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GST Revenue trends and Public Expenditure - Linkages between Tax Mobilization and welfare spending.

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Abstract

The Goods and Services Tax (GST), introduced in India in July 2017, marked a major turning point in the country's fiscal architecture. By replacing a fragmented indirect tax system with a unified structure, GST aimed to improve compliance, expand the tax base, and strengthen revenue collection. Over the years, GST has evolved from a system struggling with implementation issues to one that consistently generates substantial revenue. This paper examines GST revenue trends in India and explores how these trends relate to public expenditure, particularly welfare spending. The discussion highlights that while GST has improved fiscal capacity, its ability to support welfare programs depends on broader policy choices, economic cycles, and governance quality. The paper argues that GST's true value lies not just in revenue generation, but in how effectively those revenues are translated into social outcomes.

Keywords: Goods and Services Tax (GST), Tax Mobilization, Public Expenditure, Welfare Spending, Fiscal Policy, Revenue Trends.

Introduction

India's tax system has undergone several reforms, but few have been as ambitious as the introduction of GST. Before 2017, businesses had to navigate a maze of taxes imposed by both the central and state governments. This not only increased compliance costs but also created inefficiencies due to the cascading effect of taxes. GST was introduced to simplify this structure and bring uniformity across the country.

At the same time, the government's responsibility toward welfare spending has grown significantly. Programs related to healthcare, education, rural employment, and food security require substantial financial resources. This makes the relationship between tax revenue and public expenditure especially important.What makes GST particularly

interesting is that it sits at the intersection of efficiency and equity. On one hand, it is designed to maximize revenue collection; on the other, it raises concerns about fairness, especially for lower-income households. Understanding how GST revenues are generated and how they support public spending is therefore crucial for evaluating India's development trajectory.

GST Revenue Trends in India

The journey of GST revenue in India has not been linear. The initial years were marked by uncertainty, but over time, the system has shown resilience and growth.

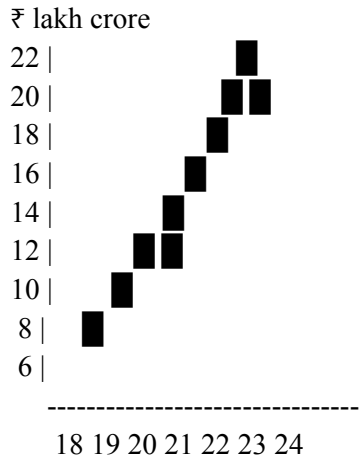
Table 1: Annual GST Revenue Collections (India)

Year	GST Revenue (₹ lakh crore)
2017–18*	7.19
2018–19	11.77
2019–20	12.22
2020–21	11.37 (COVID impact)
2021–22	14.83
2022–23	18.08
2023–24	~20.18

(*GST implemented from July 2017)

What stands out from this table is the dip during the pandemic year, followed by a strong recovery. This suggests that GST revenues are closely tied to economic activity, particularly consumption.

Graph 1: GST Revenue Trend (Simplified)



This upward trend after 2021 reflects improved compliance, economic recovery, and increased formalization. Another important feature is the consistency in monthly collections in recent years. Several months have recorded collections exceeding ₹1.5 lakh crore, which would have seemed unrealistic in the early days of GST.

Understanding the Growth in GST Revenue

The steady improvement in GST collections is not accidental. It is the result of multiple factors working together.First, compliance has improved significantly due to digitisation. The introduction of e-invoicing and better tracking systems has made it harder to evade taxes. Second, the expansion of the formal economy has brought more businesses into the tax net. Third, policy adjustments by the GST Council have gradually streamlined the system.However, it is also important to recognise that GST revenue is sensitive to economic conditions. During periods of slowdown, consumption falls, and so does tax collection. This makes GST both a strength and a vulnerability in fiscal planning.

Public Expenditure in India: A Changing Landscape

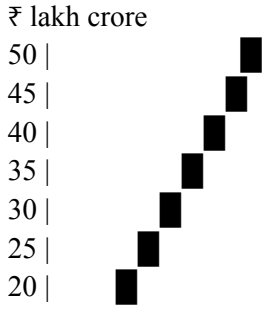
While GST revenue has been growing, public expenditure has also expanded, reflecting the government's increasing role in economic and social development.

Table 2: Government Expenditure Trends (₹ lakh crore)

Year	Total Expenditure	Welfare Expenditure (Approx %)
2017–18	21.4	~25%
2019–20	26.9	~27%
2020–21	34.5	~32% (COVID response)
2022–23	39.4	~28%
2023–24	45.0+	~27%

The spike in 2020–21 reflects emergency spending during the pandemic, including food distribution and cash transfers.

Graph 2: Public Expenditure Growth



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18 19 20 21 22 23 24

This steady rise indicates that the government's spending commitments are increasing, particularly in welfare and infrastructure.

Linking GST Revenue with Welfare Spending

The connection between GST revenue and welfare spending is not always direct, but it is undeniably important. When GST collections increase, the government has more financial room to expand its programs. This is often referred to as "fiscal space."

For instance, higher revenues after 2021 coincided with increased spending on infrastructure and continued support for welfare schemes. However, it would be misleading to assume a one-to-one relationship. Government spending decisions depend on multiple factors, including political priorities, fiscal deficits, and borrowing capacity.

One of the interesting aspects of GST is that, despite being a consumption tax, it indirectly supports redistribution. The tax itself may place a burden on consumers, but the revenue generated can be used to fund programs that benefit lower-income groups. In this way, the overall fiscal system balances efficiency with equity.

Challenges in the GST–Expenditure Relationship

Despite the progress made, several challenges continue to affect how GST revenue translates into public spending.

One major issue is revenue uncertainty. While collections have been strong in recent years, they can fluctuate with economic conditions. This makes it difficult to plan long-term welfare programs.

Another challenge is the federal structure of GST. Since revenues are shared between the central and state governments, disagreements can arise, particularly regarding compensation. These tensions can affect state-level spending, especially in welfare sectors like health and education.

Administrative complexity is another concern. Although technology has improved compliance, the system is still evolving. Small businesses often struggle with compliance requirements.

Policy Reflections

Looking ahead, there are several ways in which the GST system can be strengthened to better support public expenditure.

Simplifying the rate structure could improve compliance and reduce confusion. At the same time, expanding the tax base by reducing exemptions could increase revenue, although this must be done carefully to avoid burdening vulnerable groups.

Improving transparency in how tax revenues are used could also strengthen public trust. When taxpayers see a clear link between the taxes they pay and the services they receive, compliance tends to improve.

Finally, better coordination between tax policy and expenditure planning is essential. GST should not be viewed in isolation but as part of a broader fiscal strategy aimed at inclusive growth.

Conclusion

The experience of GST in India offers valuable insights into the relationship between tax reform and public expenditure. While the initial years were challenging, the system has gradually stabilised and emerged as a key source of revenue.

The data clearly shows that GST has enhanced the government's fiscal capacity. However, the extent to which this translates into improved welfare outcomes depends on how effectively the revenues are utilised. Taxation alone cannot ensure development; it must be complemented by well-designed and efficiently implemented public spending.

In many ways, GST represents both an opportunity and a responsibility. It provides the government with the resources needed to address social and economic challenges, but it also demands careful management to ensure fairness and sustainability.

As India continues to evolve, the success of GST will ultimately be judged not just by how much revenue it generates, but by how meaningfully it contributes to improving people's lives.

To further deepen the analysis, it is useful to consider the long-term implications of GST on India's fiscal sustainability and development outcomes. As GST continues to mature, its role is likely to extend beyond revenue generation toward shaping economic behaviour and strengthening institutional capacity. A stable and predictable GST regime can improve investor confidence, encourage formalisation, and enhance the overall efficiency of the economy. At the same time, the effectiveness of GST in supporting welfare spending will increasingly depend on how well fiscal policy adapts to emerging challenges such as income inequality, demographic changes, and technological disruption. There is also a growing need to align GST reforms with broader development goals, including sustainable growth and social inclusion. In this context, improving coordination between the central and state governments, ensuring timely revenue sharing, and maintaining transparency in public spending will be critical. Ultimately, the success of GST should not be measured solely by higher revenue collections, but by its contribution to building a more equitable and resilient economy where tax resources are effectively translated into tangible improvements in citizens' quality of life.

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