

# Opinion: The Transition to Sustainable Development<sup>1</sup>

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People interact with each other and with their environment. This is how they develop, basic cells such as families interact and form groups, tribes, societies, nations, States. The different systems of social interaction and interaction with the environment in turn shape the development of individuals. Sometimes the interaction is virtuous, sometimes it has perverse effects. The latter is the case of the interaction between humanity and nature for the last 20 decades or so.

To simplify, these perverse effects can be grouped into three major phenomena that have been recognized by the international community in recent years: the hole in the ozone layer, climate change and environmental degradation.<sup>3</sup>

1. In the 1980s, humanity recognized that the hole in the ozone layer is a problem and part of the international community tried to raise awareness of the need to reduce and close the hole as soon as possible.
2. Then humanity became aware of climate change as a consequence of human activity and the resulting emissions affecting global warming (Rio Summit, 1992; Paris Agreement, 2015). Despite detractors, mitigation strategies were promoted. Climate change has generated high temperatures, arctic melting, extreme weather events (natural disasters, droughts, floods) and a rise in sea level.
3. Environmental degradation is the degradation of humanity's natural capital: land, water, mineral resources, fossil resources, and brings with it historically high levels of pollution.

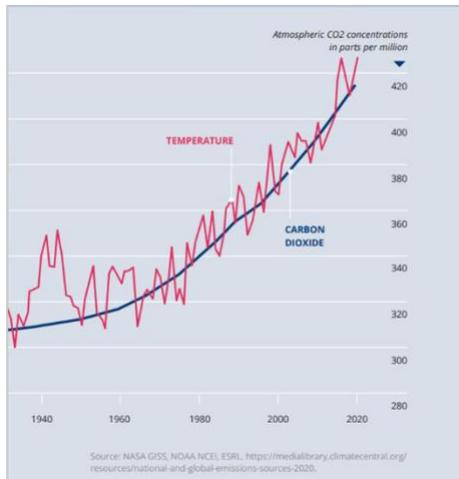
The following graph summarizes the three elements by illustrating the change in carbon dioxide concentration in atmospheric parts per million and in the earth's surface temperature.

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<sup>1</sup> The opinions expressed in this article are the sole responsibility of the author and do not commit the OAS.

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<sup>3</sup> See, for example: [Office of the Director of National Intelligence - Global Trends \(dni.gov\)](#), and [From ozone to oxygen | UBS Global](#)



Both climate change and environmental degradation result in recurrent food security crises, sanitation-related crises, health crises, and waves of climate refugees, among other serious impacts.

Every year droughts, floods and other natural disasters cause the migration of tens of millions of the poorest and most vulnerable people on the planet. If the fabric breaks at its weakest node, this translates into humanity breaking its social fabric year after year. As if our norms of interaction with the environment were not perverse enough, our norms of social interaction do not recognize those vulnerable people who migrate every year as refugees, leaving them absolutely outside the possibility of protection by a State after their own failed to protect them.

The other perverse effects that I do not detail have generated a growing struggle for new rules of interaction with the environment. New policies are proposed to mitigate the effects and to adapt to phenomena that are irreversible in the short term, and even for slightly longer periods.<sup>4</sup>

### **We are in transition to new global, regional, national, and local standards and new mitigation and adaptation policies.**

In this transition, some dilemmas may arise<sup>5</sup>:

1. Without sustainable technologies, growth generates loss of natural capital for next generations, climate change, and natural degradation for current and future generations.
2. The development of new clean technologies for environmentally sustainable development may increase the concentration of wealth and inequality, while other technological changes are already underway (digitalization, automation, among others). Without inclusion and equity, unequal growth generates a loss of social cohesion, social capital and social acceptance. This delegitimizes governments and democracy itself for not being able to respond effectively and efficiently to these problems.
3. Without growth, neither environmental transition nor social sustainability can be financed.

How can these dilemmas be resolved?

It is necessary to define some premises to guide the solutions:

- a. It must be recognized that **we are facing complex problems**, that is, problems characterized by multiple actors involved, with different capacities of agency, in multiple interactions that determine the dynamics of the problem. The vision of the 1980s "we must close the ozone hole" is notoriously simplistic. We are facing a system of systemic perverse behaviors.<sup>6</sup>

The interrelation between agents, phenomena and variables and the feedback systems between them characterizes the problem as a complex problem and as such it must be faced.

<sup>4</sup> See for example: [\\*IPCC\\_AR6\\_WGIII\\_FinalDraft\\_FullReport.pdf](#)

<sup>5</sup> See for example: [A sustainable, inclusive, and growing future for the United States | McKinsey](#)

<sup>6</sup> [From ozone to oxygen | UBS Global](#), for example, refers to it as a "system of system failure"

It is necessary to focus on the alignment of the expected results with the process and how the interactions between agents with different objectives and positions of power determine the process. We are facing problems that involve multiple national legislations, multiple codes of conduct and social norms, multiple agents of change and agents that resist change and are tied to the status quo.

How can these multiple factors be made compatible and aligned towards sustainable development?

Changes are needed in the incentive system, both in formal institutions and in social norms. And there needs to be global, regional, national and local contagion of these changes in formal and informal institutions.

This is a complex contagion and needs to be approached as such. Centralized and coordinated actions are needed at the global level, but at the same time decentralized actions are needed at the national and local levels, considering the close set of interactions and their relationship with external and global interactions.

As pointed out by the Intergovernmental Panel on Climate Change (October 2021)<sup>7</sup> "*Maximizing synergies and avoiding trade-offs pose particular challenges for developing countries*".

At this point, it is not useless to point out the particular vulnerabilities of some countries, such as the Caribbean islands in the Americas region, which face recurrent natural disasters.

To simplify, not only is it necessary to coordinate and align governments considering the weaknesses of developing countries in general and, in particular, the most vulnerable countries in the Caribbean and other regions of the planet, but it is also necessary to align the objectives of the private sector with those of the public sector at the global, national and local levels.

**Moral and pecuniary incentives matter**, regulations, public budgets, action on private spending behavior patterns, and tax systems are privileged tools to promote complex contagions and maximize synergies.

b. **Resilience of the response system without overlapping multiple solutions is needed.** Courses of action should simplify and not make regulations, taxation and standards more complex.

Governments must design a policy and financing architecture<sup>8</sup> for societies to be resilient in this transition, as well as for the recurrent shocks they face. As in other transitions<sup>9</sup>, they must manage risks and uncertainties, design policies for productivity-enhancing growth and public finances and prevent the perverse effects of each transition from accumulating and reinforcing each other. In other words, the cascading effects of these effects must be avoided.

Most of the time, governments tend to believe that the shocks they receive are transitory and therefore take transitory measures. We all know that there is nothing more permanent than what is proposed as transitory. And so, countries are transformed into a set of rules, expenditures

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<sup>7</sup> [\\*IPCC\\_AR6\\_WGIII\\_FinalDraft\\_FullReport.pdf](#)

<sup>8</sup> The concept of architecture refers to the wise combination of scientific knowledge and art (knowing how to manage the governance of the specificities of each country).

<sup>9</sup> For example, technological and productive and labor market transitions related to new technologies and the relocation of firm activities.

and forms of financing that accumulate and overlap over time until they finally reach a point where a fiscal, tax or any other reform becomes essential.

Governments are not irrational, most of the time they do it because it has become almost a "revealed truth" that structural reforms have an obvious immediate cost, and the benefit is in the longer term. And no government wants to assume that political cost.

The multiplicity of challenges that the region faces and will face in the coming years makes the concepts of transitory and permanent that we economists tend to use absolutely irrelevant. Shocks of various kinds will overlap in different time windows because we are facing multiple transitions. And this brings us to the reason for this second premise: **neither transitory nor permanent measures are necessary, but a resilient system.**

c. At the same time, **it is necessary to prioritize and sequence the actions** to be taken and face fiscal and tax regulatory changes that do not generate undesired effects on the behavior of the private sector. In fact, the opposite should be sought: to align the objectives of the private sector with those of the public sector. Rules of the game must be established that take into account the risks of social and environmental sustainability.

In this sense, in a prioritization and sequencing scheme it is necessary to remember that:

- i. Regulatory changes that promote changes in business processes and consumer consumption habits are costly.
- ii. Changes in the public budget are difficult due to the high initial component of the budget in all countries, and the increase in public spending may affect the fiscal sustainability of the measures, generating undesired behavior in the private sector.
- iii. Therefore, it is necessary to prioritize sustainable growth policies through investment incentives so that new investments comply with environmental and social sustainability and at the same time guarantee the growth that can finance the costs associated with regulatory and budgetary changes.

To attract investments that lead to inclusive and sustainable growth, two types of actions are needed that are not mutually exclusive:

1. Breaking with slow growth trajectories in the region and the emergence of new trajectories will depend on human competencies and skills, productive capacities in infrastructure, organizational capacity and the characteristics of each country's institutions and social norms. For the sake of simplicity let me call these elements the Specific Assets of a country or region. The difference between countries in terms of Specific Assets related to changes in technological and employment trajectories will impact on competitiveness and lead to the relocation of business activities between these countries. Identifying and designing policies for the development of these specific assets is a priority.
2. Design investment incentives that reward productive processes and results aligned with environmental sustainability and inclusive growth.

In a future article I will focus on this last alternative, the design of a tax system with investment incentives that is resilient and promotes investment for sustainable and inclusive growth.