

THE FREE ENTERPRISE BRIEF

India's Free Enterprise Imperative

DIRECTOR'S NOTE

India's Growth Imperative

In the past five years, people around the world have faced pervasive uncertainty: from lockdowns and war to climate change and protectionism. This trend continues in 2026, with the war in Iran again pushing energy prices sharply upward.

Globally, the past decade has also seen the state's role in the economy expand. Industrial policy, subsidies, and protectionism are once again part of the policy lexicon.

As India sets its sights on becoming a developed economy by 2047, the central question is not whether the state should act, but how it should act.

This issue of The Free Enterprise Brief argues India's next phase of growth will depend on the quality of its institutions.

India's challenge has not been initiating reform but sustaining it. Reform attempts have been episodic rather than institutionalised. India needs a shift in approach.

Many of the reforms on policy wishlists lie beyond the Central government's domain. States, for instance, have an equally important role in ensuring ease of doing business as the Central government.

Independent regulators are entrusted with the functioning of financial, banking, and insurance markets. India needs a new, collaborative approach to advancing next-generation reforms.

In a world where globalisation is being realigned, and competition for capital intensifies, countries that enable enterprise will attract it. Those who constrain it will fall behind.

THE BIG QUESTION

India's Next Reform Wave Requires New Institutions

India's regulatory environment ensures that while one foot is in the future, the other remains firmly rooted in the past.

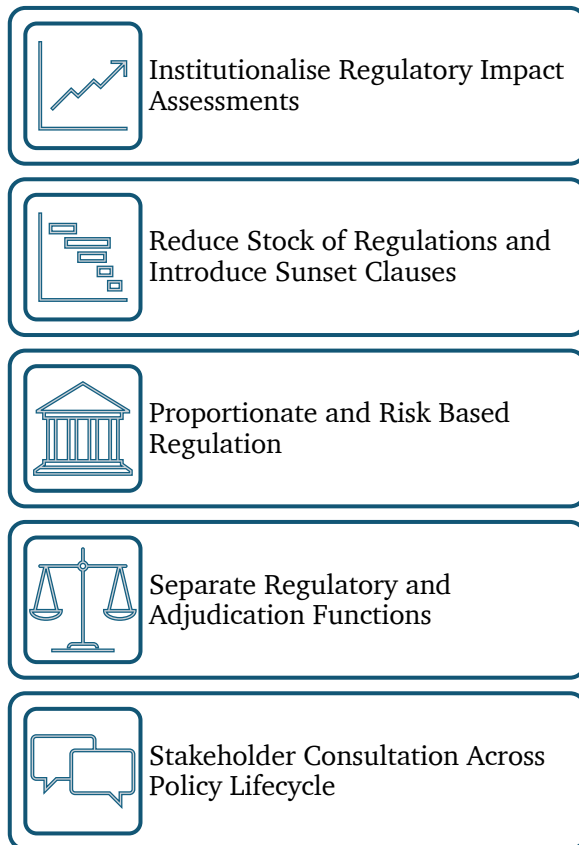
Over the years, regulations have fragmented, accumulated, and overlapped, placing a high compliance burden on businesses, especially MSMEs.

It is not just that India regulates too much, but that deregulation exercises are episodic, rather than institutional.

We saw a major push a decade back, with Ease of Doing Business Reforms, and now we have several High-Powered Committees delivering reports on deregulation. However, this is no permanent institutional mechanism.

The questions of why and what in deregulation have been answered. Broadly speaking, five principles have emerged from the discourse.

Figure 1: Key Principles of the Deregulation Agenda



The next step, and the one we have not yet answered, is how to make them work in a federal system where the Centre cannot compel the states and cannot direct independent regulators.

Our federal structure means that important reform areas, such as land, labour, agriculture, and power, fall under the Concurrent or State List of the Constitution.

Unilateral attempts by the GoI to reform, such as in agriculture, have met stiff resistance.

Or take the issue with power, on the Concurrent List. The Central Government has made several attempts to incentivise the operational efficiency of distribution companies (DISCOMs). However, most DISCOMs remain indebted, owing both to operational inefficiencies and populist policies. The Centre cannot unilaterally restructure state-level regulatory systems.

Independent regulators are a cornerstone of a well-functioning market economy.

Banks, for instance, are governed by the Reserve Bank of India (RBI). Securities markets are regulated by the Securities Exchange Board of India (SEBI), and insurance is regulated by the Insurance Regulatory and Development Authority of India (IRDAI).

Keeping these facts in mind, the deregulation agenda will have to be a collaborative and consultative process. The GoI must work with both regulators and states to make it possible, and it most certainly is. Landmark reforms, such as the Goods and Services Tax (GST) and inflation targeting, were achieved through this approach. GST was enabled by a constitutional amendment and operationalised through the GST Council.

The design of the MPC and the GST Council provides a blueprint for the path ahead.

Our experience has shown that well-designed bodies, with a clear mandate, focus and equal representation of all stakeholders, can align incentives and deliver reforms.

In 2015, the GoI and RBI signed the Monetary Policy Framework Agreement; in 2016, the RBI Act was amended to institutionalise flexible inflation targeting and create the MPC. A Monetary Policy Committee (MPC) was formed, with representatives from the RBI and the Centre.

The federal architecture designed for GST implementation can be replicated across sectors.

NK Singh, former Chair of the Finance Commission, has called for the same philosophy to be replicated in agriculture. The Confederation of Indian Industry (CII) has also called for a GST-like council for land.

Going ahead, can the idea of sector-specific 'Inter-State Reform Councils', with the Centre and States as equal partners, be considered?

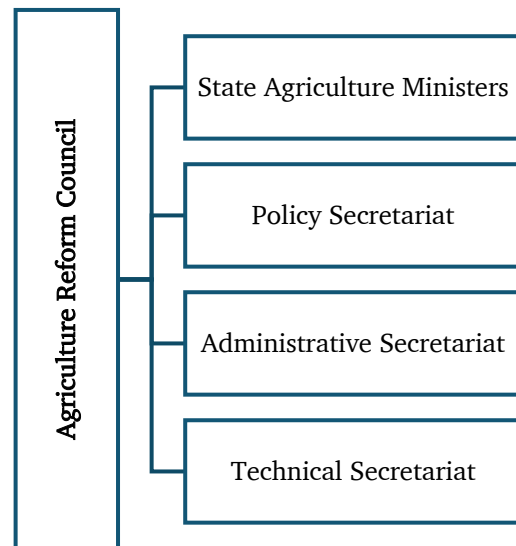
What could the contours of such a body look like?

This body can be responsible for designing and coordinating reforms, deregulation, and regulatory impact assessments (RIAs). Like the GST Council, this body must have the authority to formulate rules and implement them. It should not merely be an advisory body.

For instance, an Agriculture Reform Council (ARC) could bring together all state agriculture ministers as Members, supported by a technical, policy, and administrative secretariat. Initially, the agenda can be to build a unified national agriculture market and create an enabling environment for digital agriculture solutions to thrive. This would involve aligning marketing laws and regulations with quality standards and logistics. An enabling environment for digital agriculture requires interoperable databases,

unified input and output markets, crop intelligence systems, and digital extension services. Only Centre-State coordination can solve this.

Figure 2: Suggested Composition of Agriculture Reform Council



The chair of the ARC could be rotated, as with the G20, and could include a troika system comprising the previous chair, the current chair, and the incoming chair.

Like the G20 'permanent invitee' system, the Chairs of independent regulators, such as the Food Standards and Safety Authority of India (FSSAI), the Commission for Agricultural Cost and Prices (CACP), financial institutions such as the National Bank for Agriculture and Rural Development (NABARD), and research institutions such as Indian Council for Agricultural Research (ICAR) etc can be permanent invitees.

Each decision must go out with consensus, with a fallback voting system. Over time, the ARC could evolve into the central forum for harmonising warehousing, logistics, crop diversification, and biosecurity. Such a structure would give states ownership while enabling nationally coherent reform.

Considering a similar approach for land and power can also prove beneficial.

Private sector representatives should also be included in the process, either as part of sub-committees or as part of larger advisory committees.

Just as the Monetary Policy Framework Agreement was signed to operationalise inflation targeting, a similar approach can be taken with independent regulators. Such an approach should preserve independence while establishing shared objectives, including streamlining circulars, embedding RIAs, and implementing sunset clauses.

India needs not just better rules, but better institutions to govern them.

A shared regulatory architecture involving the Centre, States, regulators, and private enterprise will make us a more competitive and prosperous economy.

EXPLAINER

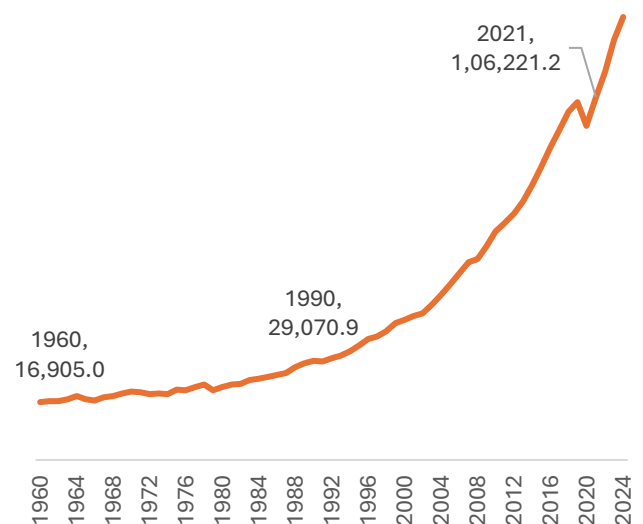
India's Free Enterprise Imperative

In the 20th century, the 'American Dream' captured the world's imagination. Many of the world's brightest minds sought to live this dream. Throughout the country, bold ideas were backed with risk capital. There was freedom to fail. An innovation-friendly regulatory environment that fostered competition led to the giants of industry,

finance, and technology that dominate the world today. In the 1960s, emerging from the Korean War, South Korea was primarily agrarian, with per capita incomes similar to those of India or China.

An investment- and export-driven approach raised incomes from subsistence levels to high-income levels in just a generation; real per-capita incomes grew 9x between 1960-90. What connects these stories is that the transformations were driven by private enterprise. When businesses are unshackled, growth follows, and governments can play an enabling role.

Figure 3: India Real Per-Capita GDP (Rs.)



Source: MoSPI

Of course, Indians do not need to look beyond their borders to know that deregulation leads to growth.

In 1991, when the stifling regulations of the License Raj were repealed and the government got out of the way, India created many of its own domestic champions,

including in the IT industry. Companies such as TCS, Wipro, and Infosys flourished and created not just new jobs, but new types of jobs. These early reforms finally enabled India to enter global financial markets as a meaningful player.

In recent years, the reform agenda has regained momentum, with the launch of many initiatives to benefit free enterprise in India, including Make in India, Startup India, and Ease of Doing Business. In realising the vision of a Viksit Bharat by 2047, India will need to recognise that private enterprise will have to play the leading role.

Despite impressive progress, India remains one of the most over-regulated economies. Many of India's institutions still treat enterprise with suspicion instead of support.

Indian businesses and entrepreneurs must navigate a complex web of laws, filings, and compliance requirements. Instead of building and innovating, entrepreneurs are consumed by paperwork. For small businesses, the costs are especially burdensome, compounded by treating simple procedural lapses as criminal offences.

Studies of India's compliance architecture suggest that a striking share of business-related obligations—and, in some sectors, around 40 per cent of compliance—carry the risk of imprisonment.ⁱ These choke small enterprises, deter investors, and stall innovation.

There are early signs of progress. The Government of India has recently enacted legislation decriminalising minor and technical offences, covering over 784 provisions across multiple laws and sectors.ⁱⁱ This signals a shift

towards treating compliance failures as economic rather than criminal matters.

However, to make the most of these advantages, India needs institutional reform. India will not become an integral part of global value chains without attracting international investment.

Without localising the energy manufacturing value chain, India will not become truly energy independent. Without investing in research and development (R&D), India will not become an innovation economy. This is where private enterprises must lead. India must unleash the animal spirits of the economy.

| What needs to change?

First, regulators need to change their mindset from control to enablement. Regulators need to reduce risk, not increase friction. As the Economic Survey 2025 suggests, a self-certification mechanism can be considered for low-risk sectors.ⁱⁱⁱ

At the same time, the private sector must also take the lead and adopt strong self-regulatory mechanisms. Recent instances of corporate mismanagement in growing businesses are denting confidence in our early-stage ecosystem. Regulators must work with the private sector to devise regulations to instil this necessary confidence. They must assess the impact of new rules *ex ante*, not *ex post*.

Second, the rulebook must be modernised and simplified. All outdated laws and duplicative filings must be eliminated. A complete restructuring of the business process is necessary. While single-window clearances have been established, they rarely function as a single window.

Concurrently, states need to usher in next-generation reforms. Land, building, and construction reforms should be at the top of the agenda. Of course, these reforms are just the beginning, and more attention will need to be paid to ensure that India's regulatory landscape permits and promotes the type of growth and success that is clearly possible.

Ultimately, the most critical takeaway for India's regulators and the government, at all levels, is that free enterprise drives growth, innovation, and jobs.

At its heart, this is also about trust. India must back its entrepreneurs and give them the space to build ethically and ambitiously.

Free enterprise is not just an economic choice but a social imperative. It will mean more jobs, innovation, investments, and ultimately, higher incomes and a better quality of life for all Indians.

To grow faster and lead globally, India must unleash the full force of its entrepreneurs. India's growth will depend less on permissions than on productive freedom within a credible regulatory framework.

PERSPECTIVE

From Populism to Prosperity

Across the world, populism is proving to be a potent electoral strategy. Yet the short-term allure of handouts is always followed by fiscal pain.

South Asia offers cautionary examples of how weak public finances, external vulnerabilities, and politically difficult subsidy regimes can combine to trigger a crisis, as Sri

Lanka's recent experience showed most starkly. Now, however, it is not just developing countries facing the risk of debt crises. The developed world, too, is reeling under massive debt. The consequences of a global debt crisis would no doubt be dire.

In recent years, there has been an increasing trend towards fiscal populism in India, especially at the state level, setting a dangerous precedent that could potentially lead states to financial ruin.

However, first, we must clearly distinguish between welfare spending and a freebie.

This distinction is crucial for measuring the fiscal cost. For instance, classifying MGNREGA wages or rations under the public distribution system (PDS) as freebies would be incorrect. Wages under MGNREGA are paid for an exchange of services, whereas the PDS exists to ensure food security.

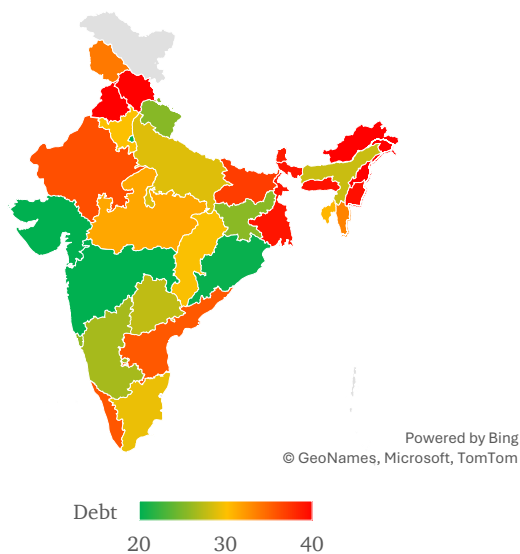
Based on a review of the literature, for the purposes of this essay, a freebie is understood to be a targeted, non-merit good or service, or a cash transfer, distributed outside the welfare system, mainly for political gain.^{iv}

Election manifestos promise government jobs and more cash transfers. The correlation between fiscal health and freebie spending is clear. Each promise of free power or cash transfers costs thousands of crores. The real bill arrives later, in the form of higher interest payments and shrinking fiscal room.

Take, for instance, Punjab, where power subsidies amount to ~Rs. 20,000 crores. Punjab's debt-to-GDP ratio stood at 46.4 per cent in FY 26 (budget estimates).^v

Himachal Pradesh, too, is reeling under severe debt. Debt in FY26 (BE) was estimated to exceed Rs. 1.1 lakh crore, coming in at 42.8 per cent of the state's GDP. The N.K. Singh FRBM Review Committee proposed a prudent debt ceiling of 20% of GDP for states in aggregate.

Figure 4: Debt / GSDP Ratios



Source: Reserve Bank of India

While their situation is not as dire, Karnataka, too, is feeling the effects of freebie spending crowding out development spending, with approximately Rs. 60,000 crores required each year. In Maharashtra, the *Ladki Bahin Yojana* costs approximately INR 36,000 crores a year.^{vi}

Economists assess the economic impact of government spending through fiscal multipliers. Multipliers for capital expenditures are higher than revenue expenditures, owing to the productive capacity they create.

Lower multipliers imply that the impact of freebies on productivity gains is at best

limited. Yet freebies permanently expand a state's committed expenditures. Higher committed spending, in turn, limits the state's current and future capacity to undertake productivity-enhancing capital expenditure.

Once freebies are embedded in state and, indeed, central government budgets, they are politically very hard to reverse.

However, not all direct cash transfers are fiscally irresponsible. India, and indeed the world, in its recent battle with COVID-19, saw cash transfers emerge as an essential tool. Brazil, through the *Bolsa Família*, also runs a conditional cash transfer programme that independent studies show has reduced poverty and improved social outcomes.

What can be the way out?

Heavily indebted states must see reform as the way out of their fiscal mess. NITI Aayog's Fiscal Health Index suggests the same – driving own revenue mobilisation and improving the quality of expenditure.^{vii}

A more open and business-friendly environment leads to job creation and growth, and, in turn, increases tax revenue. For states, this can mean higher GST revenues and higher collections of property taxes, stamp duties, and motor vehicle taxes. This creates fiscal space for both capex and welfare spending.

Whether transfers are conditional or not, their financial viability is crucial. And in their current form, the freebies on offer in some states are not.

Reforms will drive growth, which will drive revenue generation. Unless revenues increase, fiscal stress will continue. Reforms in land and labour can spur economic activity.

Building codes must be updated and liberalised to unlock land's value.

At the same time, property tax collection through digitisation must be ramped up in these states as well. Deregulation of state rules, regulations, and procedures can attract investment and create jobs, thereby boosting economic activity and tax revenues. Enterprises must be enabled and allowed to thrive. Only then can a welfare state be sustainably funded.

States that enable business, formal jobs, and investment generate the revenues to fund genuine welfare. Those who chase populist applause end up taxing the future. The real choice before India is simple: a politics of distribution or a politics of creation. The political appeal of distribution is immediate; the gains from creation are slower, but more durable.

STRATEGIC QUESTIONS

Reform, but How?

Can India build institutions that make reform continuous, and align the Centre, states, and regulators behind a common economic agenda?

At its core, is India willing to move from controlling enterprise to enabling it, and accept the trade-offs that come with that shift?

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About Fairfax Centre for Free Enterprise

Fairfax Centre for Free Enterprise is a registered Section 8 (not-for-profit) company and an independent think tank headquartered in New Delhi. We operate at the intersection of regulatory reform and grassroots economic empowerment, engaging government, industry, and civil society to drive measurable outcomes for India's 63 million MSMEs.

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ⁱ Gautam Chikermane and Rishi Agrawal, *Jailed for Doing Business: The 26,134 Imprisonment Clauses in India's Business Laws* (New Delhi: Observer Research Foundation, 2022)

ⁱⁱ Government of India, *Press Note on Decriminalisation of Minor Offences Across Business Laws*, Press Information Bureau, 2026

ⁱⁱⁱ Government of India, Ministry of Finance, *Economic Survey 2024–25*, Chapter 7, "Industry: All About Business Reforms"

^{iv} Reserve Bank of India (2022), *State Finances: A Study of Budgets 2022–23*; Besley, T. and Burgess, R. (2002), "The Political Economy of Government Responsiveness", *Quarterly Journal of Economics*, 117(4); Shapiro, I. (2011), *The Real World of Democratic Theory*; Devereux, S. and Ramsay, G. (2011), "Social Protection in Africa", *IDS Bulletin*, 42(6); Kapur, D. (2015), *Rethinking Public Institutions in India*; Varshney, A. (2023), *India's Power Elite*; Dixit, A. (2018), *The Making of Economic Policy*; PRS Legislative Research (2024), *State of State Finances and Freebie Expenditures*.

^v Reserve Bank of India, *State Finances: A Study of Budgets of 2025–26*

^{vi} SBI Research, *Ecowrap*, Issue No. 17, FY24, "The Arithmetic of Karnataka Budget: Many States in FY24 Are Spending a Sizeable Amount on Capital Expenditure" (July 14th 2023)

^{vii} NITI Aayog, *Fiscal Health Index – 2026* (New Delhi, March 11th 2026)