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## Balancing State Regulation and Market Autonomy: Assessing Governance Mechanisms in India's Evolving Economic Landscape

~ *Mayank Chaurasia*

### Introduction

Since Independence, India's economic trajectory has been marked by a constant tension between regulatory state and market economy. Observing from the early years of planned development in India to the liberalization reforms of 1990s and the contemporary emphasis on market-led growth, it is seen that Indian economic governance has continuously witnesses the boundaries of state intervention and private enterprise. This negotiation is not merely just economic in sense, but also deeply rooted in constitutional, legal, and managerial in nature.

Here lies a core fundamental question that is "*How should the Indian state regulate markets in manner that promotes growth without sacrificing the normative value of social justice, economic equity, and democratic accountability ?*" This question has now acquired a matter of renewed urgency amid rising rate of inequality, regulatory dilution, and increasing reliance on private capital for public goods.

This article argues that while market economy is essential for efficiency and innovation, it's also the fact that it cannot function as a self-justifying principle in a constitutional democracy. Instead of this, a robust state regulation must operate as a coercive mechanism to ensure that markets serve broader social objectives rather than just narrower interest. India's governance framework, however is rooted in constitutional commitments to social and economic justice. It also provides both the normative justification and institutional tools for such regulation.

### Constitutional Foundations of Economic Governance in India

The Constitution of India does not endorse on *Laissez-faire* economic order. It's preamble commitment to *justice – social, economic, and political* sets the normative tone for economic governance that is envisioned and operationalized through *Directive Principles of State Policy*

(DPSPs), specifically Article 38 and 39 which obligate the state to minimize inequalities and ensure equitable distribution of material resources.

While introducing these provisions, Dr. B.R. Ambedkar emphasized that political democracy without economic democracy would be inherently unstable.<sup>1</sup> Thus, the Constitution envisages markets not as autonomous domains immune that are free from state oversight, but seen as institutions that are deeply embedded within a broader social framework.

Judicial interpretation has here reinforced this understanding of the notion. In a case *State of Kerala v. N.M. Thomas*<sup>2</sup>, the supreme court recognized that formal equality is insufficient in societies that are deeply unequal. Thus, it legitimizes state intervention to achieve substantive equality. In essence, Economic regulation emerges as a constitutional obligation rather than a policy preference.

### **From Planned Economy to Liberalization: A Shift, Not a Rupture**

In the beginning of India's post-independence era, the economic model at the time emphasized that state planning, public sector dominance, and regulatory control over private enterprise must be encouraged. This practice was influenced by developmental economics and socialist thought; Here, the planning commission sought to align the growth with value of distributive justice<sup>3</sup>. This model prioritized the employment generation, industrial self-reliance, and welfare provisioning in a society where bureaucratic excesses and inefficiencies were prominent.

The 1991 economics reforms marked a decisive shift from the socialist notion to liberalization, deregulation, and privatization. However, this transition did not affect the state's regulatory role enshrined in the constitution. As scholars like Amartya Sen argues, "markets are instruments, not ends in themselves, and their social outcomes depend heavily on institutional design<sup>4</sup>."

Still in practice, liberalization increasingly translated into regulatory retreat. On one hand where independent regulators proliferated, on the other side accountability mechanisms often weakened, thus the state's role shifted from active planner to market facilitator only, which eventually raises concerns about regulatory capture and exclusion.

### **Market Autonomy and Its Discontents**

The post-liberalization emphasis that was given on market autonomy in India was based on the belief that deregulated markets would generate more efficiency, competition, and innovation. Therefore, policy discourse increasingly treated markets as self-correcting mechanism which are capable enough of allocating resources more rationally than state institutions, however, this

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<sup>1</sup> Constituent Assembly Debates, Vol. VII (Nov. 4, 1948) (B.R. Ambedkar).

<sup>2</sup> *State of Kerala v. N.M. Thomas*, (1976) 2 SCC 310.

<sup>3</sup> Planning Commission, *First Five Year Plan* (1951)

<sup>4</sup> Amartya Sen, *Development as Freedom* (1999).

assumption when examined through constitutional, empirical, and governance lenses, It then seems to be deeply problematic in nature.

From a constitutional standpoint, it's seen that market autonomy has never been recognized as an absolute principle. Analyzing the statement, Article 19(1)(g) guarantees the freedom to practice any profession or carry on trade or business, but at the same time this freedom is expressly subject to reasonable restrictions under Article 19(6) in the interest of general public<sup>5</sup>. This constitutional architecture, therefore, rejects the idea of unfettered economic liberty and embeds market activity within a framework of social obligation.

From an empirical stand of view, the expansion of market autonomy has coincided with the rising rate of inequality and sectoral concentration. Despite the fact that liberalization has produced growth, the fact cannot be denied that distribution of its benefits has been uneven, as studies indicate, it shows a sharp increase in wealth concentration among the top income groups, whereas, wage growth and employment security for the majority of the people remain stagnant<sup>6</sup>. This pattern signifies that when markets are left to operate without robust regulatory intervention by the state. It tends to amplify pre-existing structural inequalities rather than neutralizing them.

This discontent can be clearly seen in labor markets where market-oriented reforms have consistently framed labor protections as distortions that eventually impede competitiveness. Although, the Indian constitutional jurisprudence has repeatedly affirmed that labor is not merely just a factor of production for the market, but a bearer of dignity and rights. In a case of *Excel Wear v. Union of India*, the supreme court rejected the very notion that business freedom could override worker right to livelihood, emphasizing that, economic liberty must be balanced against social security considerations<sup>7</sup>. When Market economy is applied uncritically to labor relations, the risk of institutionalizing precarity and undermining social stability increases.

However, the market economy has reshaped the access to essential services such as healthcare, education, housing, and infrastructure, as the increasing rate of privatization has transformed these domains into sites of profit extraction with often at the cost of affordability and universality. The commodification of social goods raises serious constitutional concerns as the supreme court has consistently interpreted the right to life under Article 21 to include access to basic necessities<sup>8</sup>, but without regulatory safeguards, market mechanisms convert citizenship entitlements into consumer privileges and eventually eroding substantive equality.

Thus, the discontents of market autonomy are not ideological abstractions in nature but also shows governance realities. They reflect the limits of treating markets as neutral or self-legitimizing institutions within a society that is marked by deep structural inequalities.

## **Regulatory Institutions and the Architecture of Economic Governance**

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<sup>5</sup> INDIA CONST. art. 19(1)(g), 19(6).

<sup>6</sup> Thomas Piketty, *Capital in the Twenty-First Century* (2014); Oxfam India, *Survival of the Richest* (2023).

<sup>7</sup> *Excel Wear v. Union of India*, (1979) 4 SCC 224.

<sup>8</sup> *Olga Tellis v. Bombay Mun. Corp.*, (1985) 3 SCC 545

Responding to the expansion of market autonomy, the Indian government is seen to be increasingly relying on regulatory institutions to govern economic activity in India. The independent regulators such as the Reserve Bank of India (RBI), the Competition Commission of India (CCI), and other sector-specific authorities, all were designed in order to oversee markets without any direct state control and thus, the model reflects a gradual shift from command and control governance to rule based regulation.

While regulatory independence is often justified by asserting it as a safeguard against political interference, it is also the fact that it generates democratic concerns, as regulatory bodies exercise extensive discretion over pricing, licensing, and market entry in that sense, however, their decision-making processes are often insulated from public accountability. Various scholars have notes that technocratic governance can depoliticize economic decisions that have profound distributive consequences<sup>9</sup>.

The judicial oversight has also sought to reassert constitutional discipline over regulatory discretion. Noting, in *Cellular Operators Association of India v. TRAI*, the supreme court emphasized that regulators must act in accordance with statutory mandates and public interest considerations, and not just merely market efficiency<sup>10</sup>. This judgement reinforces the principle in which regulatory institutions are not autonomous technocratic entities, but also constitutional actors.

However, the effectiveness of regulation is frequently undermined by regulatory capture. This is because close interactions between regulators and industry actors, revolving appointments, and information asymmetries eventually weaken the state's capacity to act as an impartial arbiter. In that sense, regulation risks the legitimizing of market power rather than restraining it; and from a governance perspective, this represents a failure of regulatory design and accountability mechanisms.

## **Liberalization, Competition Law, and the Problem of Private Power**

One of the central promises of liberalization was the promotion of market entry and deregulation, thus the enactment of the Competition Act, 2002 was intended to curb monopolistic practices and prevent the abuse of dominance in the sphere<sup>11</sup>. But still, the contemporary Indian economy exhibits an increasing concentration across multiple sectors such as infrastructure, energy, telecommunications, and digital platforms.

The rise of this large conglomerates challenges the very assumption that was market economy naturally produces competitive outcomes. Thus, the market power, if once consolidates, creates barriers to entry that competition law struggles to dismantle; the consumer welfare orientation of

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<sup>9</sup> Giandomenico Majone, *Regulating Europe* (1996)

<sup>10</sup> *Cellular Operators Ass'n of India v. TRAI*, (2016) 7 SCC 703

<sup>11</sup> Competition Act, No. 12 of 2003, INDIA CODE

competition policy also often fails to address structural dominance rooted in capital accumulation and political proximity<sup>12</sup>.

The Competition Commission of India also has intervened in several high profile cases, but still the enforcement remains uneven and reactive, thus, scholars argue that competition law when narrowly focused on price effects, it neglects broader concerns about economic democracy and concentration of ownership<sup>13</sup>. From a constitutional perspective, unchecked power undermines equality of opportunity and distorts democratic processes posing risks comparable to exclusive state power.

Therefore, effective governance requires reimagining competition law as a tool not just for market efficiency, but for preventing the consolidation of economic power through constitutional values in that sense.

### **Fiscal Policy, Redistribution, and the Role of the State**

Frequently, the market autonomy is defended on the premise that economic growth will eventually produce distributive benefits, however in case of India, the experience reveals a persistent disconnect between growth and equity, and data from national and international sources demonstrate widening income and wealth disparities, especially during the periods of high growth<sup>14</sup>.

As we know, the fiscal policy remains the primary mechanism of the state through which it can counteract market-generated inequality. Progressive taxation, social expenditure, and public investment serves as redistributive tools that realigns the economic outcomes with constitutional commitments. The Article 39 of the Indian constitution explicitly directs the state to prevent concentration of wealth and ensure equitable distribution of resources<sup>15</sup>.

The contemporary fiscal discourse increasingly prioritizes for deficit reduction and investor confidence over redistribution, however, the shift towards the indirect taxation places a disproportionate burden on lower income groups, which eventually weakens the redistributive capacity of the state. As in judicial precedent, however, there has been a consistent upheld the legitimacy of redistributive economic legislation. Analyzing the case, in "*R.K. Garg v. Union of India*" the supreme court recognized that economic measures aimed at addressing inequality warrant judicial deference<sup>16</sup>.

The retreat from redistribution reflects government choice over economic necessity. Thus, a constitutional political economy demands that fiscal policy functions as a corrective to market outcomes and not as a facilitator of inequality.

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<sup>12</sup> Eleanor Fox, *Antitrust and the Virtues of a Democratic Economy*, 43 Loy. U. Chi. L.J. 111 (2012)

<sup>13</sup> S.M. Dugar, *Guide to Competition Act* (LexisNexis)

<sup>14</sup> World Inequality Database; Oxfam India Reports

<sup>15</sup> INDIA CONST. art. 39(b), (c)

<sup>16</sup> *R.K. Garg v. Union of India*, (1981) 4 SCC 675

## **Law, Management, and the Limits of Market-Centric Governance**

From a management point of view, the market centric governance prioritizes efficiency, cost minimization, and shareholder value. While these objectives are not inherently illegitimate, they are often externalize social costs that law should subsequently internalize, as environmental degradation, labor precarity, and consumer exploitation are treated as secondary concerns unless they are regulated through legal intervention. Here, law functions as a counter balancing force by embedding the social given objectives within the operations of the market. Thus, the labor laws, environmental regulations and consumer protection statutes are responsible in reshaping the managerial incentives and constrain profit maximizing behavior of the market. However, without such legal frameworks, market autonomy incentivizes through short term accumulation at the expense of long term social welfare.

India's governance failures often stem from selective deregulations and weak enforcements and not from excessive regulation by the state, thus, it becomes important to strengthen institutional capacity, transparency, and accountability, that will help in reconciling market activity with constitutional values. Effective governance required integrating the legal norms with managerial practices, ensuring that economic decision making remains socially embedded.

## **Conclusion**

The India's experience of the post liberalization era demonstrates that the balance between the regulation by the state and market autonomy is neither static in nature not purely economic in essence, making the situations for markets to generate growth along with innovation, but they also reproduce inequality and concentrate the power when they are left open and unchecked. Thus, state regulation becomes important which is grounded in constitutional commitments to justice and dignity, which remains indispensable for aligning economic activity with democratic objectives.

The challenge does not ends here as it is not to choose between the state and the market, but its to resist the elevation of market outcomes into unquestionable norms. A governance framework that is integrated in the areas of law, management, and distributive justice recognizes markets as the instruments that ensures social welfare rather than just autonomous arbiters of value, thus, reaffirming the regulatory role of the state, and here India reaffirms a constitutional vision of development that prioritizes equity, dignity, and collective well-being alongside efficiency.