

CAPITAL CALCULUS

ANIL PADMANABHAN



Read Anil Padmanabhan's earlier columns at
livemint.com/capitalcalculus

GST: AN IDEA WHOSE TIME HAS COME



Sushma
Swaraj
targets
Meira
Kumar using
2013 Lok
Sabha video
bit.ly/2sF6Pg8

We are now just days away from the rollout of the goods and services tax (GST) on 1 July—the most ambitious indirect tax reform ever attempted in modern India.

Yes, the design is far from perfect (given the multiplicity of rates), yet it is a visionary idea on which, amazingly, there is political consensus—something so rare, given that, like the rest of the world, India too has transitioned to a binary discourse.

This game changing moment is best summed up in the immortal lines of Victor Hugo: “Nothing is more powerful than an idea whose time has come.”

Why so?

First, it will economically unify the country. At the moment, politically India is united but operates as 32 independent economic territories, imposing a range of taxes and levies as the goods move through the country causing a cascading of taxes. Not only will this end the diseconomy induced by dealing with sovereign republics to conduct business, making the country more competitive, it will also reinforce the political unity of India—something that has always been threatened by external influences.

Second, flowing from the above, the implementation of GST will reorder the existing federal polity. The formation of the GST Council, described as India's first federal institution by Jammu and Kashmir finance minister Haseeb Drabu (bit.ly/2sGOX6G), was the first step. For most of Independent India's history, the country has come to accept a strong Union government dictating economic governance to the states. All this has changed.

Ever since the creation of the GST Council, the federal economic relationship has begun to alter. This is largely because GST would not have been possible without a pooling of sovereignties—the Union and state governments have compromised on their individual taxation powers for the larger global good of India.

It has sown the seeds of genuine cooperative federalism. The new template is akin to a three-legged race: united they stand, divided they fall.

Third, by its very design the GST will put in place an audit trail, a precondition to a rules-based regime. The demonetization of high value currency notes last year put the spotlight on the cash economy. The introduction of GST reiterates the intent of the country to transition to a less-cash economy or at the least an economy in one which there is a clear record of the transaction trail (exactly why some sections of traders are unhappy). This is a big leg-up for efforts to end the exception-based regime a fallout of which is crony capitalism.

Fourth, the fitting of various goods and services in the tax slabs, reflects a contemporary consumption trend. It is a tacit acceptance of the fundamental transformation of consumption habits in the country. For instance in the 1990s, the cell phone was a sign of affluence, today about 300-400 million people use a smartphone and the balance 500 million own a basic cell phone. The 2011 Census showed us that the India had materially traded up; abject poverty is no longer the development challenge, instead, as the middle class burgeons, it is inequality. The incoming indirect tax regime acknowledges this new status of the middle class.

Fifth, and finally, the process through which the GST was laid out serves as a new template for political discourse. In what is a seemingly confrontational environment the GST Council passed every decision with consensus, despite testing moments. It demonstrates the willingness of India's political parties to forge consensus for the sake of national interest.

To sum up then, the implementation of GST would be the moment when India hits the reset button.

Now all eyes are on 1 July.

Anil Padmanabhan is executive editor of Mint and writes every week on the intersection of politics and economics.

His Twitter handle is @capitalcalculus.

Respond to this column at anil.p@livemint.com.

arket
on

said that the
is historic
mination of
5-year long
ers' cause".
dnavis had
waiver was

it farmers in
it the fire of
ave not got
ded. I know
but unlike
Party (BJP)
obably lack
ie here, I am
with your
continue to
nket loan
y told farm-
Puntamba