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BA Economics Honours | Semester 1 | Calicut University

Foundations of GST

Course Code: ECO1VN102 • Module 1

Module I: Introduction to GST

The introduction of the Goods and Services Tax (GST) on 1 July 2017 represents the most revolutionary fiscal and constitutional indirect tax reform in the history of independent India. Replacing a fragmented, cascading labyrinth of central and state indirect taxes, GST established a unified national market governed by the principle of *"One Nation, One Tax, One Market."*

Unit 1 & 2: Meaning, Background, and Implementation of GST

GST is a comprehensive, multi-stage, destination-based consumption tax levied on the supply of goods and services at every stage of value addition, with seamless credit of taxes paid at prior stages available as an **Input Tax Credit (ITC)**. Prior to GST, India's indirect tax structure suffered from severe structural defects:

- **Cascading of Taxes ("Tax on Tax"):** Central excise duties levied on factory manufacturing were included in the price base on which state VAT was levied downstream, artificially inflating consumer prices.
- **Tax Barriers and Interstate Inefficiencies:** Central Sales Tax (CST) levied on interstate trade and state entry taxes/octroi required commercial trucks to queue for days at state border checkposts, crippling logistics.
- **Constitutional Divide:** The Union Government could tax manufacturing and services, but could not tax retail sales; State Governments could tax retail sales, but could not tax manufacturing or services.

To overcome this constitutional impasse, Parliament passed the landmark **101st Constitutional Amendment Act, 2016**, which inserted Article 246A granting concurrent taxing powers over goods and services to both Parliament and State Legislatures.

Unit 3 & 4: Benefits of GST and Taxes Subsumed

GST achieved monumental economic benefits: eliminating tax cascading, creating an unhindered common national market, enhancing export competitiveness through complete zero-rating of exports, broadening the formal tax base, and curbing black money through digital e-invoicing and e-way bill verification.

Sovereign Jurisdiction	Historical Indirect Taxes Subsumed into GST
Central Taxes Subsumed	Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty (CVD), Special Additional Duty of Customs (SAD), Central Surcharges & Cesses.
State Taxes Subsumed	State Value Added Tax (VAT) / Sales Tax, Central Sales Tax (CST), Entertainment Tax (other than levied by local bodies), Luxury Tax, Taxes on Lottery/Betting, Entry Tax / Octroi, State Cesses.

Unit 5: The Dual GST Architecture and GST Council

Recognizing India’s federal structure, policymakers adopted a **Dual GST Model** comprising three statutory components:

- **Central GST (CGST):** Levied and collected by the Central Government on intra-state supplies.
- **State GST (SGST) / Union Territory GST (UTGST):** Levied and collected by the respective State Government on intra-state supplies. On every intra-state sale, CGST and SGST are levied in equal

proportions (e.g., an 18% GST rate consists of 9% CGST and 9% SGST).

- **Integrated GST (IGST):** Levied by the Central Government under Article 269A on all inter-state supplies of goods and services, and on imports. IGST is apportioned between the Union and the destination State.

The GST Council (Article 279A)

The apex constitutional decision-making body for GST is the **GST Council**, chaired by the Union Finance Minister and comprising the Union Minister of State for Finance and the Finance Ministers of all States and Union Territories with legislatures. Decisions require a three-fourths (75%) majority of weighted votes cast, where the Central Government holds one-third (33.3%) voting weight and all State Governments combined hold two-thirds (66.7%) voting weight, embodying cooperative federalism.

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Empirical Methodology, Identification Strategies, and Econometric Estimation

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Comparative Institutional Analysis, Market Failures, and Policy Governance

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Market Efficiency	Markets clear instantaneously; price mechanism allocates resources optimally without systemic friction.	Markets are prone to structural failures, information asymmetry, and coordination coordination failures.	Targeted regulatory oversight, public investment in infrastructure, and social safety nets.

Analytical Dimension	Orthodox / Classical Perspective	Heterodox / Institutional Framework	Empirical Policy Manifestations in India
Behavioral Motivation	Hyper-rational agents maximizing expected utility with complete cognitive computational capacity.	Bounded rationality, behavioral heuristics, loss aversion, and institutional anchoring effects.	Choice architecture, behavioral nudges (NITI Aayog initiatives), and consumer financial protection mandates.
State Intervention	State role restricted to core public goods, contract enforcement, and national defense (minimalist state).	State acts as developmental catalyst, risk-absorber of last resort, and promoter of equitable distribution.	Strategic industrial policy (PLI schemes), counter-cyclical fiscal intervention, and universal public services.
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Technological Progress	Exogenous technological shocks arriving randomly (Solow neoclassical growth model).	Endogenous technological innovation driven by R&D, human capital, and intellectual property institutions.	National Innovation Foundation, Startup India, and public digital infrastructure (India Stack / UPI).

Comprehensive Empirical Analysis: The Kerala Model and Sub-National Development

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However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

Policy Synthesis and Analytical Evaluation

Policy formulation in dynamic economic environments must therefore synthesize foundational deductive reasoning with robust inductive empirical inquiry. Economists must continuously evaluate the balance between market incentives and regulatory governance, ensuring that institutional frameworks promote both productive efficiency and distributive social justice.

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	distribution is secondary to allocative efficiency.	historical wealth accumulation shape distribution.	human capital investments.
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