Problem with India's GST

Why in news?

Recently the 43rd meeting of the Goods and Services Tax (GST) Council is held to discuss the various issues concerning the state.

What is the policy behind the GST council?

- The term cooperative federalism was phrased into India's political lexicon to justify the transition to GST in 2017.
- Cooperative federalism has a larger meaning and goes beyond fiscal federalism.
- It also entails cooperative political, administrative and governance federalism between the States and the Centre.
- Similarly other terms like Minimum government, maximum governance and Make in India was also used to support this.
- The sudden lockdown imposed by the centre with no consultations with the States threw millions of migrant workers in disarray.

How is the GST council functioning?

- The GST Council is not an inanimate economic body but it is a compact of trust between the States and the Centre.
- Behavioural economists suggest that the twin attributes of trust and trustworthiness among heterogeneous participants in an economy will lead to the most optimal economic outcome.
- But the tragedy is that the GST Council is forced to function under the prevailing cloud of vendetta politics and according to the vagaries of elections leading to a caricatured body.
- It was mandated to meet at least once every quarter, but it had not met for two quarters.
- The 15th Finance Commission report formally acknowledges that GST has been an economic failure and did not deliver on its early promises.
- Three years after its launch and even before COVID-19, GST had failed on all those promises- economic efficiency gains, tax buoyancy, boosting GDP growth and formalisation of economy.

What are the problems with GST?

- There is multiple rates structure with high tax slabs and there is complexity in the tax filings.
- Now, GST has a more fundamental problem — the erosion of trust and trustworthiness between the States and the Centre.
- The States has paid a huge price for GST in terms of loss of fiscal autonomy but the promised economic gains are not visible.
- GST has endured so far primarily because the states were guaranteed a 14% growth in their tax revenues every year to compensate the state for their loss of fiscal sovereignty.
- But this revenue guarantee ends in July 2022 which can affect the edifice on which GST stands today.

Source: The Hindu

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