GUEST COLUMN

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# Budget must target high GDP growth

IT'S TIME to act to achieve 10 per cent GDP growth to meet huge challenges of employment and poverty, strongly and forcefully. Ten per cent growth, year on year, is achievable because of the massive untapped potential of the Indian economy. This growth will resolve the issue of jobs.

There are three key areas of "attack" by the Union Budget to achieve this.

First, the manufacturing sector is becoming competitive in spite of indirect tax anomalies, high excise duties, customs duty distortions and lack of scale and size.

The Budget must free the manufacturing sector to achieve its potential of becoming, in the first phase, the "second factory to the world" after China.

**The Budget has to attack the tax regime — both direct and indirect to motivate wider compliance and generate new economic activity**

The Budget can help manufacturing go a long way towards this objective, adding to its own initiatives to become efficient, by tax reforms.

Second, within manufacturing, special focus must be on the Small Scale Industries (SSI) and Small and Medium Enterprises (SME) which have world class Indian entrepreneurship but are hemmed in by reservations which limit scale and by a regime of mistrust-based procedures.

The Budget can move to a trust-based system of self-regulated checks and balances and abolition of reservations of products so that Indian SMEs can harness manpower-intensive technology to larger scales of production.

Third, the Budget has to attack the tax regime — both direct and indirect. India is still a high-tax country because of additional surcharges and duties. In this process, growth potential of the economy is being stunted.

Direct taxes need to be reduced for corporates and individuals to motivate wider compliance and generate new economic activity. Customs duties should be reduced but the volatility of the US dollar calls for caution. And, personal tax rates need to be brought down to generate higher savings as well as compliance. Revenues will rise as a result, not fall.

These are three key priorities for Budget 2005.