

THEIR VIEW

Rate reductions are welcome but GST reform is a work in progress

Consumption will get a boost but India still has too many rate slabs and the macro impact demands careful consideration



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he large reduction in goods and services tax (GST) rates from 22 September, the start of this year's Navratri, followed an equally large increase in the exemption threshold for personal income tax six months earlier in the 2025-26 budget. In a well-publicized message, Prime Minister Narendra Modi described this as a bumper Diwali gift for consumers, especially those in the Indian middle class. Limiting herself to the economic rationale for the rate reduction, Finance Minister Nirmala Sitharaman explained that a significant increase in the purchasing power of consumers, assuming the rate reduction is fully $passed\,on, will\,jack\,up\,aggregate\,consumption$ demand and hence economic growth, apart from giving relief to small producers. Critics have claimed that the GST rate reduction is motivated by the forthcoming Bihar elections and other state polls to follow. That may well be true. However, this column will confine itself to the economic implications of the GST rate reduction.

Introducing a value added tax (VAT) like GST in a large federal system like India was exceptionally challenging because of many conflicting interests, such as between producers and consumers, between the central government and states, and between producing and consuming states. Hence, the launch of GST in India took a very long time. The idea of introducing a VAT in India was first mooted by the Indirect Tax Enquiry Committee (under L.K. Jha) in 1977. The GST Council of State Finance Ministers, chaired by Union finance minister Arun Jaitley, was finally able to roll out the GST 40 years later in 2017, thanks to what came to be known as Jaitley's grand bargain; his assurance to states that they would be compensated for 5 years for any revenue loss, computed using a very generous formula. However, once the states were on board, GST was introduced in a great hurry without proper preparation. GSTN, the electronic tax information network, had not fully stabilized, nor were the required administrative arrangements in place, such as the training of officials, etc. Most importantly, GST was rolled out with multiple rates, which led to problems of tax-gaming and relative price distortion. Undoubtedly, it was India's most important tax reform after 1991, but it required a lot more to be done.

Though there were some rate adjustments earlier, the latest rate rationalization is by far the most significant, covering around 450 goods and services. Of these, about 400 goods and services have had their rates lowered, while a small number, about 50 items, have had rates increased. The 12% and 28% rate slabs have been abolished. Most items earlier taxed at 12% will now be taxed at 5%, while a handful will be taxed at 18%. Most items taxed at 28% earlier will now be taxed at 18%. Thus, virtually



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all items will now be taxed at either 5% or 18%. A handful of non-merit or luxury goods (and services) will be taxed at 40%. At the lower end, a few items taxed at 5% will now not be taxed at all, while a few high-value items like gold jewellery will continue to be taxed at only 2-3%. Thus, despite the abolition of two GST slabs and most items now

being taxed at 5% or 18%, we still effectively have a five-slab rate structure in place, compared to the single- or two-rate structure in most of the 175 countries that have a VAT. Rate rationalization remains a work in progress.

What will be the macroeconomic impact of this rate rationalization? Clearly, private consumption expenditure will get a boost. But what does it imply for government expenditure? To assess the revenue impact of the rate rationalization, it is useful to keep in mind that those items taxed at 5% or not taxed are mostly necessities with price-

elasticity and income-elasticity of demand compared to those items taxed at the 18% rate. There is therefore likely to be some shift in the share of private consumption expenditure away from 0% or 5% GST rated goods towards those rated at 18%. But the main point to note is that there will be a significant revenue loss, at least in the short run. The finance ministry has estimated this (on the basis of 2023-24 data) at ₹48,000 crore for the current fis-

cal year, which would be about ₹96,000 crore for the full financial year 2026-27. How will the government handle this revenue loss?

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If it aims to achieve its fiscal deficit target of 4.4% of GDP in 2025-26 despite the GST revenue loss, this will probably entail a significant cutback in capital expenditure. Committed items under revenue

expenditure make it difficult to further trim revenue expenditure, which was already compressed during 2023-24 and 2024-25. However, a reduction in government capital expenditure is likely to offset the expected positive growth impact of the boost to private consumption expenditure due to GST rate reduction. There is much evidence that government capital expenditure has a very strong

Alternatively, the finance ministry can focus on its new monitoring target for fiscal consolidation, namely reducing

consolidation, namely reducing the debt-to-GDP ratio from 55% to 50% (+/-1%) by 31 March 2031. This will allow more flexibility in managing the fiscal deficit and enable the government sustain its commitment to high capital spending as it adjusts its aggregate spending path over the next 4-5 years. The logic spelt out here for the central government also applies to state governments, which will suffer a similarly large GST revenue loss.

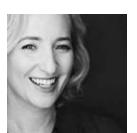
impact on growth.

These are the author's personal views.

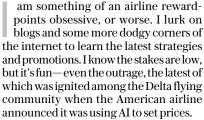
MINT CURATOR

AI will price our flight tickets: It's not new but we will hate it

Dynamic pricing has long existed but AI can personalize it deeply



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Its mistake was using the term "dynamic pricing," which people interpret as personalized pricing, like charging people more depending on why they are flying. Delta is not doing that (yet), at least not with AI. But it is coming, not only for airlines, but also for many consumer businesses. And we will all hate it—but we should all prepare for it.

'Dynamic pricing,' like consumption taxes or market-rate-rent, is something only an economist can love. Such pricing usually means a price that changes depending on when you buy—say, when Wendy's wanted to charge less for burgers outside of peak lunch hour. The plan caused such an uproar that it was abandoned. But it would have been better for customers, who could have saved money by eating lunch later (or earlier, if they were hungry).

Dynamic pricing is not the same as personalized pricing, which is based on someone's personal characteristics, such as how much they can pay or how much they value the good or service. People hate dynamic pricing, but they tend to hate personalized pricing even more.

Neither dynamic nor personal pricing is new. In some ways, they represent a return to a more traditional way of pricing, when people haggled in markets. Prices then often depended on the time of day or a customer's bargaining skills, or even the mood of the seller. In this era of mass consumption, however, something about this practice feels wrong and makes people angry—even in the economically savvy points community.

Dynamic pricing powered by technology became more noticeable with ridesharing apps that charge higher prices when and where there is more demand. But it long predates Uber—movie theatre tickets are cheaper during the day. Airlines also practised dynamic pricing before the AI revolution, charging different prices for the same flight depending on when people buy their ticket, how full the plane is, the day they fly, and so on.

Airlines face a difficult problem setting their prices. Earning a profit requires them to fill planes—despite no-shows and



Al aware of how badly we need an air ticket could raise the fare accordingly. Ізтоскрното

weather delays. They serve customers with wildly different pricing sensitivities and travel needs. The market is also very competitive, with many people searching competitors' fares (sometimes using AI) to find the best price.

It is not surprising airlines are using new AI tools to make their prices even more dynamic—these complex problems are what AI is made for. And for fliers with more flexibility, it could mean cheaper air fares. And, frankly, personalized pricing already exists: People can pay more for an upgrade in class, a better seat, a checked bag or a meal. In all these cases, the airline is charging a price based on the customer's ability to pay or comfort preference.

Dynamic and personal pricing is one reason that flying has become cheaper and more accessible over the years: Leisure travellers generally pay far less than business fliers. The difference now is that the algorithm will get better at setting personalized prices. It's all but inevitable, in fact, that AI will be used to set personalized prices for pretty much everything sold online. If data exists, sellers will want to use it.

Aside from its impact on consumers (see above: they'll hate it), this new world has broader implications for the economy and society. How will it affect measures of inflation? Will more price-sensitive consumers get lower prices and a different inflation rate? What about data—will there be laws or norms about what companies can use? If someone spends months researching their dream vacation, bookmarking sites and messaging friends and family, and then finally decides to buy-will the seller know how excited they are and jack up the price? What if their dishwasher breaks and they are desperate to buy a replacement? Will we all need to adjust the privacy settings on our browsers?

In a world powered by enormous of data and the technology to make sense of it, more dynamic and personalized pricing is the future, whether we like it or not. When we buy online, maybe the prices we pay will be unique to us. It may be harder for retailers to pull off differentiated pricing in brick-and-mortar stores. So maybe in-person shopping is due for a comeback—though it's unlikely in the travel industry, not least because we addicts need the web to feed our habit.

MY VIEW | PEN DRIVE

Imposter syndrome: Why success often feels like a fluke

DEVINA SENGUPTA



writes on workplaces ar

hey say you are "worth it." That you deserved out-of-turn promotions. Your bets have worked well for the company, and hence you have been allotted a senior position. But then a creepy feeling rises at the nape of your neck when you face an experienced group of contemporaries or hear a hushed whisper after you make a point, with perplexed looks around the table signalling that you may have missed your mark. A voice whispers in your head: You are not worth it.

A part of you clamps up. You retreat into your cabin. You work harder than ever to ensure they do not detect flaws. They don't. Your rise in the company is meteoric now. But every now and then, that hushed feeling creeps back in. An old mocking voice whispers: You are faking it, and sooner or later, you will be exposed.

'Imposter syndrome' was coined by psychologists Pauline Clance and Suzanne Imes in 1978 in their paper 'The Imposter Phenomenon in High-Achieving Women.' It described a persistent sense of phoniness among highly capable women.

"The term impostor phenomenon is used to designate an internal experience of intellectual phoniness which appears to be particularly prevalent and intense among a select sample of high-achieving women. Despite outstanding academic and professional accomplishments, women who experience the impostor phenomenon persist in believing that they are really not bright and have fooled anyone who thinks otherwise," the paper noted.

That same year, the first moon orbiting Pluto was discovered and named Charon. The so-called Camp David Accords were signed, hailed back then as a landmark peace treaty in the Middle East.

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The peace did not last, Pluto was later found to have four more moons, but the imposter syndrome dug its tentacles deep. Over time, we realized it is not just women, but high-achieving men too who suffer from this condition. Many begin attributing their success to luck, a golden chance, a mentor or fortuitous circumstances. External factors must have contributed to their success, they suspect, because they believe they

themselves were never good enough.

Ifirst heard of 'imposter syndrome' while recruiting young executives for business process outsourcing (BPO) jobs in 2006. The dotcom bust a few years earlier had taken its toll; call centres and BPO units were in the spotlight and talent-hungry. Barely a few years into their jobs, these young superstars were given teams of 20 to handle. Their confidence was on overdrive, their swag unmistakable, but cracks showed early. When a team leader left, a successor was quickly appointed.

was quickly appointed, so a sense of 'fluke success' was common. This syndrome is

agnostic to gender, hierarchy, age and social conditioning. Scions of business families groomed to take over the reins may display the strategic acumen that comes with generational confidence. But they too can be enveloped in this feeling of phoniness, worrying that their closest aides see through

them every day. Ironically, while the productivity of those battling the condition may seem high, it is often short-lived. To keep yourself charged when you believe your success is a façade is a mammoth task. And mammoths did not survive.

I wonder if imposter syndrome is even more pronounced today, when one is surrounded by endless positive affirmations. For those of us born in the early 1980s, mediocrity was not a dirty word. It was assumed that most people were average,

QUICK READ

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ost people were average, with sparks of talent in one or two areas that could be honed with perseverance. Successes and failures, whether in a drawing competition or board exam, were rarely extreme. You participated. You tried your best. You were seldom celebrated.

But times today are different. Mediocrity has been expunged. Everyone is told they are 'special.' The most basic step towards progress is labelled a 'win.' And when acknowledgement becomes routine, the jolt of joy that should come with true celebration loses force. You realize that everyone is triumphant and therefore no one is truly special. The edge you thought you had feels shortlived, just waiting to be exposed.

At a time when workplaces are discussing empathy, the top brass is getting coached and mentorship programmes are being designed for young employees with high potential, the imposter syndrome also needs to be addressed. Coaches and therapists teach coping mechanisms, and the sooner these are identified, the better. Because your colleague, junior or senior may see only a smug professional who

works hard but is rarely satisfied.
While researching this subject, I came across famous people who admitted they never felt worthy of their accolades. Albert Einstein, for instance, once remarked to a friend: "The exaggerated esteem in which my lifework is held makes me very ill at ease. I feel compelled to think of myself as an

involuntary swindler."

The feeling of being an 'involuntary swindler' is far more common than we realize, especially in the corporate world.