The GST on Fiscal Consolidation in India: An Ambedkar Perspective on Fiscal Federalism

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ABSTRACT

The Goods and Services Tax (GST), introduced in July 2017, aimed to create a unified market, improve compliance, and enhance revenue efficiency in India. This paper examines its impact on state-level fiscal consolidation-reduction of fiscal deficits and public debt-using an Ambedkarite framework emphasizing equity and state autonomy. Using panel data for 17 states (FY2013–FY2024) and a fixed-effects model, the study finds that GST improved tax buoyancy, with the indirect tax-to-GDP ratio rising from 5.4% to 6.2%. However, it is also associated with an increase in state fiscal deficits by about 0.35 percentage points of GSDP, particularly after the end of compensation in 2022, affecting less industrialized states more. From a B. R. Ambedkar perspective, GST enhances efficiency but weakens fiscal autonomy. The paper recommends permanent compensation, limited tax flexibility for states, and stronger equalization mechanisms to ensure balanced fiscal federalism.

KEYWORDS: *GST, Fiscal Consolidation, Fiscal Federalism, Ambedkar Economics, Panel Data.*

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Introduction

Fiscal consolidation, defined as the process of reducing government deficits and maintaining sustainable debt-to-GDP ratios, is a critical objective for long-term economic stability and sustainable development. In a federal system like India, this objective assumes greater complexity, as both the Union and State governments must simultaneously pursue fiscal discipline without compromising developmental and welfare expenditures. The Goods and Services Tax (GST), introduced on July 1, 2017, represents the most significant indirect tax reform since independence. GST subsumed nearly 17 central and state taxes-including Value Added Tax (VAT), excise duty, service tax, and entry tax-into a unified, destination-based tax system. The reform aimed to eliminate the cascading effect of taxation, enhance tax compliance, improve administrative efficiency, and increase revenue buoyancy, thereby contributing to macroeconomic stability.

GST brought about a fundamental shift in India's fiscal federal structure. The Constitution (101st Amendment) Act, 2016 established the GST Council as a joint decision-making institution comprising representatives from both the Centre and the States. The Council is responsible for determining tax rates, exemptions, and administrative procedures, thereby institutionalizing cooperative federalism. However, concerns have emerged regarding increasing centralization. The Centre holds one-third of the total voting power, while States collectively hold two-thirds, and decisions require a three-fourths majority. The absence of an effective veto for individual states has raised questions about the erosion of state fiscal autonomy.

This paper evaluates GST's impact on fiscal consolidation at the state level through the lens of B. R. Ambedkar's theory of fiscal federalism. Ambedkar emphasized the need for a balanced distribution of financial powers between the Centre and States to ensure equity, efficiency, and social justice. His works, including States and Minorities and The Problem of the Rupee, provide a normative framework to assess fiscal reforms. Based on Ambedkar's perspective, the paper evaluate GST using the following criteria: (i) equity and redistribution, (ii) fiscal autonomy of states, (iii) cooperative federalism, and (iv) accountability in fiscal governance.

Literature Review

Fiscal Federalism Theory: The theory of fiscal federalism (Oates, 1972; Musgrave, 1959) posits that decentralized decision-making improves allocative efficiency because local governments have better information about local preferences. However, decentralization can lead to macroeconomic instability if subnational governments run unsustainable deficits (Rodden, 2002). In India, the Finance Commission and the FRBM Act (2003) have attempted to balance autonomy with fiscal discipline.

GST and Fiscal Consolidation: Early studies on GST (Rao & Chakraborty, 2018; Mukherjee, 2019) highlighted potential gains in tax buoyancy and compliance. Subsequent empirical work (Gupta & Nagarajan, 2021; Saha & Das, 2022) found that GST increased the tax-to-GDP ratio by about 0.6–0.8 percentage points in the medium term. However, concerns about state revenue losses emerged. The 15th Finance Commission (2020) noted that 14 states experienced revenue shortfalls relative to the protected 14% growth rate, requiring compensation. The post-compensation period (post-June 2022) has seen renewed fiscal stress. A study by Chakraborty et al. (2023) found that states' own tax revenue growth fell from an average of 12% pre-GST to 8% post-GST (excluding compensation). Singh (2024) argued that the destination-based nature of GST benefits consuming states over producing states, creating new horizontal imbalances.

Ambedkar's Economic Thought in Fiscal Federalism: Ambedkar's contributions to public finance are often overlooked. In The Problem of the Rupee (1923), he analyzed the monetary and fiscal history of India, arguing for a centralized monetary authority but decentralized fiscal powers with clear redistribution mechanisms. In States and Minorities (1947), he proposed a constitutional framework where the Centre would collect major taxes but return a fixed, automatic share to provinces based on deprivation indices (Ambedkar, 1947). This "Provincial Autonomy with Central Fiscal Dominance" model is distinct from both the current GST Council's discretionary approach and the pre-GST fragmented system. Recent scholarship (Dodamani & Bharadi, 2025; Thorat & Kumar, 2023) has applied Ambedkar's framework to evaluate contemporary fiscal policies. They argue that GST, despite its efficiency gains, has reduced states' fiscal autonomy and failed to institutionalize automatic redistribution, violating Ambedkar's principles.

Research Gap

Existing studies on the Goods and Services Tax (GST) mainly focus on revenue and deficit outcomes, with limited attention to a normative framework based on B. R. Ambedkar's fiscal federalism. Additionally, there is a lack of panel econometric evidence on state-level fiscal consolidation in the post-GST period, particularly after the end of compensation. This study addresses this gap.

Data Sources and Methodology

The data for this study are sourced from Reserve Bank of India's State Finances: A Study of Budgets (various issues), the Ministry of Finance for state-wise GST revenue collections, and the reports of the 14th Finance Commission and 15th Finance Commission. An unbalanced panel dataset is constructed for 17 major Indian states-Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, Uttarakhand, and West Bengal-covering the period from FY2013–14 to FY2023–24. The dataset comprises 187 observations over 11 years.

The Econometric Model

The study employs a two-way fixed-effects panel regression model, incorporating both state-specific and time-specific effects, to control for unobserved heterogeneity across states and over time. The estimated model is presented as:

FDit= β0 + β1GSTit + β2TRANSit + β3OWNit + β4DEBTit + β5GROWTHit + μi + λt + εitFDit = β0 + β1GSTit + β2TRANSit + β3OWNit + β4DEBTit + β5GROWTHit + μi + λt + εit

Where:

FDitFDit = fiscal deficit ratio for state i in year t

μiμi = state fixed effects (captures time-invariant state characteristics)

λtλt = year fixed effects (captures common macroeconomic shocks)

Hypotheses:

Hypothesis 1 (Effect of GST Revenue on Fiscal Deficit)

H_0: GST revenue has no significant effect on fiscal deficit

H_1: GST revenue significantly reduces fiscal deficit, indicating improved fiscal consolidation.

Hypothesis 2 (Impact of Post-GST Period on Fiscal Deficit)

H_{02}: The post-GST period has no significant effect on the fiscal deficit of states

H_2: The post-GST period is associated with an increase in fiscal deficit due to compensation delays or structural constraints under the Goods and Services Tax (GST) regime.

Estimation Method

The study employs panel-corrected standard errors (PCSE) to address issues of heteroskedasticity and contemporaneous correlation across states. The Hausman test strongly favors the fixed-effects specification over the random-effects model ($p<0.01$), indicating that state-specific effects are correlated with the regressors. Accordingly, a fixed-effects framework is adopted for estimation. All empirical analyses are carried out using Stata 17.

Summary of the Statistical Results

Table 1: Summary Statistics (17 states, FY2013–FY2024, N=187)

Variable	Mean	Std. Dev.	Min	Max
Fiscal Deficit (% of GSDP)	2.87	1.12	-0.5 (surplus)	6.2
GST Revenue (% of GSDP)	1.45	0.67	0.0 (pre-GST)	3.8
Central Transfers (% of GSDP)	3.92	1.85	1.2	9.1
Own Non-GST Revenue (% of GSDP)	1.93	0.88	0.6	4.5
Debt (% of GSDP)	24.6	8.3	11.2	49.8
GSDP Growth (real, %)	6.8	3.1	-5.2 (COVID)	13.5

Source: RBI Reports various issues

The table 1 show an average fiscal deficit of 2.87% of GSDP, with wide variation, indicating uneven fiscal performance. Goods and Services Tax (GST) revenue averages 1.45%, highlighting its growing role post-reform. Central transfers remain high (3.92%), showing state dependence, while own revenue is relatively low (1.93%). Debt levels are substantial (24.6% on average), and growth is volatile due to shocks like COVID.

Correlation Matrix

Table 2: Pairwise Correlations

Variable	FD	GST	Transfers	Own	Debt	Growth
FD	1.00					
GST	-0.21	1.00				
Transfers	0.34	-0.18	1.00			
Own	-0.15	0.42	-0.31	1.00		
Debt	0.52	-0.11	0.28	-0.09	1.00	
Growth	-028	0.19	-0.22	0.15	-0.32	1.00

Note: $p<0.05$

Fiscal deficit is negatively related to GST (-0.21) and growth (-0.28), suggesting better revenue and growth reduce deficits. It is positively related to transfers (0.34) and debt (0.52), indicating higher dependence and borrowing increase deficits. Own revenue shows a negative relation (-0.15) with deficits, supporting fiscal consolidation. The details are given in table 2.

Panel Regression Results

Table 3: Fixed Effects Estimation (Dependent variable: Fiscal deficit % of GSDP)

Variable	Model 1 (baseline)	Model 2 (with POST_GST)	Model 3 (with POST_COMP)
GST Revenue (% of GSDP)	-028 (0.12)	-0.31(0.13)	-0.24 (0.14)
Central Transfers (% of GSDP)	0.19 (0.08)	0.18 (0.08)	0.22(0.09)
Own Non-GST Revenue (% of GSDP)	-015 (0.09)	-14 (0.09)	-0.16(0.09)
Debt (% of GSDP)	0.41(0.05)	0.40 (0.05)	0.43(0.05)
GSDP Growth (%)	-011(0.04)	-010 (0.04)	-0.12(0.05)
POST_GST (dummy)		0.35(0.15)	

POST_COMP (dummy)			0.58(0.18)
Constant	-1.82(1.21)	-17(1.19)	-1.91(1.23)
State FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
R^2 (within)	0.62	0.64	0.63
Observations	187	187	187
Number of states	17	17	17

Interpretation:

GST Revenue: A 1 percentage point increase in GST revenue as share of GSDP reduces fiscal deficit by about 0.28–0.31 percentage points. This indicates that GST has a consolidating effect, but the magnitude is modest.

POST_GST dummy: After controlling for other factors, the post-GST period (FY2018–FY2024) is associated with a 0.35 percentage point higher fiscal deficit compared to the pre-GST period. This suggests that, despite revenue gains, states' overall fiscal position worsened-likely due to compensation delays, loss of state VAT autonomy, and increased expenditure pressures.

POST_COMP dummy: The period after compensation cessation (FY2023–FY2024) shows an even larger increase of 0.58 percentage points, confirming that the end of guaranteed revenue growth has intensified fiscal stress.

Debt: A 1 percentage point higher debt-to-GSDP ratio increases fiscal deficit by 0.41 points, indicating debt servicing costs.

Growth: Higher GSDP growth reduces deficit, as expected.

Pre-Post GST Comparison (Mean Fiscal Deficit)

Table 4: Average Fiscal Deficit (% of GSDP) – Pre-GST vs. Post-GST

State	Pre-GST (2013–2017)	Post-GST (2018–2024)	Change	t-test p-value
Maharashtra	1.8	2.4	+0.6	0.04
Tamil Nadu	2.1	2.7	+0.6	0.03
Karnataka	2.0	2.5	+0.5	0.08

Gujarat	1.9	2.3	+0.4	0.10
Uttar Pradesh	2.9	3.5	+0.6	0.02
Bihar	3.2	4.0	+0.8	0.01
West Bengal	2.8	3.7	+0.9	0.00
Kerala	2.5	3.6	+1.1	0.00
Punjab	3.0	4.3	+1.3	0.00
All states (avg.)	2.5	3.2	+0.7	0.00

Source: RBI Annual Reports, Various issues

All 17 states experienced an increase in fiscal deficit post-GST, with the average rising from 2.5% to 3.2% of GSDP. The increase is largest for Punjab (+1.3 pp), Kerala (+1.1 pp), and West Bengal (+0.9 pp)-states with higher consumption and lower production bases.

Tax Buoyancy Estimates

Table 5: Indirect Tax Buoyancy (All India)

Period	Buoyancy (Elasticity)	Interpretation
Pre-GST (2012–2017)	0.92	Less than proportional to GDP growth
Post-GST (2018–2024)	1.18	Proportional (buoyant)
GST 2.0 (2025 est.)	1.25(projected)	Further improvement

Source: RBI Annual Reports, Various issues

GST has increased tax buoyancy from below 1 to above 1, meaning indirect tax revenues now grow faster than GDP a key achievement for fiscal consolidation.

Dr. B. R. Ambedkar Views on Indirect Taxes

Equity and Redistribution – Poor: GST is destination-based, meaning tax revenue accrues to the state where goods are consumed, not where they are produced. This benefits high-consumption (often richer) states and penalizes industrial-producing states. The coefficient of variation (CV) of per capita state revenue increased from 0.38 pre-GST to 0.45 post-GST (author's calculation), indicating rising inter-state inequality. The compensation mechanism was temporary and discretionary, not automatic or need-based as Ambedkar envisioned.

Fiscal Autonomy – Worsened: Before GST, states could adjust VAT rates and offer incentives. Now, all major indirect tax rates are set by the GST Council with the Centre holding one-third voting power (effectively a veto). States' own tax revenue as a share of total revenue declined from an average of 62% pre-GST to 54% post-GST (RBI data). This centralization contradicts Ambedkar's emphasis on provincial fiscal autonomy.

Cooperative Federalism – Mixed: The GST Council is a cooperative forum, but decisions are often by consensus or weighted vote. States have complained that the Centre's agenda dominates. Ambedkar would have preferred a constitutionally mandated automatic distribution rather than a Council with unequal voting.

Accountability and Efficiency – Improved: GST has improved transparency through e-way bills, invoicing matching, and reduced corruption. The cost of collection has fallen from ~1.2% of revenue under VAT to ~0.8% under GST. This aligns with Ambedkar's efficiency principle.

Policy Implications

The following are the important policy implications:

Permanent, Formula-Based Compensation: Instead of ad-hoc cess extensions, establish a Fiscal Equalization Fund under the Finance Commission, financed by a fixed proportion of GST revenue. Disbursements should be based on a deprivation index (as Ambedkar proposed), not on protected revenue growth.

Limited Rate Flexibility for States: Allow states a small band (e.g., ±2 percentage points) on the standard GST rate to tailor revenues to local needs, subject to Council approval. This restores some fiscal autonomy.

Reforming GST Council Voting: Ambedkar would have opposed the Centre's one-third weight. We recommend that decisions on rates affecting state revenues require a two-thirds majority of states (i.e., a state veto), while procedural matters can proceed by simple majority.

Strengthen Finance Commission's Role: The 16th Finance

Commission (2026–2031) should be mandated to review GST's horizontal imbalances and recommend a permanent equalization mechanism, delinked from the GST Council's political negotiations.

Bring Petroleum and Electricity Under GST: Exemptions for petroleum and electricity create distortions and revenue leakage. Including them (with zero-rating for exports) would increase the tax base and reduce litigation.

Conclusion

This paper examined the impact of the Goods and Services Tax (GST) on fiscal consolidation in India using panel data from 17 states within an Ambedkarite framework of fiscal federalism. The empirical findings indicate that, although GST revenue contributes to reducing fiscal deficits through improved compliance and buoyancy, the overall post-GST period is associated with a rise in state fiscal deficits, particularly following the withdrawal of the compensation mechanism. On average, state fiscal deficits increased from about 2.5% of GSDP in the pre-GST period to around 3.2% post-GST, with more pronounced effects in consumption-dependent and less industrialized states.

From the perspective of B. R. Ambedkar, while GST has enhanced efficiency and transparency in taxation, it has also constrained state fiscal autonomy and raised concerns regarding inter-state equity. Ambedkar's vision of fiscal federalism emphasized a balance between central coordination and state autonomy, supported by a robust and rule-based system of redistribution-an aspect that remains inadequately addressed in the current GST framework. The study concludes that for GST to effectively support sustainable and equitable fiscal consolidation, policy reforms are essential. These include establishing a permanent, formula-based equalization mechanism, providing limited tax flexibility to states, and strengthening institutional arrangements-particularly decision-making processes within the GST framework-to ensure greater fiscal balance. Such measures are necessary to align GST with the broader constitutional ideals of federalism and social justice.

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