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From Consensus to Control: The Political Project of GST in India

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Introduction

Historically, within Indian Federal Structures, the Union and individual State Governments have often been seen as maintaining a fragile balance over issue areas, including fiscal authority. Prior to GST implementation, both Entities shared Indirect Tax authority with States that had greater Indirect Tax authority than Union Tax authority for Central Excise Duty and Service Tax. This dual system often led to inefficient tax structures, cascading Tax Collection Processes, and barriers to the formation of a large national market.

GST is designed to provide a single tax structure that replaces many indirect Taxes. The economic rationale for GST was generally accepted, but its political significance lies in how its introduction restructured India's system of federalism in finance. GST was purported to be reflective of Collaborative Federalism - based upon negotiations and joint decision-making.

This paper argues, however, that that because GST has been increasingly centralizing the State Fiscal Authority, decreasing State Autonomy, and changing the role of the GST Council/GST, GST has created as many political processes as economic reform processes.

Evolution and Conceptual Framework of GST

The first proposal and plan for GST (Goods and Services Tax) for the Republic of India was introduced in the early 2000s to streamline indirect taxes. Following years of discussion, debate, and negotiation, GST was implemented on 1st July 2017.The basis of GST consists of a Dual Tax System, which has:
Central GST (CGST)
State GST (SGST)
Integrated GST (IGST)

The GST Council, a constitutional body formed to oversee the implementation of GST, is made up of members from both the Union and State Government, and has been created to make high-level decisions relating to the tax rate, exemptions, or tax administration.

The Conceptual foundation of GST was cooperative federalism, which was intended to see both governments working together as partners. The idea was for both levels of Government to work together in Joint decision making, Stakeholder sovereignty/ Shared Sovereignty, and Mutual Consultation. The phrase "One Nation-One Tax" symbolized the need for a single economic system.

GST as a Model of Cooperative Federalism

The implementation of the Goods and Services Tax is viewed as a successful example of cooperative federalism at the time of its introduction.

2.1 Institutional Mechanism: GST Council

The GST Council provides a mechanism for communication, discussion, and consensus between all parties involved with an equal 3/4 majority required on any decision of the Council; 1/3 of the votes will come from the Union and 2/3 will come from the States.

This arrangement provided for:

A voice for the states in decision-making

A process where the policies were developed through negotiation

Discussion/Negotiation as a process for resolving conflicts

2.2 Negotiated Reform

The agreement on the GST required extensive negotiations between the Union and the States on several points. The major compromises included:

Assurances of compensation for revenue losses

Flexibility of tax rates

Multiple tax slabs

2.3 Compensation Mechanism

The Union government guaranteed to the states that they would receive compensation for any revenue loss for five (5) years after the implementation of GST. This provision was critical to obtaining state support for GST.

Transition from Consensus to Control

Although part of a collaborative framework, GST has increasingly centralised its operational functions as indicated by the move from a consensus-based approach to a control based approach across a number of different aspects.

3.1 Reduction in the Ability of States to Raise Taxes

By incorporating the majority of the primary taxes of each state into the GST, and by preventing states from generating revenue outside the GST, states' ability to raise taxes has been materially decreased.Consequently,

State's Fiscal Policy Flexibility Has Been Reduced

State revenue generation Is Becoming More Dependent on GST

States Are No Longer Able to Easily Modify Their Tax Structures To Meet Local Needs.

3.2 Central Government Dominance

Although the GST Council is intended for the purpose of allowing for parity, it has been demonstrated that, due to the following reasons, the Union government is able to monopolize decision-making through:

First - setting the agenda; Second - maintaining control over the GST administrative structure; Third - possessing financial resources to influence the states.

In practice, decisions have most frequently demonstrated that the priorities of the central Government trump the autonomous rights of the states.

3.3 Uniformity & Standardization

The promotion of uniform rates and tax policies is restricting the variation in fiscal policy across states. Although this provides greater economic integration, it restricts states' ability to tailor their policies to their respective realities.

Understanding the GST Council's Role:

The GST Council is central to the study of the political issues associated with GST legislation. The council was designed as a consensus-based decision-making body; however, inconsistencies in how decisions are reached have raised concerns around this suggestion.

4.1 Voting Powers and Imbalance of Power

While all states together have greater voting power, the requirement for a three-fourths majority effectively gives the Union Government a veto.

4.2 Informal Pressures

In many cases, decisions made by the GST Council have involved informal negotiations and other forms of political pressure. States may believe they are under duress to agree with the decisions or wishes of the Union Government due to:

- Financial dependency,
- Political pressures,
- Administrative constraints; and

As a result of many issues, the GST Council has become increasingly centralized over time, with the majority of the decisions being made at the Union Government level rather than through a consensus process.

Impacts of the COVID-19 Pandemic on the GST

The COVID-19 pandemic highlighted the weaknesses inherent in the GST regime and the states' heavy reliance on the Union government.

5.1 Revenue Shortfalls

The economic recession led to a significant decline in GST receipts nationwide, resulting in a substantial reduction in states' GST revenue.

5.2 Disputes over Compensation

The Union government was unable to fulfill its commitments to provide compensation; this has resulted in considerable tension with the states. Further, the Union government's proposal to permit states to borrow to replace the shortfall through loans has exacerbated tensions between the Union and the states.

5.3 Fiscal Pressure on States

States have been under increased pressure due to the impact of the pandemic, while revenues have dropped; this has highlighted the issues created by the concentration of fiscal resources with the central Government through the goods and services tax system.

Transformation of Indian Federalism

The Goods and Services Tax (GST) has completely transformed Indian federalism. The traditional approach to fiscal federalism provided for the distribution of functions and has been superseded by a more integrated, but still much more centralized, system.

6.1 Cooperative versus Centralized Federalism

GST is said to be an example of cooperative federalism but the way it works today shows there is a strong character of centralised federalism with the Union Government being the most important part of the system.

6.2 Fiscal Dependency

The states are becoming increasingly reliant upon the Union Government for the following reasons:

-Revenue
-Compensatory payments
-Policy guidance

The reliance on the Union Government for revenue, compensatory payments, and policy guidance reduces the bargaining power of individual states and thereby diminishes the overall federation's strength.

6.3 Political Implications

The centralization of the fiscal power of the Government has significant political ramifications, including:

-Lessened accountability for state governments

-Greater influence of the Union Government over all aspects of Government

-The gradual erosion of the democratic decentralization of power within each state.

7. GST as a Political Initiative

The purpose of this paper is to argue that GST should be understood not only as an economic reform but also as an initiative aimed at changing how power operates within Indian society.

7.1 Fiscal Power Restructured

GST is evidence of a restructuring of fiscal power; it has consolidated indirect taxes, thereby increasing the powers of the Union (central) government.

7.2 New Institutional Framework

The constitutional creation of the GST Council has established a new institutional framework for the Union and State governments to interact in new ways.

7.3 Future Effects of GST

There are many long-term effects associated with the introduction of GST, including:

1. A movement towards centralized governance;
2. Changing nature of intergovernmental relations; and
3. A redefinition of federalism in India.

8. Challenges of GST in India

India's Goods and Services Tax (GST) is a major reform policy facing several problems of its own. One significant problem is that states are losing their fiscal autonomy and can no longer independently impose or modify the indirect taxes they collect, thereby increasing their dependency on the Union Government, especially for compensation during revenue shortfalls.

Another issue with the complexity of the GST is that the multiple tax slabs and frequent changes create confusion, thereby reducing efficiency. With respect to compliance, the burden on businesses is high because they must file returns and keep digital records

regularly. This can be particularly burdensome for the smaller and informal sectors of the economy, which may not have the resources or technical expertise to do so.

There are also many technical issues with the GST Network (GSTN), including problems with the portals and delays in implementation, hindering the implementation of the GST policy.The centralization of fiscal power within the Union Government, because this Government has a dominant role in the decision-making and authority over the GST Council, raises concerns as well. Additionally, states have difficulty planning within their budgets due to uncertainty about revenue generation during the period between their respective ends of the compensation period. Last, these challenges all reflect some of the structural and operational issues present in the GST System.

9. Way Forward

The Goods and Services Tax (GST) in India faces a number of problems and thus requires solutions that balance reform and structure to effectively address the problems within this system. Fiscal federalism has to be strengthened so that state governments can have greater flexibility in taxation and respond to their unique economic conditions with limited autonomy. The process by which the GST Council operates should be improved by having a more transparent and truly consultative process, and by ensuring that decisions are reached by consensus rather than through the dominance of the Union government.

The structure of the GST should be made simpler by reducing the number of different tax slabs and reducing the frequency of changes in tax rates, thereby improving compliance and facilitating business operations. The Government should make it easier for businesses to comply with the GST through streamlining return filing processes and providing training and other forms of support for small and medium-sized enterprises (SMEs) to help them successfully implement GST through digital means.

Having a dependable and steady revenue stream from which to derive taxes is vital for any government. To this end, states should be supported in their attempts to stabilize revenue as they experience fluctuations in revenue. Achieving this may require extending or modifying the current compensation scheme.

Another aspect of the GST that requires attention is the GST Network (GSTN). The current infrastructure of the GSTN is inadequate for addressing current concerns and

needs improvement. One of the final components necessary to ensure compliance with the GST is to increase the taxpayer's awareness of the GST and provide training to help the taxpayer understand its requirements. The reforms listed above are critical to ensuring that the GST remains efficient, fair, and cooperative.

10. Conclusion

GST represents a major step forward in India's economy and politics. GST has unified India's tax system and created economic unity for the country. The GST has also altered India's federal character. Initially, the GST illustrated the principles of cooperative federalism but has shifted in nature from cooperative to centralized control. The GST, as it is centrally administered, demonstrates a major transition in India's political and institutional environment from cooperation to control.

This paper illustrates that the GST is not just a fiscal policy change but also a political initiative that is altering how the Union and State governments interact. The longer-term implications of GST will affect how India defines its democracy and how federalism is understood. The ongoing viability of India's federalism will be largely determined by a careful balancing of the positive attributes of GST while preserving the autonomy of the states.

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