



## Expound, How The Functioning of GST Has Impacted the Price Levels of Goods & Services in India. (150 Words / 10 M) (GS3–Economy)

### Approach:

1. Introduction – about the GST.
2. Explain the effects of GST on price levels.
3. Conclusion – ref. to some measures taken/need to be taken.

Goods and Services Tax (GST) is an **indirect tax** (or consumption tax) used in India on the supply of goods and services. It is a comprehensive, multistage, **destination-based tax**.

### Effect of GST on inflation:

Theoretically, the **revenue-neutral rate** (RNR) is calculated so that it would not cause higher inflation. But revenue neutrality **does not imply** that **prices would remain constant** in the economy, since the weight of goods in the consumption basket and their contributions to indirect tax collections are not the same.

The effect of GST on the prices of certain goods and services depend on the structure and design of taxation, like the level of exemptions, the rate structure of GST, the weight of goods and services in the CPI basket, the tax base, the efficiency of the administrative machinery, and so on. But, in a 2017 report, the RBI showed that about **half of the item groups** that GST covers are not in the CPI basket. So, the **effect of GST on prices** was expected to be **small**. This is **contrary** to prior expectation that **prices would go down** because GST harmonises indirect tax rates and eliminates the cascading effect. During the 12 months preceding GST implementation, the Consumer Price Index (CPI) inflation was **3.66%**, while it **increased to 4.24% post-GST** in the next 12 months.

This is due to **rise in the tax rate of some goods and services**, the **inclusion of business activities** that were not taxed earlier, or the market structure. This resulted in higher prices since the **firms passed on the cost** to the consumers. Also, when **market power increases**, **prices increase**, and **profit also increases**. Further, taking advantage of market power, possibly, most firms passed the taxes to end consumers, resulting in a **cost-push inflationary impact** of the GST. GST is found to have a significant positive impact on inflation of commodity groups such as paan, tobacco and intoxicants, clothing and footwear, housing, and miscellaneous sectors (mainly consisting of services). Thus, GST implementation has resulted in a **decrease in food inflation** to some extent, while **raising inflation of non-food items**.

It was witnessed that profiteering was occurring in select segments. To pre-empt this, government set up the **National Anti-profiteering Authority (NAA)** to ensure companies **did not use GST as an excuse to raise prices**. NAA should **monitor the prices** of critical or essential goods and services to see the price impact of GST. Similarly, the **Competition Commission of India** should observe **anti-competitive producer behaviour** that hurts



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consumers through excessive price increases. These measures may ensure that producers do not take advantage of the GST.

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