

The Debate on GST*

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The debate so far on the [Goods and Services Tax](#) (GST) has been largely concerned with the question of compensation to the states for the losses they may suffer owing to the transition to a GST regime. The losses to states' exchequer arising from the fact that the revenue from a GST levied upon the final user would not accrue to the producing states in cases involving inter-state trade; the losses arising, even in the absence of inter-state trade, because of the sheer shift from the current tax regime to a GST regime; the length of the period over which the states are to be compensated for such losses; the mode of estimation of such losses: all these have captured attention in this debate. This of course is as it should be, since compensation to states which might suffer because of the transition is indubitably of over-riding concern.

There are however several other issues involved in this transition. Of these I shall discuss only two, which deserve much greater attention than they have received so far in the debate over the GST. The first of these is the loss of freedom for the states in deciding upon their tax-revenue mobilization strategies in the future. Within our federal polity where political parties contend for power at the Centre and in the states, democracy demands that the people must have meaningful choices. Their choice between different political parties must not get institutionally reduced to the same level as the choice between different varieties of detergents; and for this it is essential that the different political parties, which differ in their ideologies, must have the freedom to pursue their preferred economic strategies, including fiscal strategies, when they come to power. A GST with fixed rates, where the state governments do not have much freedom either to decide on the magnitude of tax revenue they will raise, or the manner in which they will raise it, amounts therefore to a fundamental denial of choice to the people, a basic attenuation of democracy. It amounts to ordaining that no difference will be made by the people's electoral choice; that, no matter whom they vote to power, the same fiscal policy, and hence broadly the same economic policy, will be followed.

True, petroleum products, alcohol for human consumption and tobacco have been kept out of the purview of the GST in order to provide some leeway for resource mobilization to the central and state governments; but the last two have been milked dry by now, and additional resource mobilization by using them has limited scope. And as regards petroleum products, since they belong to the class of "universal intermediaries", raising taxes on them has an inflationary potential. A progressive state government for instance would certainly prefer to raise additional revenue by increasing the indirect taxes on luxury goods rather than by raising petro-product prices; but this is precisely what the GST regime prevents it from doing.

In other words, quite apart from the question of compensation for the states for possible losses in moving away from the existing regime to a GST, i.e. even if there were no losses at all, or there was full compensation ad infinitum, there is a further issue involved in moving to a GST, which relates to centralization and constriction of democracy. Some may feel that since the GST rate on particular commodities can be changed by appealing to the GST council, where not only the central government but also state governments would be represented, this argument about constriction of democracy is over-stated. But the very fact of an elected state government having to petition the GST council, where the central and state governments with ideologies

quite different from its own are represented, for pursuing a fiscal strategy of its choice, is itself a constriction of democracy.

Of course, the danger I am pointing to would not exist if the GST regime provided for only a floor VAT rate for each commodity (which would prevent state governments from vying with one another for attracting private investment by lowering taxes), and if the states were allowed to impose any rate of their own over and above this floor rate. Such a scheme has indeed been suggested by many economists and is also the practice in many countries. But the whole argument for the GST which is being emphasized by its proponents in our country is that it would bring about uniform rates for each commodity across the entire country, and thereby unify the national market; hence the GST regime we are supposed to be moving to is not a “floor-rate-plus-what-you-like” regime. The fear of constriction of democracy is thus very real.

What is equally disturbing is that the GST regime is being pushed with the help of arguments which are utterly spurious. Claims that a transition to GST will increase GDP growth by so-much percentage, that it will bring down inflation, that it will raise revenue by so-much percent, are too absurd to take seriously; but they are nonetheless being assiduously advanced. Agencies of the government that cannot even agree on what the actually achieved growth rate was last year, are in remarkable agreement that the GST will raise the future growth rate each year by so-many percentage points. The hard-sell for the GST is indeed striking.

But, leaving aside these vapid arguments, a more serious point that is persistently made is that it would create a unified national market. It is of course absurd to suggest that India does not have a unified national market at present and must await the GST to have one; but a plethora of tax rates prevailing in different states for the same commodity does appear “irrational” at first sight. On closer reflection, however, one sees the vacuity of this argument. It would follow on these grounds for instance that even having a plethora of state governments, instead of a single national government running a unitary system, should appear “irrational”; likewise, having a parliamentary system with dispersed power centres instead of a Presidential system, with a concentration of power and decision-making within one authority, should also appear “irrational”. Indeed any democratic decision-making with a dispersal of power instead of its concentration, should appear “irrational”. But countries have to give themselves institutions not on the basis of whether they appear “rational” to the capitalists and their spokesmen and controlled media, but on the basis of whether they strengthen democracy; and on this criterion, striving for a “unified national market” that capitalists would prefer, by eroding the power of state governments to impose taxes as they like, should be unacceptable.

Likewise the argument is advanced that a shift towards a GST regime is now the order of the day; it is what most countries are doing, and we should not lag behind. But this is a complete non-sequitur. A country has to follow those policies and economic regimes which are beneficial for its people, not those which everybody else is following. Emulating other countries’ behaviour, for which there are no good reasons anyway, becomes particularly absurd in the present context, since it is the Bretton Woods Institutions which have been promoting the GST, and it is their pressure, rather than any intellectual persuasiveness of the GST argument, which explains why so many countries have been adopting it. To say that we should have the GST because other countries have moved to it, is analogous therefore to saying that we should pursue neo-liberal policies because other countries too are doing so! In short, a whole

range of spurious arguments are being used to push the GST, while its implications in terms of constricting democracy by making people's electoral choices meaningless, are not being debated with the seriousness they deserve.

There is a second issue too that has not received adequate attention. Even though there has been no formal announcements on the question, the proponents of the GST would like not just uniformity in tax rates on particular commodities across states, but a uniformity across commodities as well. In other words they would like uniform tax rates, one for the SGST and one for CGST, that are applicable across all states and all commodities, or at the most a very limited number of rates for commodities. In countries where the GST has been introduced, there have indeed been just a few rates for commodities; and this is the "ideal" even here.

Let us examine the implications of this, first by assuming a uniform GST rate (CGST plus SGST). If this rate is to ensure "revenue-neutrality", i.e. that the same amount of revenue is raised as before, then obviously it has to be pitched somewhere between the maximum and the minimum commodity taxation rates that prevail at present. But since higher rates are typically imposed on luxury items while lower rates are imposed on goods and services considered "necessary", it follows that any "revenue-neutral" uniform rate must increase the rate on necessary goods and reduce the rate on luxuries. The shift from the current regime of a multiplicity of commodity taxation rates to a GST regime of a uniform taxation rate, therefore, must increase the tax burden on the poor, and reduce the tax burden on the rich. A uniform GST rate regime in short must be regressive in its distributive impact. And the same conclusion holds if we have not one uniform rate for all commodities but a limited number of rates.

It has been argued by some that a shift to a GST regime would be regressive since it would encourage reliance on indirect as opposed to direct taxation. In addition however such a shift would be regressive even within the universe of indirect taxation, because the multiplicity of rates would be replaced by one rate, or just a few rates.

The idea of taxing value added as distinct from the value of a commodity's output appears commendable. The problem however arises when this idea is sought to be yoked to a neo-liberal agenda of centralization, reduction in the powers of the states and effecting regressive distributional shifts. It is important to ensure that the introduction of value-added taxation is not made to serve a neo-liberal purpose. The argument "let-us-leave-all-these-issues-to-the-GST-council" may well be employed to serve the neo-liberal purpose through the back door. This too must be resisted.

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