

GST Compensation acquires hues of 'Fiscal Apartheid'!

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FOR

the Union of India, GST compensation is fast turning into a Sisyphean project! A blizzard of misinformation coupled with acerbic comments from several quarters of political reckoning has further muddled the already-turbid waters! Going by the number of open letters being sent by the State Chief Ministers to the Prime Minister, a streak of political hysteria appears to gathering avoidable momentum over the weeks. Many State Finance Ministers have been howling at high decibel and calling the two options proposed by the Centre as an 'act of fraud'! About a dozen States are now on record, describing the pre-GST commitment of the Centre as the one that rings hollow today! Vilifications and pillories have clearly come out as poisonous agendas for many! One of the Chief Ministers, failing to cloak his partisan political view, went to the extent of suggesting a backpedal to the older regime as he thinks that GST is not working and the States are being subjected to 'fiscal apartheid'! In another case, the Centre has been accused of incessant lying on the searing issue.

In a nutshell, the Union of India is being showcased as if the 'emperor' has no clothes!

For many States including some of BJP-ruled ones, the cocktail which followed the introduction of GST in 2017, is fast losing its potency! GST has become a much-maligned tax system as it has failed to yield the required tax revenue @ 14% for the States! But the larger question before the Nation is - Is such fearmongering without any substance? Has Centre really erred in handling such a politically sensitive issue? Was the commitment of compensation built of political strawmen? All such questions and accusing fingers, I am sure, must be turning and tossing Mr Jaitley in his 'bed'! Though richly effusive remarks were made about him on his first death anniversary recently but what would perhaps have amounted to honest tributes to his 'consensus-filled soul' was a sincere attempt to nip in the bud the boiling controversies over the compensation issue!

Mr Arun Jaitley was not only an affable politician but also a quick learner. And he had learnt many lessons from Pranab Da. When the issue of compensation was, for the first time, pushed on his table in the Finance Minister's room, he had called for a tête-à-tête with key officials in 2011. Many had suggested that the Empowered Committee's demand to put it in the Constitution Amendment Bill may be conceded. But, the political acumen in Dada advised him that any default at any point of time shall amount to sovereign default but sovereigns, by character and definition, are above all defaults! Rather default is an alien expression for the sovereign!

Thus, a consensus was built to legislate the same but not to put it in the Constitution! So, when the time ripened and the forces of history sided with Mr Jaitley, who brought all States on the same page, he did not sidestep the lesson learnt from what Pranab Da had done in the past! And the compensation issue was not annexed with any Article of the Constitution and put as

[Section 18 of the 101st Constitution Amendment Act, 2016](#)

. An exit route was designed in the form of a separate legislation which created a dedicated FUND with a faucet i.e Compensation Cess on sin and luxury goods!

And it was a masterstroke from Mr Jaitley who had refined his art of weaponising his ability to build consensus. Politics by consensus among the sovereigns resulted in pooling of sovereignty (the taxing rights) which finally produced GST. It also came to be described as 'cooperative federalism' which many State FMs now think, is being weaponised into 'coercive federalism'! Consensual politics is known for its virtues but it also has

certain 'vices' such as extracting promises of discipline from politically 'indisciplined'; shedding skin of autocratic decision-making; showing respect for part of sovereignty, already pooled to a larger bucket and not to fecklessly politicise policy issues!

Unfortunately, fuller expressions of all these 'vices' appear to be emanating from the on-going skirmishes! Tweets by some of State FMs have literally invented a troll factory! Outrageous outbreak of contemptuous comments are spreading in the social media!

Let me now play the role of a keen scrutineer of the strategy adopted by the Union of India. At the last Council's meeting, the North Block honchos came prepared with two options which have largely been rejected by not only non-BJP-ruled States but also many BJP-ruled ones, albeit 'silently'! Many shocking holes may be identified in their exhaustingly narcissistic strategy! The besotted North Block team missed the

underlying theme and laid lopsided focus on borrowing in place of

re-negotiating the promised annual growth rate of 14%. It should have been the linchpin of their strategy. Rather than focusing on an 'Act of God'

i.e COVID-19 which has 'infected' the coffers of all the States since April 2020, it should have floated the idea of lowering the growth rate to 8% and extension of the committed time period by another three years. A hard-bargaining may have pulled it down to 10% with eight years or eight per cent with 10 years time-frame! Once such a milestone would have been attained, the second proposal should have been the offering of two borrowing options coupled with

partial hike of tariff on some of the sin goods like pan masala, tobacco or even luxury goods from a future date!

Ideally speaking, the second option should not have found a place in its offering platter if the North Block mandarins would have given some credit to political as well as financial acumen of State politicians! At first glance itself, the second option struggles to qualify as an artificially-designed option, merely to distract attention or to misleadingly cloak into a reliable option!

No State, even in its 'inebriated state' would go for a spine-dismantling borrowing with huge debt-servicing costs!

As a magnanimous 'big brother' and also as an ace negotiator, the Centre should have pleased the States with the Hobson's choice - the Centre would borrow and the States would relish! In place of making it an irritatingly legal and technical challenge, the entire issue should have been viewed through political prism. Finding a political solution is less fractious than a legal one! This should have been much cosier in the shadow of cooperative federalism!

When the borrowings under Option-I are proposed to be serviced by the Compensation kitty, why to make an artificial distinction between losses having an origin in GST Implementation and in COVID-19! All such technicalities have not served the interests of history of decision-making by consensus. Mr Jaitley had created a trail of such decisions by consensus only because he was

willing to pay higher price for five years. Since Centre represents the sovereign, it also needs to behave like a sovereign!

Both the Options indeed do not mirror the unquestionable dignity of the sovereign. A quick glance at the quirky skeletons of the borrowing calculus gives me the impression that while playing hardball tactics, the Centre is trying to act

not as a partner in the entire chain of fiscal haemorrhage impacting the States but as an insouciant broker for a banking entity!

I am sure that compensation issue is going to dominate the next GST Council meeting on September 19 and it has the ruinous potential to derail the entire agenda of legal and procedural reforms if any! If the Union of India is keen to see its plan going through smoothly and swimmingly, it needs to come up with a simplistic borrowing solution funded by the Compensation kitty with no interest-string attached as it is an extraordinary situation and all the borrowers are vital 'atoms' of the large whole called the Sovereign! I sincerely hope that the stalled talks over the issue are resumed and the much-needed financial relief does not remain on ice! Or, many 'shrimp-size' States would sink and 'whale-size' would be grievously bruised further!

Also See:

[GST - Sparring over Compensation - Hybrid solution lies between selective tariff hike & borrowings!](#)

[GST - Compensation Cess turning into poisoned chalice for States!](#)