

Dr Vijay Kelkar on Inclusive Green Growth

TERI: *The concept of 'green growth' had its genesis in the vision underlying the recommendations of the Thirteenth Finance Commission (TFC), where the concept was articulated as, rethinking growth strategies with regard to their impact[s] on environmental sustainability and the environmental resources availability to poor and vulnerable groups. What inspired TFC to consider Green Growth as its vision?*

Vijay Kelkar: The Commission was looking for an overall approach that would serve as an organizing principle in the context of fiscal federalism in India. The Commission came to the conclusion that 'growth' could be a key organizing principle in the context of India. This growth could be characterized by two things. First, this growth should not be indiscriminate in nature, but should be 'green' in the sense of economizing environmental resource utilization. Second, this growth should be inclusive in nature. India is a federal state, which is characterized by one of the highest inequality levels in the world, with a difference in per capita income ratio of 6:1. When compared to other federal states, such as Germany, Switzerland, USA, and Canada, it is clear that we should have done better. Growth in India should be inclusive over space and consider making lagging regions a part of growth process.



TERI: *In recent global debates, the concept of Green Growth per se has acquired a new 'political' meaning. For example, during the Rio +20 deliberations, many developing countries in particular considered green growth as a possible compromise against their other inclusive growth or social policies. What is your comment on that?*

Vijay Kelkar: I think the reason why there are growing concerns is because countries like India are undergoing a demographic transition, which is opening new avenues for economic growth that these economies did not have earlier.

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Countries may be concerned about losing this growth window. Green growth should not be seen as a political concept as it is no different from the concept of high-quality growth that does not omit environmental concerns from deliberations on progress. That is the reason they are saying, please do not use this constraint on growth. There is no rationale as to why countries cannot yield dividends following growth and development, which is both green and inclusive.

TERI: *You played an instrumental role as an architect of the National Exploration and Licensing Policy (NELP) that promoted competitiveness in the Indian hydrocarbon industry. Green growth and development is also about enhancing the competitiveness of domestic industries; what lessons from your international experience could be useful for India?*

Vijay Kelkar: Japan was one of the earlier movers as a country that started talking about green growth. It is inspiring to see a country that is resource-poor, in terms of natural resources, achieve high quality growth. By using technology, innovation, and promoting policies that have enhanced the competitiveness of domestic firms, Japan has been able to participate in international trade with many nations. India, in my view, is a rising trading power and can create new avenues of growth by trading in goods that economize on resource consumption. India can also trade in labour-intensive and skill-intensive goods where we are competitive. We have a lot to learn from countries, such as Japan and South Korea, who are doing very well.

TERI: *What are the key aspects of growth and development in India? What emerging challenges is the country set to face? What innovations does the TFC suggest to address these challenges?*

Vijay Kelkar: I think the key aspects of growth are giving a much larger fiscal space to states, cities, and the third tier, because India has the challenge of different dimensions, with huge disparities among states, and to address these issues they are going to need resources. Growing urbanization will be one of the key defining challenges for the next two to three generations for which cities and municipalities will require resources. Innovation is required so that cities can grow in a way whereby they can be called green cities in terms of their demand and consumption of natural resources. Here, we should not adopt a straitjacket approach to all cities, but rather encourage innovations in individual cities.

Far more innovation has to be allowed at the state level, city level, and corporation level. In this regard, one of the innovations by the TFC is to give a larger resource base to not only the states, but also to the third tier of the country, which are the cities and the Panchayati Raj Institutions. If they are given more resources, then according to local conditions they can innovate to come with their own solutions. A predictable, sufficient, and secure fiscal base is required to secure local public goods for green growth, with state grants linked to their environmental performance. One of the key innovations of the TFC was goods and services tax

(GST), for providing lasting resource base to facilitate such innovations by states and third tiers of the government.

Provisions under the 72nd and 73rd Constitutional Amendments give the basis for strengthening the third tier of the government, which are rural-local bodies (Panchayats) and urban local bodies (Municipalities). These provisions have still not been implemented adequately. I called this the unfinished agenda of Rajiv Gandhi, who had emphasized the transfer of funds, functions, and functionaries to the third tier. According to the basic philosophy of the TFC, once the funds are transferred to the local level, functions will greatly follow. Therefore, funds become the driver of the change.

Of course, ensuring fiscal discipline in terms of the use of these funds is a challenge and they should be well directed, otherwise they will prove to be wasteful like subsidies. All subsidies are environmentally unfriendly; subsidizing fertilizers destroys the soil, subsidizing electricity leads to over exploitation of ground water, and subsidizing kerosene leads to adulteration and causes greater air pollution. Instead of subsidizing inputs, direct income transfers could lead to growth and development, and the protection of vulnerable groups. A good fiscal arrangement along with the required social safety nets could lead to inclusive and green growth or, in other words, high quality growth.

TERI: *In your opinion, you talk about factor reforms in the context of growth and development. How do you view these in the present context?*

Vijay Kelkar: I think that the factor reforms in the context of India are very important, including land reforms, labour market reforms, and capital market reforms. In case of India, there is no regulated land market, and absence of land records often leads to conflicts. Labour market reforms are essential, especially if the country want to reap demographic dividend. For this, labour laws are important to ensure high productivity employment in the country. Asian tigers including a country like Vietnam have been successful in labour market reforms and could serve as a useful model for India. Similarly, capital market reforms are important to ensure well-functioning markets and promote efficiency and productivity in firms. Natural resources also should be considered as a part of the factor reforms to ensure green growth and development in India.

TERI: *What is your opinion on the role of the knowledge community in India?*

Vijay Kelkar: My mentor, Mr Lovraj Kumar, would always tell me, “Vijay, in an open society, more knowledge needs to be mobilized.” Knowledge communities are important for facilitating debates that lead to the formulation of good policies. They also give feedback to policy-makers so that early corrections can take place. TERI is a role model for think tanks in India. And, I want to place, on record, my deep appreciation for Dr Pachauri for creating such a world-class institution, and I wish there are more institutes like TERI.



An early initiative was a small think tank called the 21st century Foundation that was started by Dr Pachauri and some of us. The foundation would bring out a series of policy papers as an input for the government. Some of them were used and some of them were not. Independent think tanks like TERI play a central role. I am currently involved with a think tank called the India Development Foundation, working in the area of education, security, and issues of social development.

TERI: Finally, how optimistic are you about the Indian growth story?

Vijay Kelkar: I am very optimistic about the Indian growth story. What is going on in this country is like *Manthan*, which produced first poison and then ambrosia. In the mythology, the poison was taken by Lord Shankar; in the case of our country, it may be the people of India who are taking the poison. However, the new generation inspires optimism — they are global, ambitious, and knowledgeable. I just close my eyes and imagine... one billion educated Indians will mean more innovation and democratic institutions — who can stop us?

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