The Class Content of the Goods and Services Tax*

Prabhat Patnaik

The discussion on the Goods and Services Tax (GST) until now has focused almost exclusively on the distribution of its burden across commodities, on the difficulties of meeting its stringent bureaucratic demands, and on the delays in obtaining claims for refunds. Even the view that it is pushing the economy into a recession has attributed this looming recession merely to its stringent procedural demands which supposedly have tied most sellers in knots. In all this however the class content of this new tax regime has been missed.

Indeed many would even ask: if one kind of indirect tax regime which is both simple in conception, and uniform across all states for any commodity, replaces another tax regime that was complex, non-uniform and allowed cascading effects, then where does class come into the picture? Such a change in fact should be welcomed as a step towards rationalization and the problems it is currently facing should be seen only as teething troubles which any new regime inevitably faces. So where is the need for any class analysis for such a change?

True, it has important implications for our federal structure, but since all state governments have accepted this change, this federalism argument too loses its strength. Besides, even if we accept the reservations on this score, how can we bring class into this picture at all?

This view however is a superficial one. The GST does not just represent a new tax-regime replacing the earlier tax-regime; it is a regime aimed against petty producers and small capitalists, or the so-called "unorganized" or "informal" sector. It is thus, even by conception, a measure of primitive accumulation-cum-centralization of capital.

It affects the small production sector in two obvious ways. The first which has implicitly figured in some of the discussion on GST relates to the cost of compliance. Even assuming that a small producer has exactly the same degree of vertical integration as a large one, i.e. is a mere small-scale replica of a large firm in terms of its activity-structure, the fact that the administrative costs do not change proportionately with the scale of operation of a firm, implies that the burden of such costs is greater on the small producer. If a small producer for instance has to submit returns thrice a month, then so does the large one; even if the latter is ten times the size of the former it does not have to submit its returns thirty times a month. The administrative costs in other words are more in the nature of fixed costs and are therefore ipso facto greater per unit turnover for the small producers under the new tax-regime than for the larger producers.

There is an additional aspect to consider here. The small firms are not just smaller versions of large firms. The latter in general tend to be far more vertically integrated than the former. The chain of value addition from the raw material stage to final sale is fragmented among many more firms in the small-scale sector than among larger firms. True, the latter often outsource parts of their activities to smaller firms; but even so their degree of vertical integration is in general greater than for small firms. Small firms therefore have to bear an even greater cost, for in case the tax is paid by a small firm for the earlier stages of production in anticipation of a refund on the input costs, which is not uncommon, the proportionate amount that is locked up awaiting refund is greater for such a firm. All this basically means that small firms are at a distinct disadvantage compared to large firms in a GST regime and this affects their viability. The GST regime that thus undermines their viability is a means of centralization-cum-primitive accumulation of capital.

But this particular argument which has been put forward by many is by no means the central argument. The real thrust of the GST lies not just in substituting one tax regime for another but in bringing in many more producers who were earlier not in the tax net into the tax net itself. And typically those who were not in the tax net earlier were the petty producers and others in the "informal sector". They now have to register themselves and pay the GST. What this regime means above all therefore is an increase in the taxation of the informal sector, i.e. of the petty producers and the small capitalists.

The fact that the GST regime entails heavier taxation of the informal sector gets lost when the focus is on the tax rates on different commodities. But it is not the "things", the use-values, whose tax rates we should be focusing on; our focus should rather be on the taxes levied on the different social structures. And here the indubitable fact is that the taxes levied on the "informal" sector, i.e. the petty producers and small capitalists, increase under the new regime. (A recent article in Scroll.in highlights how Benarasi silk saris woven by thousands of craftsmen, which attracted no taxes earlier, are now taxed under the GST. Such instances can be multiplied.)

Higher taxation of the petty production sector necessarily raises the prices of this sector's products, and hence causes a recession in this sector. This would not happen if the quantity demanded was insensitive to price changes, for then a rise in price would simply mean that the amount demanded would remain unchanged, but would be paid for by buyers through running down their cash reserves, i.e. through dissaving. But buyers of the informal sector's products include working people who cannot afford to keep their demands unchanged in the face of a price-rise, because they have hardly any cash reserves to run down. Hence a price-rise necessarily causes a reduction in demand, i.e. a recession.

But even if there is a recession in the "informal sector" because of a shift to the GST regime, why should there be a recession generally in the economy as a consequence of such a shift? The simple answer to this question is the following: the fall in demand, and hence output, in the "informal" sector does not get adequately offset by a rise in output in the other, "formal", sector, even when there is a fall in the latter sector's price owing to a shift to the GST regime.

This is because a significant proportion of the buyers of the products of this "formal economy" do have demands for such products which are price-insensitive, so that any lowering of their prices (without such lowering there is no question anyway of any counteracting effect against the recession in the "informal sector") does not increase the amount demanded but only adds to the cash reserves in the hands of the buyers, i.e. only increases their savings. The recession in the "informal sector" therefore simply entails a recession in the economy as a whole, which is what we are witnessing (though of course the GST is not the only reason for it).

It follows therefore that the recession caused by the GST is not some temporary aberration that would disappear once the “teething troubles” of the new tax regime are over. It is an essential part of the regime itself and arises because of the higher taxation of the “informal sector” under this regime. Recession is the mechanism through which the process of primitive accumulation-cum-centralization gets realized.

But then it may be asked: if the GST is a means of centralization of capital (at the expense of the small capitalists) and of imposing primitive accumulation of capital (at the expense of petty producers), then why are some pro-monopoly spokespersons criticizing it? The answer lies in the fact that the recession of the “informal sector”, and of the economy as a whole in consequence, also has a “second order” or “multiplier effect” upon the “formal sector” itself. Such a recession is not to the liking of many components of big capital, who therefore start criticizing the GST, no matter how ardently they had wanted the GST earlier and pressed for its implementation.

The GST in short, like demonetization earlier, is a means of carrying forward centralization of capital at the expense of the petty production and small capitalist sectors. It not only undermines the federal structure of our polity by taking away the constitutional powers of state governments and making them subservient to the Centre, which, together with the state governments that are ruled by the same Party, comes to acquire a decisive voice at the all-important GST Council; but it also produces a parallel process of centralization of capital in the realm of the economy.

The centralization of political authority and the centralization of capital are the twin processes unleashed by the change in the tax regime. They in turn strengthen one another. It is hardly surprising that this change in tax regime has been introduced by a BJP-led government, which is communal-authoritarian to the core and which, notwithstanding its protestations, abhors the “basic structure” of the Indian Constitution that includes democratic rights, secularism and federalism.

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