

'RESTORATION OF TRUST BETWEEN STATES AND CENTRE ESSENTIAL FOR GST SYSTEM'

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

*The GST Council is meeting in Chandigarh on Tuesday and Wednesday even as the tax regime completes five years in operation on June 30. Opposition parties and States have serious concerns regarding the continuation of the indirect tax regime premised on 'one nation, one tax, one market' principle. **Praveen Chakravarty**, chairman of the Congress Data Analytics Department, was an early critic of the GST (Goods and Services Tax) regime. He thinks restoration of trust between the States and the Centre is essential for the smooth continuation of the GST system. Edited excerpts:*

You were sceptical when the GST regime was rolled out. You feel vindicated?

I wish I was proven wrong. My view on GST was shaped by my understanding of federalism, and by using an economic lense. Indian States are extremely diverse economically, apart from being politically diverse. GST was a misfit in India. India has political parties that are confined to the boundaries of particular States. I understated the ill-effects of GST in my original critique. They have only exacerbated in the last five years, partly due to the Centre's other centralising measures that accompanied the implementation of GST. The trust deficit between the Centre and the States has grown. I would not deny the fact that it is efficient. Efficiency comes at a certain cost though — political, social, and constitutional.

Will the GST system survive the current crisis?

The fact is that the country is half pregnant with the GST system, and we cannot go back. There are three issues that form the backdrop of the GST Council meeting this week. First is the complete breakdown of trust between the States and the Centre. Second is the Supreme Court order that said the Council's decisions are not binding on the States. Third is the lapsing of the revenue guarantee, which the Centre had promised the States for five years. I don't see GST will continue smoothly unless the trust issues are resolved, and the revenue guarantee is extended. Everybody acknowledges the fact that the GST regime has not lived up to the hype and hope.

'One nation, one market' — how has that idea evolved through the past five years, particularly through the pandemic?

The pandemic exposed GST's deficiencies. Had there been no GST, the States could have managed the situation better through their resource mobilisation and allocation. They ended up fighting with the Centre, and the Finance Minister invoked the Act of God principle to default on payments to them. Businesses are liking it for its efficiency. An economist would, however, not miss the point that its impact on the economy was not anywhere near the two percentage points (of growth) as was expected. The assumption that easy flow of goods across the country would boost growth did not turn out to be true. Maybe five years is early to make a judgment on that; maybe it will happen in the coming years.

Is there something that is happening in the Congress which championed GST while in power? Was this discussed at the Udaipur *Chintan Shivir* ?

I cannot disclose what was discussed in Udaipur, but can tell you that I discuss this issue internally in the party, as allowed. We must ask for a reassessment, re-evaluation of the GST as it stands today. Yes, the UPA government championed the GST, and the then Gujarat CM who happens to be PM today opposed it. In my defence, in the week of the launch of the GST, I, along with the current Finance Minister of Tamil Nadu PTR (Palanivel Thiagarajan), who was then an MLA, wrote a joint piece raising concerns.

Shall we say the views of the then PM were less accurate than the views of the then CM of Gujarat, when the idea of GST was taking shape?

The views of the current PM are less accurate than those of the current former PM. The notion that the crisis of GST is one of implementation is not true. GST implementation was shoddy, but the fundamental problem is that it is an economic square peg in the federal round hole. It would have been difficult for any government, and this government made it significantly worse, with a messy structure. I don't think even if the implementation had been smooth, there would have been no contestations.

Did Indian political parties fail to comprehend what was coming?

Economists and technocrats were viewing it through the prism of efficiency alone. They failed to see what it does to federalism, when regional parties see that they have no taxation powers.

Do you think the current GST regime can be rescued by tweaking it?

Restoration of trust is the most fundamental challenge. In order to reverse the centralising direction of governance, the Centre should consider giving States powers of direct taxation that they have only in agriculture.

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