



Complication in GST leads to federalism concerns

sanskritias.com/current-affairs/complication-in-gst-leads-to-federalism-concerns

(Mains GS 2 & 3 : issues and challenges pertaining to the federal structure, devolution of powers and finances up to local levels and challenges therein & Indian Economy and issues relating to planning, mobilisation of resources, growth, development and employment.)

Context:

- The 43rd meeting of the Goods and Services Tax (GST) Council is to be held on May 28.
- The GST Council was mandated to meet at least once every quarter, but it had not met for two quarters, ostensibly due to the pandemic.
- Several states implored the Finance Minister to convene the GST meeting to help them manage their finances as states are dependent on GST collections for nearly half of their tax revenues.

States questions the spirit of cooperative federalism:

- The Kerala representative will attend the meeting to complain bitterly about the Centre reneging on its promise to pay guaranteed GST compensation to the States.
- The Chhattisgarh representative will question the Centre's sudden and stringent policy conditions to grant approval to States for extra borrowing in the middle of the pandemic last year.
- The Maharashtra minister will attend the meeting with a feeling of betrayal over how the States have been forced to pay a much higher price for COVID-19 vaccines than the Centre.
- The Punjab Finance Minister will be cognisant of how the Centre legislated new farm laws unilaterally that affected Punjab's farmers deeply.
- The Rajasthan representative will be aware of how a sudden lockdown imposed by the Centre with no consultations with the States threw millions of Rajasthani migrant workers in disarray.

- The Tamil Nadu representative will be wary of the Centre's duplicity in levying cesses that garner significant revenues for the Centre without sharing them with the States.
- The list is endless and these acts are not in the spirit of 'cooperative federalism'.

Cooperative federalism is beyond fiscal federalism:

- The catchy phrase 'cooperative federalism' was introduced into India's political lexicon to justify the transition to GST in 2017.
- But like other catchy phrases such as 'Minimum government, maximum governance' and 'Make in India', this too has turned out to be an underperformer.
- Cooperative federalism has a larger meaning beyond just fiscal federalism.
- It also entails cooperative political, administrative and governance federalism between the States and the Centre.

The Trust Game:

- The GST Council is not an inanimate economic body rather it is a compact of trust between the States and the Centre, set in the larger context of India's polity.
- Behavioural economists, such as the Nobel Laureate, Daniel Kahneman, have articulated the critical role of the twin attributes of 'trust' and 'trustworthiness' among heterogeneous participants in an economy.
- Using a tool called 'The Trust Game', they have demonstrated that the motive of 'altruism' leads to the most optimal economic outcome for everyone in the group while a motive of 'spite' leads to the worst outcome for all.
- The tragedy of the GST Council is that it is afflicted with spite and forced to function under the prevailing cloud of vendetta politics.
- If the functioning of the GST Council is subject to the vagaries of elections and consequent vendetta politics, GST will continue to be just a caricature of its initial promise.

GST is not fully successful in India:

- The 15th Finance Commission report formally acknowledges that GST did not deliver on its early promises, especially the economic front.
- GST was supposed to be the panacea for India's throttled economy to deliver enormous economic efficiency gains, improve tax buoyancy and collections, boost GDP growth and usher in greater formalisation of the economy.
- But three years after its launch and even before COVID-19, GST had not performed optimally on all those promises.

Problems underpinning GST:

- Economists and commentators point to the multiple rates structure, high tax slabs and the complexity of tax filings as the problems underpinning India's GST.
- These were indeed the initial problems in the way GST was implemented, leading to some of its current woes.
- But now, GST has a more fundamental problem — the erosion of 'trust' and 'trustworthiness' between the States and the Centre.
- Technical fixes such as simplification of GST rates and tax filing systems to restore GST to its initial promise is akin to applying a pain balm to an injury that needs surgery.

States gains are invisible:

- The States paid a huge price for GST in terms of loss of fiscal autonomy.
- The promised economic gains are invisible which undermine India's federalism.
- GST has endured so far primarily because the States were guaranteed a 14% growth in their tax revenues every year, which minimised their risks of this new experiment and compensated for their loss of fiscal sovereignty.
- But this revenue guarantee ends in July 2022 which can lead to a crumbling of the precarious edifice on which GST stands today.

In India 'the economic is political':

- In a situation where the States face loss of motivation as they have no taxation powers, their GST revenues are uncertain, the supposed economic benefits seem phantom, and the hypocrisy of 'cooperative federalism' looms large,
- There seems very little motivation for the States to cooperate in a chase for an elusive economic goal by sacrificing their significant economic powers of taxation.
- Technocratic of GST failed to factor in India's unique political economy and its ramifications.
- Striking a balance among diverse interests of India's numerous parties in a larger political climate of spite and suspicion to arrive at a uniform tax policy for the nation is very complex.

Conclusion:

- India's grand GST experiment faces huge challenges especially of trust and trustworthiness.
- Thus a radical shift in India's federal politics needed along with extension of revenue guarantee for the States for another five years.

GST