change. This was viewed as a significant victory for developing countries and the activists and campaigners that had pressured for this for many years. However, to date COP27 Pakistan is yet to prepare any institutional mechanism, capacity and lead organisation to initiate preparatory work for capitalising on the Loss and Damage Fund.

Thus, this sparks a discussion on how climate reparations works in practice. How can it be financed, and how can the economic responsibility be assigned? This will be explored in this section.

Slide 32: Assigning climate responsibility: where to start?

This slides introduces the question of calculating and quantifying climate responsibilities on the basis of production or consumption.

There are debates about what year to use as a baseline for calculating responsibility for historical emissions, with studies often providing a range of different start dates:

- 1960 is a common mid-range baseline given that scientific understanding of the influence on atmospheric CO₂ and temperature from burning fossil fuels was well understood
- 1850, a common early baseline from start of Industrial Revolution in the United Kingdom
- 1992, the year that the United Nations Framework Convention on Climate Change was established

While climate science was not as developed, disregard of emissions before the 1990s neglects the importance of historical emissions. (Hickel, Fanning, 2022)

Slides 33-38: Assigning climate responsibility: atmosphere shared commons

This slide introduces the work by Jason Hickel and Andrew Fanning (2020, 2022) as a means of calculating reparations through viewing the atmosphere as a 'shared commons'.

Not all countries are equally responsible for the depletion of carbon budgets, however; some nations have contributed more to causing this crisis than others. One means of conceptualising a just outcome is to recognise the atmosphere as a shared commons, to which all people are entitled to equitable use. Hickel and Fanning draw on this principle to argue that '*carbon budgets should be shared equitably and that cumulative emissions in excess of fair shares represent a form of appropriation of atmospheric commons*', this has framed in policy discussions of reparation. (Hickel, Fanning, 2022)

This analysis on Slide 34 and the calculation on Slide 35, analyses the 'fair share' of a safe global carbon budget for each country on the principle of equal per capita access to atmospheric commons.

Slide 34: How does Hickel calculate a country's national 'fair share' of carbon usage? To do this, we first need to come back to 'carbon budgets'.

In order to limit the world's atmospheric CO₂ concentration and abide by the international commitment to limit global warming to as close to 1.5°C as possible, fossil fuel use (and by extension carbon emissions must fall dramatically. But how much carbon emitted while maintaining this commitment? This limit on temperature increases can be translated into a 'carbon budget', or the amount of carbon dioxide (CO₂) that can be emitted through the burning of fossil fuels by 2100 (and beyond)

before the average global temperature rise exceeds 2°C. This translated to around 830 gigatonnes of carbon dioxide (GtCO₂) to be used from 2017.

Hickel multiplies this carbon budget figure (830 GtCO₂) by a country's proportion of the global population (dividing a country's approximate population by the approximate global population).

Slide 35: National fair shares of a safe global carbon budget consistent with the planetary boundary of 350 ppm were subtracted from countries' actual historical emissions (territorial emissions from 1850 to 1969, and consumption-based emissions from 1970 to 2015) to determine the extent to which each country has overshoot or undershot its fair share. Through this approach, each country's share of responsibility for global emissions in excess of the planetary boundary was calculated. (Hickel 2020)

Slide 36: *As of 2015, the USA was responsible for 40% of excess global CO₂ emissions. The European Union (EU-28) was responsible for 29%. The G8 nations (the USA, EU-28, Russia, Japan, and Canada) were together responsible for 85%. Countries classified by the UN Framework Convention on Climate Change as Annex I nations (ie, most industrialised countries) were responsible for 90% of excess emissions. The Global North was responsible for 92%. By contrast, most countries in the Global South were within their boundary fair shares, including India and China (although China will overshoot soon).*

These figures indicate that high-income countries have a greater degree of responsibility for climate damages than previous methods have implied. These results offer a just framework for attributing national responsibility for excess emissions, and a guide for determining national liability for damages related to climate change, consistent with the principles of planetary boundaries and equal access to atmospheric commons. (Hickel 2020)

Slides 38-40: Facilitating climate reparations in practice - how to fund it?

Slide 40 draws together the previous sections on debt inequality and case studies to provide policy solutions that would alleviate the debt burden on countries affected by the climate crisis. The following slide provides a historical example of successful debt cancellation and economic integration.

Activities

Slide 41: Activity - analyse your own country (or a country of choice)

Introduction

Start by explaining the purpose of the activity and its relevance to climate reparation and economics.

Provide a brief overview of the line charts and how to interpret them.

Have students use the [interactive line charts](#) to select and compare their/a country with other regions' and countries' historical cumulative CO₂ emissions up to 2019, together with different scenarios to 2050.

Cumulative emissions are shown with respect to a country's fair share of the 1.5°C global carbon budget (as well as the 'safe' 350 ppm¹² planetary boundary and the far riskier 2°C target). The graph also shows a range of measures for what happens if we continue with business as usual (BAU).

The purpose is to have them evaluate where a country stands when it comes to climate reparations – that is, whether it is a country that due to pay compensation for overemitting or a reparation receiving country within a climate reparations framework. Students should also be made aware that there are various ways of determining this, and this is one method, but it also depends on what “climate” cutoff is chosen. This is also meant as a manner to create discussion, whether that is during the class or simply between the students themselves.

Chart exploration and guided questions

Allow students to access and explore the interactive line charts on their computers or smartphones. Make sure they have a link or access to the charts using the QR code or link on Slide 42. The students should also try to reflect and answer the questions on Slide 42.

¹² 350 parts per million (ppm) is the measurement of CO₂ concentration in the atmosphere that is seen as the uppermost safe limit for atmospheric carbon dioxide (CO₂) concentrations.

Appendix: Background

Slide 46: Oxfam consumption figure

Figure 5: Main categories of consumption among highest emitters in the EU (2010)³⁰



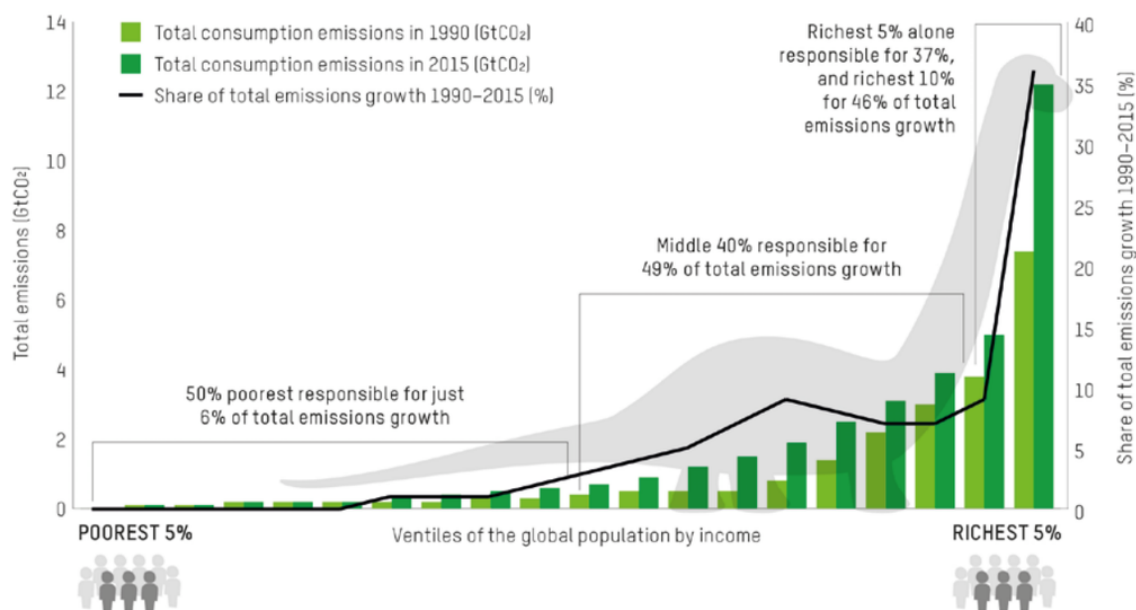
This figure shows carbon footprint on different consumption categories for high emitters in the EU. The largest share of emissions comes from transport: car journey and for the highest emitters, flights.

This is a common pattern across regions. A recent study estimated that [the top 10% richest households globally use around 45% of all the energy](#) linked to land transport, and around 75% of all energy linked to aviation, compared with just 10% and 5% respectively for the poorest 50%.

Transport – which accounts for around a quarter of global carbon emissions today, most of which are from road vehicles, and rising fast in many countries – was found to be the most unequal consumption category, with an income elasticity of demand much higher than 1 (i.e. if income increases 100%, spending on transport increases by more than 100%). By contrast, home heating and electricity are found to be more inelastic, implying they are more basic goods, which tend to constitute the majority of emissions footprints of lower income groups.

Slide 48: Dinosaur graph

Figure 2: The 'dinosaur graph' of unequal carbon emissions growth 1990-2015



Black line: Share of emissions growth is shown by the numbers (in percentage) on the right side of the graph.

Green blocks: Total emissions in gigaton CO₂ by the numbers on the left side.

The dinosaur graph shows the inequality in carbon emissions *growth*. This graph makes it visible that not only are there large inequalities in current emissions, the growth of emissions during 1990-2015 is also significantly higher for the richer countries than the poorest. As an example, the 5% richest population is responsible for 37% of emissions growth in this period and the 50% poorest for 6% of emissions growth. This means that only 400 million people are responsible for 6 times more emissions growth than 4 billion people.

The Bretton Woods legacy and sovereign debt

The Bretton Woods Institutions (BWIs), most importantly the World Bank and the IMF, were set up to promote economic development and stability (Snowdon and Vane, 2005). However, it was not until the 1980s debt crisis that the role of the BWIs in contributing to debt crises became more apparent. In the build-up to the crisis there was also a high prevalence of 'loan pushing', loans that were marketed as profitable due to the negative interest rates (see Deshpande, 1999, Hanlon, 2012). During manias, there was an expansion of finance, characterised by the high prevalence of encouragement to borrow (Kindleberger, 1978; 1996). The IMF did nothing to prevent this excessive borrowing that resulted from the big loan push.

A significant cause of sovereign debt accumulation in the Global South was the substantially larger interest rates that were given in the wake of the two crashes in the 1970s, despite many countries being promised low to negative rates. The sharp increase of the costs of the loans led many countries, especially in Latin America, to default. These tended to be loans aimed at investments such as infrastructure building, but as the loans became more expensive, less and less was available to be spent on projects, as more and more was needed to make interest payments. During this era, the BWIs offered restructuring loans that came with the condition of implementing a particular set of economic and financial policies, also known as structural adjustment programs (Williamson, 2004). These policies were, in many ways, contrary to typical Keynesian countercyclical financial policies that had marked the previous era, and followed a more procyclical logic. That is, fiscal contraction or austerity in the aftermath of a crisis. Keynes, who took part in the Bretton Woods Conference, argued for an international institution that would promote expansionary policies, in order to ensure monetary stability and prevent another depression. This was supposed to be done through imposing adjustment on all parties involved, whether their balance of payments was in surplus or deficit (Amin and Foster, 2014). This was Keynes' proposal for the IMF (an international currency union), in sharp contrast to the contractionary policies that the IMF has enforced on debtor countries since the 1970s.

The structural adjustment programs were based on an economic model based that assumed full employment, but implemented in a world with persistent unemployment (Stirati, 2015). In the case of deviations from equilibrium, this framework could only adjust through flexible wages. The adjustment policies strongly emphasised labour market flexibility as well as capital deregulation policies. The policies that were enforced by the BWIs coincided with what is known as the neoliberal agenda. At the same time, the IMF also had to repurpose themselves after 1973 due to the abandonment of the gold standard (Amin and Foster, 2014).

Overall, loans came with stricter conditions and required a specific set of policies, to countries who practically did not have a choice, as they were reliant on aid which came with the condition of being part of such structural adjustment programmes (Hanlon, 2012). These were seen by the BWIs as crucial development strategies, although it was contrary to how the countries of the Global North had originally developed (see Chang, 2002; Reinert, 2008). The Global North did not develop by implementing these neoliberal policies, they developed and then implemented the policies afterwards. This can be illustrated by Reinert's statement of 'Do as we say, and not as we did'.

The issue outlined above is one of accountability. The creditors were able to set high interest rates that they could enforce through their economic power, and the burden of adjustment was placed upon the debtor countries when problems arose. Keynes argued for a more balanced system during the creation of the BWIs, where the goal was to avoid having persistent surpluses as well as persistent deficits. Nevertheless, the BWI reinforced a system of financial subordination and undermined the political autonomy of countries. As stated by Hanlon (2012: 270) "The major difference between the 1930s and the 1980s was the existence of the Bretton Woods Institutions, which enforced continued repayments". Countries were not allowed to default on the unpayable debt that was rooted in a financial crisis originating from the West.

All in all, the BWIs have through their debt programmes enforced a lot of economic and financial policies and thus influenced the political economy of many countries. A lot of the debt was forced onto them, as they were dependent on aid that was conditioned on being part of these programmes. There are many long-run effects of the conditionalities imposed, although the conditionalities imposed today are not as damaging as those given during the 1980s. The institutions also fostered, through their many conditionalities and forced repayments, a system of financial subordination with colonial roots. Policies that involved opening up their markets, often prematurely, led to a drop in commodity prices for industrialised countries.

Illegitimate debt

Hanlon (2006, p.110) defines a loan to be 'illegitimate' if it goes against the national law, and is "unfair, improper, or objectionable; or infringes on public policy". Furthermore, he claims that even though a loan in itself is not illegitimate, the conditions attached to it may be. That is, even if the loan itself is legitimate, it can be classified as illegitimate if its conditions are so. The illegitimacy of debt shifts the discussion back to the creditor, and questions whether the loan or conditions should have been given in the first place. Distinguishing between unpayable debt (debtor's burden) and debt that should not be repaid (creditor's burden). This distinction is crucial for a more equitable international lending climate, where the liability of a loan goes two ways.

Illegitimate debt can also be categorised into four subcategories: illegal, odious, unsustainable, and onerous debt (Mandel, 2006). Illegal debt is easier to identify as it involves that the law has been broken, whereas the three other categories are not as simple to determine and are the most relevant ones for this essay. Mandel (2006) explains odious debt as a situation where the one that has taken out the loan does not have the right to burden its population with servicing the debt. Typically this entails loans issued to illegitimate regimes such as the Argentine military dictatorship between 1976-1983 (Gaona, 2001). The apartheid regime also

serves as an example of odious debt. Debt which the South African government was forced to continue to service despite its apparent odiousness.

Unsustainable debt refers to a situation where debt services take precedence over public expenditure. In essence, when governments are forced to violate human rights to repay debts. An example of this is the current situation, where several countries have reached a sustainable level of debt in light of the pandemic, and being forced to cut health expenditures as a result. Specifically, Zambia is an example of this, whose debt is mainly owed to private lenders with high interest rates, resulting in a level of debt servicing that has been four times higher than public health spending throughout the pandemic (Suffee, 2020). Lastly, is onerous debt, which can be seen as unenforceable and illegitimate due to unreasonable terms, such as no real choice in taking on the debt and accepting its conditions (Mandel, 2006; Hanon, 2006). Thus, it can be argued that some of the debt linked to the structural adjustment programmes is onerous, i.e. illegitimate, debt as there was in some instances a lack of choice due to reliance on receiving aid.

Hanlon (2006) also makes the distinction between unacceptable and inappropriate loans and conditions, in an attempt to address the liability and responsibility of the debt issuer. Firstly, a loan is unacceptable when it violates the national law and involves misconduct by the creditor. Unacceptable loans include odious lending, corruption related loans, capital flight linked (directly) loans, and private loans that are taken over by the state as opposed to lenders accepting the costs. The latter illustrates a case of potentially increasing the moral hazard of the creditor. Moral hazard goes both ways, but since creditors can tend to irresponsible lending if they know there are institutions that will ensure the repayment of the debt no matter what (Mandel, 2006). Meaning that the higher interest rates which are usually set according to risk also become unjustified if they are very high. Thus, the moral hazard issue allows the creditors to lend recklessly to e.g. oppressive and corrupt regimes.

Unacceptable conditions encompasses usury, conditionalities that violate public policy or that increases the cost of the debt, and requiring governments to nationalise private loans. Usurious loans include the excessive interest rates of the 1980s, which in turn also led countries to having to take part in the structural adjustment programmes. Furthermore, as can be demonstrated the conditions of the debt paid by countries such as Zambia are unacceptable due to its interference with public policy. Additionally, it is arguable that many of the conditions of the structural adjustment programmes increased the actual cost of the debt directly or indirectly through the long-run consequences of lost revenue due to austerity measures (see Thomson, Kentikelenis & Stubbs, 2017; Chang, 2010; Stiglitz, 2003). However, some free-market conditionalities were still present in recent debt initiatives such as HIPC and DSSI.