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# ECONOMIC POLICY OF INDIA: SPECIAL REFERENCE TO STATES

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## ABSTRACT

Economic reforms policy adopted in the 1990s deeply modified India's macro-economic environment, as well as the trade and investment regimes. By rewriting the rules of economic governance in India's federal democracy, reforms have had far-reaching consequences on the relations between the Union (or central state) and the States. First, the dismantling of controls exercised by the central state have created greater scope for State governments to elaborate their own policies, for instance with regard to economic development initiatives. Second, the reforms themselves require cooperation from State governments to succeed, especially the so-called "second generation reforms", and hence State-level politics and governance take on greater importance for India's overall development trajectory. For these reasons, there is now considerably more interest for State-level studies than in the recent past. Another reason is that regional inequalities have deepened in India since the 1990s; inter-State comparisons of economic growth show increasing divergence in economic performance. This has become a major issue for India's political establishment, all the more since national governing coalitions are increasingly formed with the help of regional political parties.

**KEYWORDS:-POLICY, TRADE, ECONOMIC, TAXATION, GOVERNMENT.**

## INTRODUCTION

This article is based on the economic policies in India. Economic policies of the government of India suggest the system for taxation, and also the budget of this county, not only that but also it includes the currency and the rate of interest. The market of labour and also the national ownership are an integral part of economic policies of India. India has various economic policies which are industrial policy, trade policy, monetary policy, fiscal policy, Indian agricultural policy, National agricultural policy, industrial policies, International trade policy in India, exchange rate management policy, EXIM policy. The plan of the economic policies in India was first conducted in 1947. But after the advent of the economic crisis in 1991, the government of India reforms the policies of economics in India.

**1)Business Policy**The stress of these policies is on the public sector of India in 1948. This policy is handled by the development and regulation act 1951. 1973's FERA handles the foreign investment in India. After the 1991's economic crisis these governments took strong steps in order to make the industries in India and also introduced the industry more competitive.

**2)TradingPolicy**The foreign trade policy of India focuses on enhancing the share of India in universal trade from 2.1% to 3.5%. Most importantly, the trade of this country India became $900 billion in the financial year of 2020.

**3)Monetary Policy**

This policy in India majorly deals with the monetary authority of this country and it includes the central bank. It handles the allocation and also the supply of money, rate of interest in order to present the high growth of the economy in India.

**4)Fiscal Policy**

This policy controls taxation and the decision of expenditure from the perspective of the government of India. This government takes strong steps to strengthen the control of the expenditure of this country. Through the initiative of this government, the contribution of the resources and the principles of the market have been improved.

**5)Indian Agricultural Policy**

This policy mainly includes the reformation of the land in India. The strategies regarding agriculture and the use of innovative technology in agriculture are also the concern of this policy. Most importantly, the policy of prices of the goods, security and safety of the foods, and also the public distribution system, service regarding non-firms are also an integral part of this policy.

**6)National Agricultural Policy**

Through this policy, the annual development rate regarding agriculture has been increased. Reformation of land includes reform of tenancy, advancement of land-lease markets, and the rights of women regarding land. This policy also aims to bring equal development regarding the agriculture of the country of India.

**7)Industrial Policies**

Regarding these policies, the industrial policy resolution was taken in 1948 to add democratic socialism to the structure of the economy in India. The new policies regarding industries suggest the expansion of the responsibilities of the states under India, decrease of the threats of nationalization and all.

**8)International Trade Policy**

This policy includes free trade in India. Free trade suggests the smooth trade of a country. In the mid 19th century, the government of India modified the trade international trade policies. The main aim of these policies is to make the economy of the country India strong.

**9)Exchange Rate Management Policy**

This policy is also known as the pegged exchange rate. This policy includes the flexibilities in the exchange rate. There is the upper and lower limit of the exchange rate. If the up and down rate is 1%, then the rate of exchange is in a normal state. The main purpose of these policies regarding exchange rate is to assure stability regarding foreign trade and capital movement.

**10)EXIM Policy**

EXIM policy suggests the export and import policies in India. Through these policies, the guidelines have been fixed regarding export and import. The government of this country India introduced these policies for five years in the control of the development and regulation act 1992 regarding foreign trade.

ECONOMIC POLICY REGARDING STATE OF HARYANA

On the basis of fieldwork-based research, this article proposes to discuss policy frameworks in four States: Andhra Pradesh, Haryana, Kerala and Orissa.We compare and contrast promotional policies, aimed at attracting investments to their respective territories, as well as their approaches to more structural reforms. For each case we seek to explain political actions and discourse using a qualitative political economy approach. In this way, the article aims to address gaps in the existing literature, which tends to focus on inter-State comparisons of economic performance and outcomes. There has been relatively little academic attention to the comparative study of State-level policy response to the national economic reform agenda. This kind of qualitative political economic study is necessary for two reasons:

(1) to understand how States have responded to economic reforms and to explain this response. Indeed, the sparse literature on this topic suggests there is considerable variation across States, if not in policy rhetoric and design, then in implementation, as a result of subnational politics and institutional capacity;

(2) To understand how State-level political elites, who now have more ‘policy space’ (even if not necessarily more fiscal space), elaborate their economic development strategies in relation to the central state, on one hand, and to social forces in their political jurisdictions, on the other. We examine the social compromises that are expressed by these State-level

policies, which provide evidence of the distinct political economies prevailing at the sub national level.

As mentioned above, economic liberalization resulted in an indirect expansion of the prerogatives of State governments in certain policy areas. Before the reforms of the 1990s, the Indian States had limited influence on the location of private industrial investments since these were channeled the licensing apparatus of the central government. Consequently public investments were the main determinant of growth at the State-level, and resources for these investments were primarily transferred from the central government (World Bank, 1997, p. 19). Soon after the dismantling of licence-permit raj, States found themselves in direct competition with each other for private investments. Because macroeconomic policy is the prerogative of the central government, States do not have the classic levers that would allow them to put in place an autonomous economic policy (exchange rate, money supply, main taxes, etc.

## HARYANA STATE

The State of Haryana demonstrates more policy stability both in the general policy line it follows and in the practical commitment towards its goals. Although Haryana experiences an alternation between the Congress party and regional-based political parties, there is nevertheless a broad consensus among the major political actors in favour of a “modernization” approach to economic development with regard to industry and services as well as urbanization, an observation confirmed by all the respondents in our study.It should be noted at the outset that the State’s regional economy is among the strongest of India in terms of per capita income (see Appendix), and it enjoys sustained development in all the main sectors of its economy. The Green Revolution in the 1960s increased very significantly the yields in this region, known as the breadbasket (and rice basket) of the country, along with Punjab. Since the 1980s, its industrial development has been quite spectacular, especially near Delhi. A peculiarity of its manufacturing sector is that over 75% of production takes place in the formal sector, indicating the presence of large-scale units, in striking contrast with the national economy characterized by the predominance of the informal sector.

An analysis of the industrial policies carried out in the last twenty years indicates a change in the mid-1990s. Until then, the strategy had relied on generous tax benefits to attract new investments, but after 1997 the focus shifted to infrastructure development through partnerships with the private sector. In general, successive governments have been very accommodating to investors, simplifying procedures through a single window mechanism, more “flexible” plant inspections allowing companies to certify compliance with labour laws on the basis of an “honour system”. Since the mid-1990s, the government has instructed a specialized public agency (HSIIDC) to buy and develop a stock of property, a “land bank”, to facilitate industrial projects that require large plots near transport hubs (Kennedy, 2009). Again, these concern primarily metropolitan Delhi and emerging industrial corridors along the National Highway .

Haryana has the non-trivial advantage of surrounding metropolitan Delhi on three sides. Indeed, a significant proportion of its territory is located in the National Capital Region. This agglomeration of 24 million people is experiencing remarkable growth in recent years and has surpassed metropolitan Mumbai's population. Policymakers in Haryana are fully aware of this advantage and have been multiplying their interventions in this area, notably public investments in both conventional (roads) and specialized (production platforms) infrastructure. To facilitate interaction with industry locally and with potential investors, the regional government decentralized certain services and opened branches of some departments in Gurgaon. It fixed floor prices for land acquired by the government, in order to ensure a better deal for landowners than what is provided for in the colonial-era law on land acquisition.

**ECONOMIC POLICY RELATED TO STATE ANDHRA PRADESH**

The State government of Andhra Pradesh began to demonstrate strong will to improve the investment climate in 1995 when Chandrababu Naidu became Chief Minister of the government led by the regional *Telugu Desam Party* (TDP). These efforts were especially focused on the metropolitan region of Hyderabad. Actions were undertaken to beautify the city, improve road traffic, digitalize many government services (including utilities), and reform municipal finance. A strategic plan for this State of 70 million people, *Andhra Pradesh: Vision 2020* (GoAP, 1999), was designed in collaboration with the international consulting firm McKinsey. It promised to put the State on a strong growth path that would allow it to achieve spectacular social objectives within two decades. Relying on private capital and international "best practices", the strategy involved realizing specialized infrastructure and direct investment towards the most dynamic sectors of the global economy (information technology, pharmaceuticals, logistics, biotechnology).

During the decade that Chandrababu Naidu was leading the government (1995-2004), Andhra Pradesh was a rare example of an Indian State that openly embraced a liberalization agenda. This was done by linking market reforms to the TDP's broader political project of wresting greater political autonomy from New Delhi. Thus, globalization was presented by political leaders as an opportunity for the State to extricate itself from under New Delhi's yoke. The government deployed intense media campaigns to garner public support and attract the attention of investors, including FDI. This strategy of hyperbole, referred to as "trumpeting" in the literature on economic policy reform, was intended to compensate for objective weaknesses of the regional economy (regional GDP has been relatively dependent on agriculture and the State's social indicators tend to be below national averages). It was their way of signalling their commitment to investors, in an attempt to improve a rather mediocre image. In some sectors, the strategy appears to have been successful, especially in information technology, where the State has built up virtually from scratch a fairly solid industrial base.This was done through extensive investments in infrastructure specially designed for the information technology industry, most notably HITEC City in metropolitan Hyderabad, an extensive area offering both fully equipped office space and serviced plots for companies choosing to build their own facilities. A special IT policy, first implemented in 1999 and revised in 2002, offered numerous incentives such as 24-hour electricity connection, exemption from inspections under most labour laws in exchange for self-certification, exemption from zoning regulations and a rebate on the cost of land.

## SECOND GENRATION ECONOMIC POLICY IN INDIA

Whereas the first stage of macroeconomic reforms initiated in India was implemented comparatively rapidly, the second phase has proven more difficult and uneven. This is in part because it depends on the will and the capability of State governments. In India the term "second-generation reforms" generally refers to the reforms that were not included in the first phase, but it is also a way of designating the reforms measured politically sensitive and likely to face opposition. Examples include public finance reforms, restructuring of public utilities (electricity, water), privatization of public enterprises, reform of labor laws and the establishment of institutions to regulate a market economy. It sometimes includes the reform of governance institutions with the aim of making decision-making processes more transparent and government more accountable.

Whereas the first generation of reforms could be carried out moderately efficiently, the current process is more complicated in part because it depends more heavily on the cooperation of State governments. The politics of each State follows the rules and logics of it distinct political economy. Nonetheless, there are limitations on the manoeuvring space of State governments, in particular with regard to fiscal powers. In fact, fiscal relations are one of the most sensitive areas in federal relations in India. The national Finance Commission helps States by filling the gaps between spending and revenue generation, but such "grants-in-aid" as they are called, have not created incentives for States to maintain fiscal discipline. In the early 2000s, the Indian government decided to address the issue. After three years of discussion, the Parliament adopted the Fiscal Responsibility and Budget Management Law, which came into force in 2004. It required the government to eliminate its current account deficit and reduce its overall budget deficit within 3% of GDP before 2008. This Act is binding, however, only on the central government whereas the States' combined budget deficits contribute to nearly half of the total deficit. The fact remains that these reforms had an effect on the public finances of the States – indeed, the first phase of fiscal consolidation resulted in a decline in transfers to the States, expressed as a percentage of GDP, from 4,9% in 1990 to 3.8% in 1999, before rising again to 4.3% in 2003.

**ALYSATION**

Again, the effects were uneven; States with low per capita income and heavy debt like Orissa were hardest hit. Similarly, the severity of the public finance crisis –with regard to fiscal deficit, debt service, debt stock– varies widely among States. The deficit /State GDP ratio is particularly high in seven States: Orissa, West Bengal, Punjab, Rajasthan, Gujarat, Kerala and Uttar Pradesh. With the exception of Gujarat, these States are paying high interest on their debt as a proportion of their income. In our study, Andhra Pradesh is considered to have an average deficit while Haryana is characterized by a relatively low deficit. The situation in Kerala is considered particularly serious because current expenditure is funded with deficit financing. Recent studies have shown that the level of debt service has a direct impact on State spending, and therefore indebted States face a significant reduction in their "fiscal space" (Chakraborty *et al.*, 2009). Orissa is an example of a State under strong pressure to reform its public finances.

**Conclusion**

Haryana pursued a strategy of infrastructure-led development from the mid-1990s, building up its existing industrial base. The degree of political will mobilised to support each industrial policy has remained fairly stable across successive governments. To recapitulate, Andhra Pradesh adopted a discourse favourable to economic reforms from the mid-1990s and aggressively marketed the State as 'pro-business'.From the above discussion, it can be said that the economic policies are vital in the perspective of any country, especially in India in order to make the development of its economy. The condition of the economy depends on the trade of this country. In order to maintain international trade, it is important to introduce well-structured economic policies. India has followed this strongly in every perspective. Through the maintenance of these economic policies, this country tries to maintain its growth in the upcoming days.

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